U.N. panel suspends two more carbon emissions auditors

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By Michael Szabo

LONDON (Reuters) - The reputation of a Kyoto Protocol carbon finance scheme was dealt another blow after a UN climate panel late on Friday suspended the third emissions cut verifier in 15 months, and partially suspended a fourth.

The scheme's executive board suspended emissions auditors TUEV SUED and partially suspended Korea Energy Management Corporation (KEMCO) after spot checks at the companies' offices revealed procedural breaches.

The board, an arm of the UN's climate change secretariat, said it will work with TUEV SUED and KEMCO to ensure timely resolution of the issues.

Under Kyoto's Clean Development Mechanism (CDM), companies can invest in greenhouse gas cuts in developing countries and in return receive carbon offsets which they can sell for profit.

In the tightly regulated $33 billion market, clean energy projects need to be validated by private sector certification firms called designated operational entities (DOEs). DOEs also verify the emissions cuts before projects can receive offsets from the UN.

Germany's TUEV SUED is the second largest CDM validator having approved 1,147 projects or nearly one fifth of all validated to the end of February.

The firm is also a major emissions cuts verifier, confirming from some 100 projects reductions of nearly 84 million tonnes of CO_2, or 21 percent of the 395 million tonnes verified to date.

By contrast, KEMCO is much smaller, validating only 0.8 percent of all projects so far and verifying the cuts for a single project.

The CDM's executive board said it suspended TUEV SUED for not following procedures and for giving "a positive validation opinion to some projects even though it had concerns about additionality."

Additionality refers to projects needing to prove they are financially unviable without the prospect of receiving funding through the CDM.

The board said it also had concerns over the qualifications of some of TUEV SUED's personnel.

The board rejected KEMCO's re-accreditation application due to issues also including employee qualifications.

Both firms can continue with existing work but are barred from taking on new validations or verifications, the board said.

"There's such a backlog of offset issuances (at the UN) that a suspension merely means TUEV SUED's issuances will be replaced by other ones," said Alessandro Vitelli of IDEAcarbon, adding that it likely will not immediately affect offset prices.

The CDM's board suspended DOEs SGS UK last September and DNV in December 2008. Both have since been reinstated, but analysts said the effects of the suspensions on offset supplies have not yet been fully felt by the market.

The board also confirmed on Friday the accreditation of another DOE, TUEV NORD, after it passed a similar spot check.

PROJECTS

The board registered around 40 projects, mainly in China, including some 24 hydroelectric dams and six wind farms.

It rejected registration requests from three projects in China, two cement plant waste heat recovery projects and a hydroelectric dam, collectively expected to generate over 500,000 tonnes in carbon cuts by 2012, according to UN data.

Britain's Climate Change Capital and Dutch bank Rabobank were listed as offset buyers for the projects.

The board's meeting report can be read at cdm.unfccc.int/EB/index.html. The board's next meeting is scheduled for May 24-28.

(Editing by Marguerita Choy)