

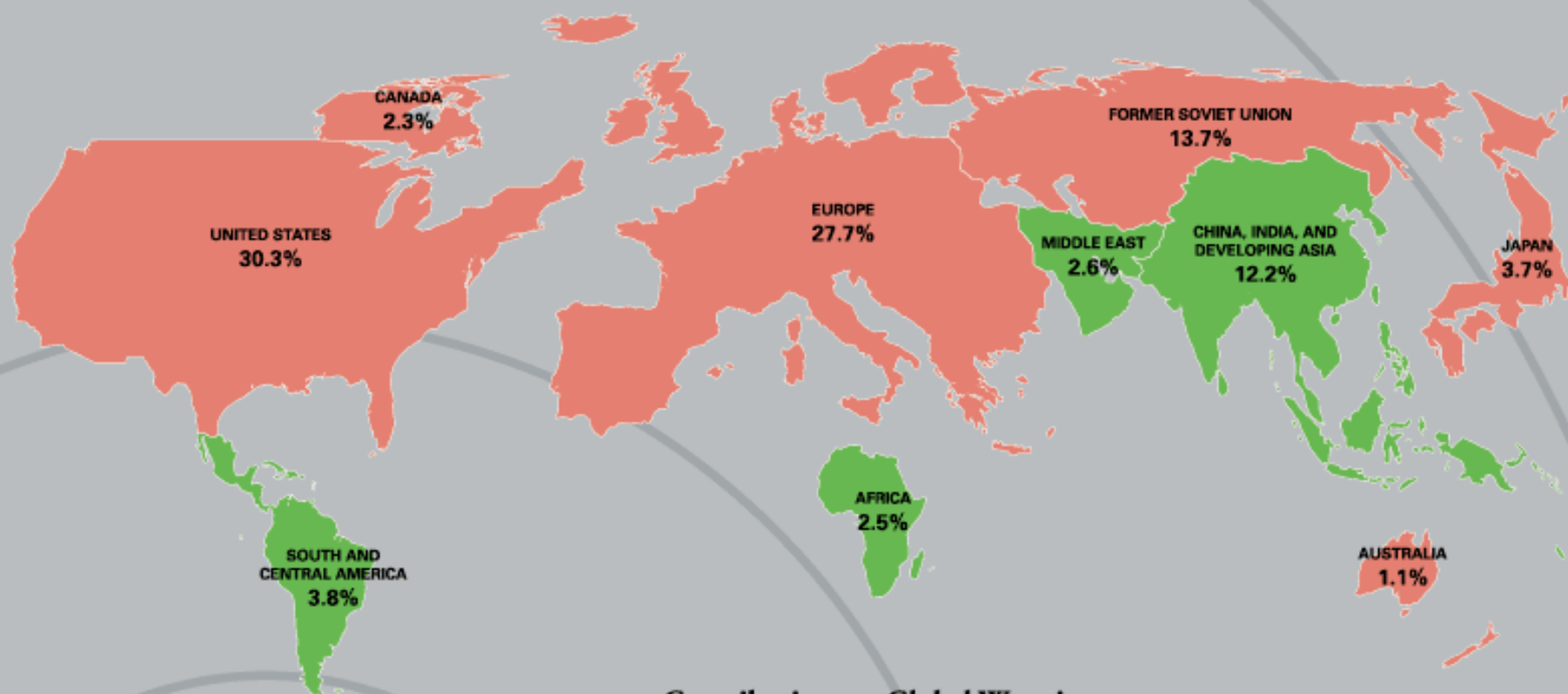
Carbon Markets and their Future: A Social Science Perspective Universität Hamburg - KlimaCampus

“The Carbon Market Turned Upside Down”

Tamra Gilbertson

11 nov 2010

carbontradewatch.org



Contributions to Global Warming

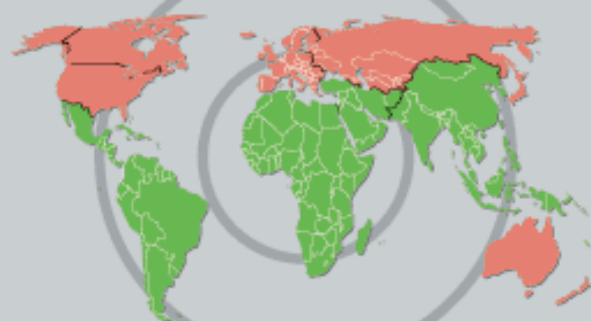
Areas are proportional to historic carbon dioxide emissions from fossil fuel combustion, 1900–1999

INDUSTRIALIZED

DEVELOPING

Underlying data sources:
United States Department of Energy,
Energy Information Administration
and the Carbon Dioxide Information
Analysis Center

EQUAL AREA WORLD: areas are proportional to actual physical sizes



World
Resources
Institute

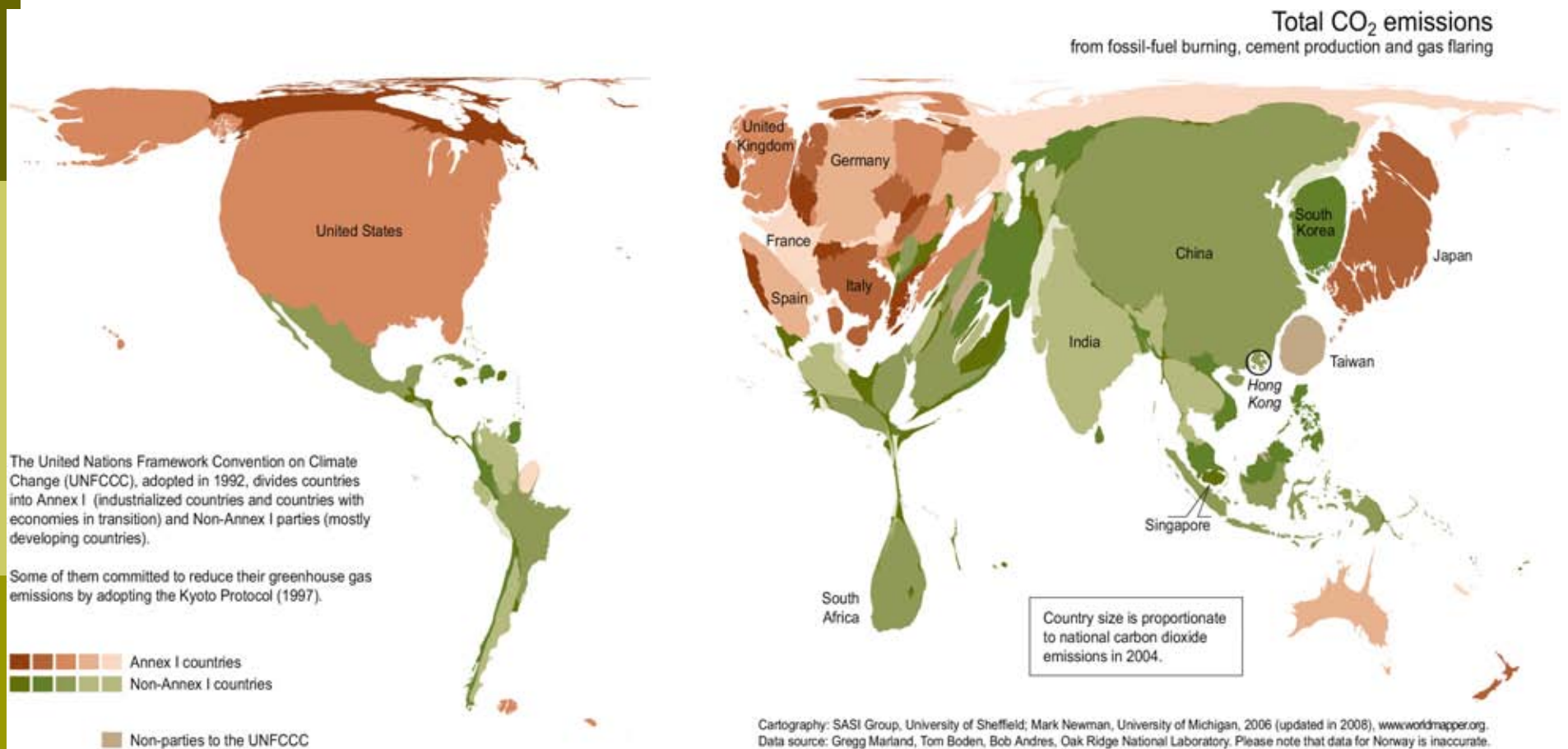
<http://www.wri.org/>
1-202-729-7600



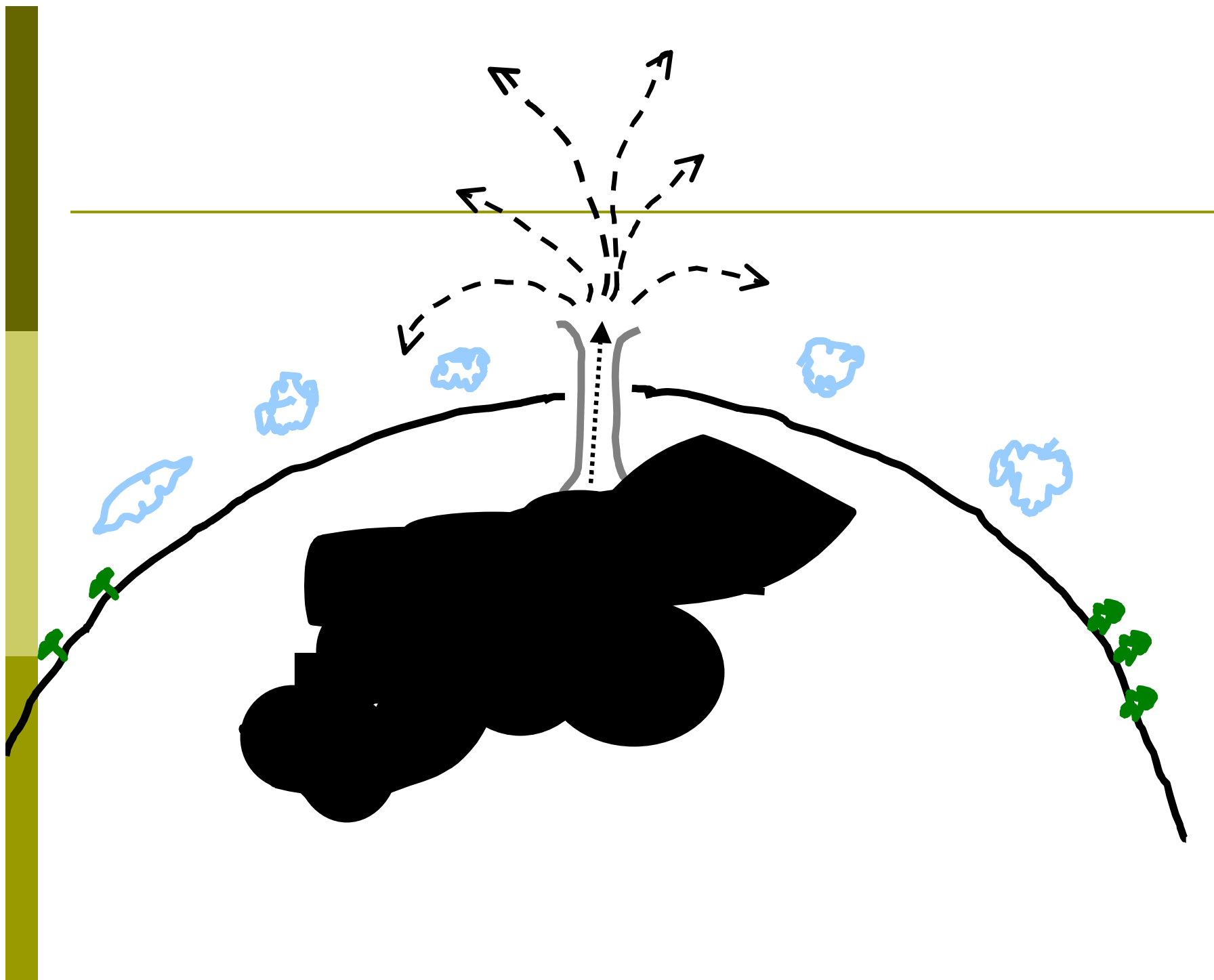
W R I

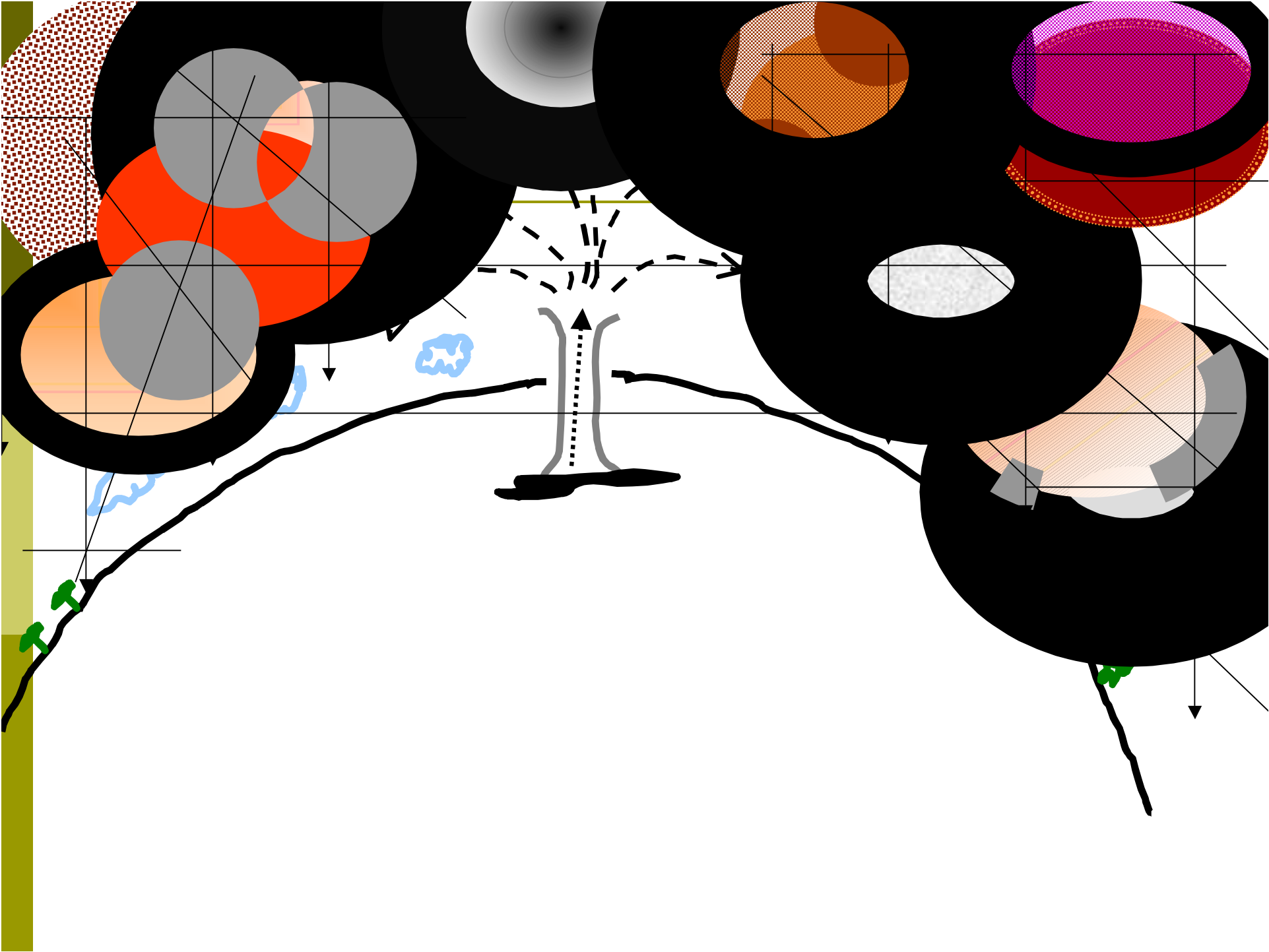
Map by Equator Graphics, Inc.

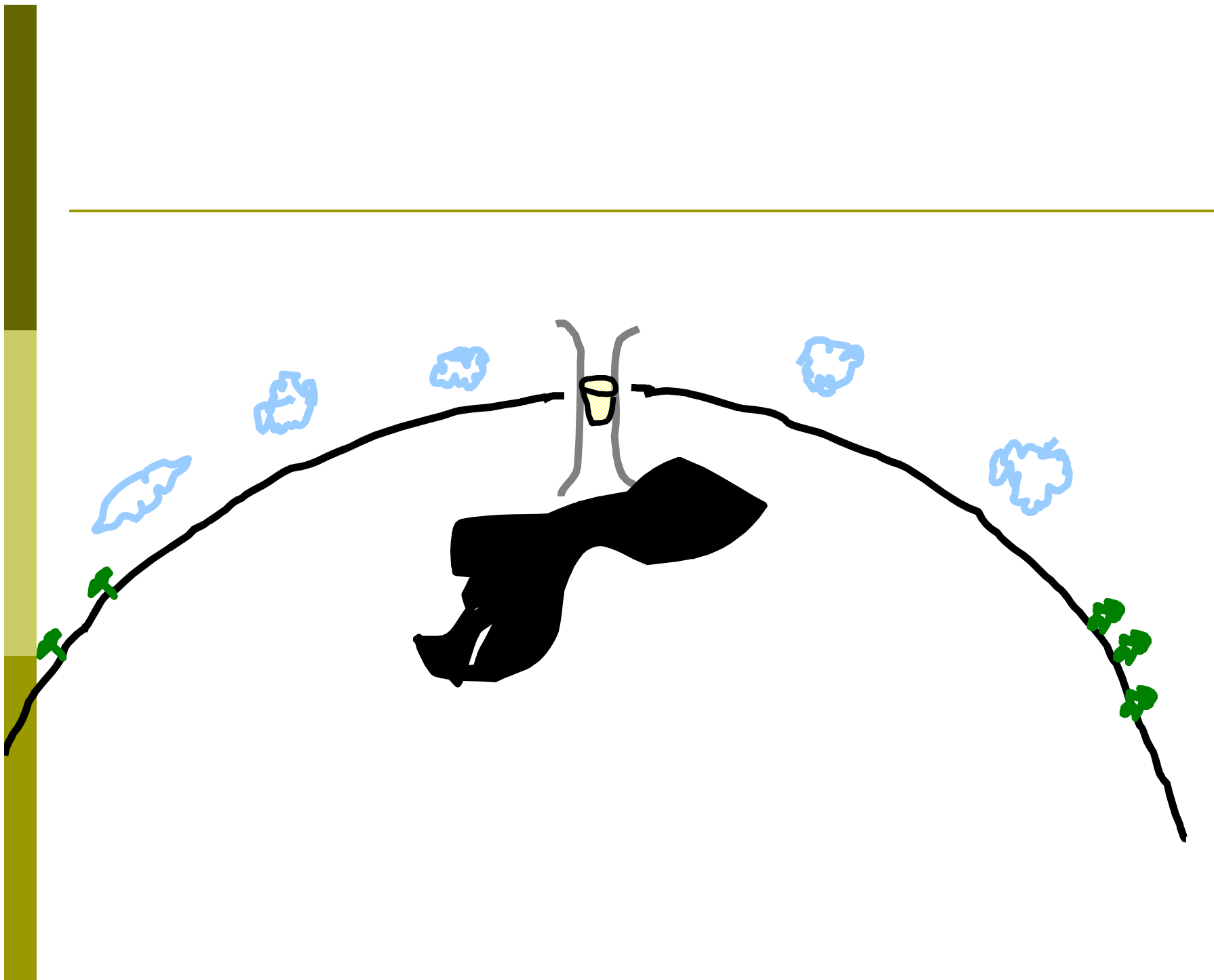
Emisiones actuales de CO₂



Source: UNEP/GRID-Arendal







UN climate change conference 2007

**Bali-Indonesia
3-14 December 2007**



Pro-carbon traders argue:

- “Internalising the economic costs”
- “Externality”
- Putting a price on carbon
 - taxation or trading



“Markets offer the cheapest solutions” begs the question:


- ❑ Cheapest for whom
- ❑ Fixes?
- ❑ Over what timescale?

Reframing of the climate change debate

- Pollution into a tradable, ownable commodity
- Reductionist approach

Closes down the space:

- ❑ What changes do we need for escaping from our dependence on fossil fuels?
- ❑ What “development paradigms” are being pursued?
- ❑ What environmental regulations are appropriate and just?
- ❑ What public investment programmes are needed, and how can community control of these finances be ensured?
- ❑ Is constant economic growth compatible with greenhouse gas emissions reductions?



Abstracts from key questions about where and when changes should be made to tackle climate change.

- ❑ Cheapest short-term cuts
- ❑ Incentivising quick fixes
- ❑ Short-term vs. long-term

The EU ETS

- Approximately 11,500 power stations, factories and refineries
- In 30 countries which include the 27 EU member states, plus Norway, Iceland and Lichtenstein

Phase I

- By April 2006, data showed that 4 per cent more permits were handed out than the actual level of emissions within the EU (European Environment Agency, 2009)
- Over-allocation

Phase I

- By the end of phase 1, emitters had been allowed to emit 130 million tonnes more CO₂ than they actually did, a surplus of 2.1 per cent
- The price of carbon permits collapsed as a result and never recovered. From a peak of around €30, the price slid below €10 in April 2006, and below €1 in the spring of 2007



[i] Based on data from the EU ETS Community Independent Transactions Log, http://ec.europa.eu/environment/climat/emission/citl_en.htm

Windfall Profits

- An inquiry by the UK Parliament's Environmental Audit Committee found that "it is widely accepted that UK power generators are likely to make substantial windfall profits from the EU ETS amounting to £500 million a year or more" (Defra, 2005)

Windfall Profits

- “Windfall” profits made by power companies in phase 2 could be between €23 billion and €71 billion (Point Carbon, 2008)
- Free Allocations

ArcelorMittal

- ❑ The world's largest steelmaker
- ❑ Holder of the greatest surplus of EU ETS permits
- ❑ Awarded a 25 to 35 per cent surplus of permits over and above its actual level of emissions
- ❑ Gain a subsidy of up to €2 billion since 2005 (Leloup, 2009)

Surplus Credits

- A recent *Carbon Rich List* survey, meanwhile, concluded that the 10 industries (mostly steel and cement companies) with the largest surplus of permits stand to gain over €3.5 billion in subsidies between 2008 and 2012 (Pearson, 2010).

Reduction from offsets

- ▣ The EU's figures show an overall reduction in emissions of around 50 million tonnes
- ▣ 80 million tonnes from carbon offsets (EU Commission, 2009)
- ▣ As the UK's National Audit Office found, "The maximum level of allowable emissions within the EU is higher than the cap" once offset credits are taken into account (UK National Audit Office, 2009)

“The Crisis”

- ❑ Allocations based on assumption that European economies would keep growing
- ❑ The recession has reduced output and power consumption, leaving companies with a surplus of permits

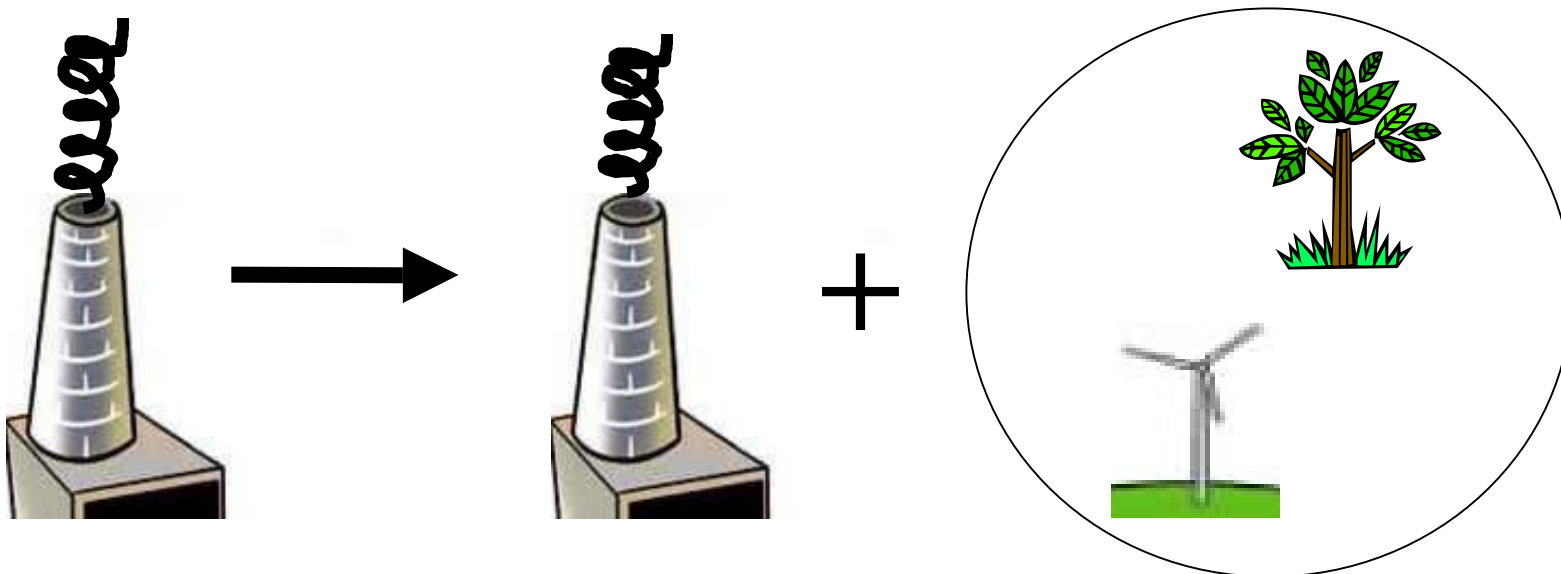
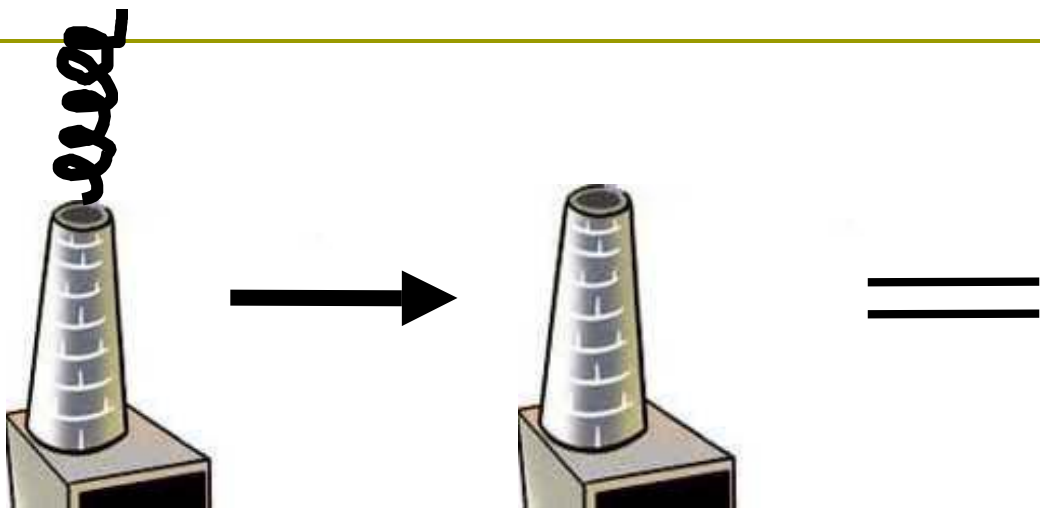
“Price signal?”

- ❑ Polluting industries are offered a lifeline in the form of the option of cashing in their unwanted permits
- ❑ The supposed “price signal” that is meant to reduce emissions has been ineffectual

So Why Didn't it Collapse?

- The main reason why the price of EUA permits in phase 2 has not collapsed to zero is that it is now possible to “bank” them
- 2012 - 2020

Offsets = Market theory cannot work
(CDM, JI y voluntarias)_



Carbon offsets

- ❑ Offsets are not reductions
- ❑ Pollution in the North cannot be “compensated” through “projects” in the South
- ❑ Keeps the wheels on extractive industries

Offsets

“Many carbon project proponents “tell their financial backers that the projects are going to make lots of money” at the same time they claim to CDM officials “that they wouldn't be financially viable” without carbon funds.

James Cameron, Climate Change Capital

There is a lot of re-labelling of business as usual as “additional”.
Up to 50 per cent of projects are not really “additional.”

Michael Schlup, The Gold Standard

WWF wrote a report in 2007 stating that at least 20% of all CDM projects were not additional.

WWF

CDM carbon-accounting methodology “will create other Enrons and Arthur Andersens.”

Bruno vanderBorgh, Holcim Cement

Offsets

- Instead of cutting emissions themselves, companies, and sometimes international financial institutions, governments and individuals, finance “emissions-saving projects” outside the capped area.
- The UN-administered Clean Development Mechanism (CDM) is the largest such scheme, with over **2,400** registered projects, and over **2,954** projects awaiting approval.
- The EU ETS is the main driver of demand for “Clean Development Mechanism” projects – with **Italy and Spain** together buying over half

Carbon offsets

- *The "development" disguise*
 - The use of development rhetoric masks the fundamental injustice of offsetting, which hands a new revenue stream to some of the most highly polluting industries in the South, while simultaneously offering companies and governments in the North a means to delay changing their own industrial practices and energy usage

- *Spreading injustice*
 - Carbon offset projects have resulted in land grabs and the repression of local communities.

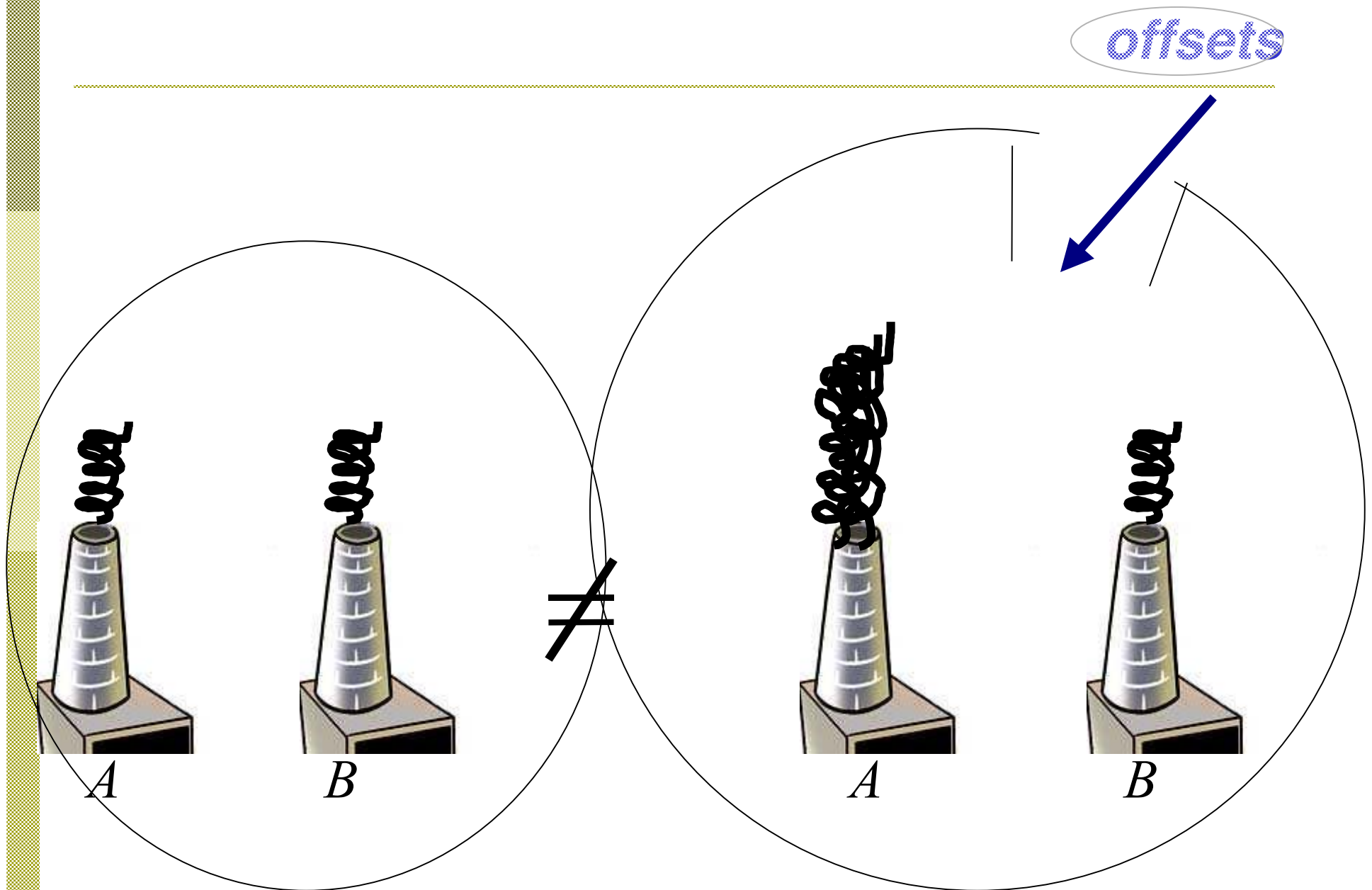
Carbon offsets

- As of September 2010, three-quarters of the offset credits issued were manufactured by large firms making minor technical adjustments at a few industrial installations to eliminate HFCs and N₂O
- Large hydro projects are the third largest source of CDM credits after HFCs and N₂O

Offsets

CDM, declined by 59% to only US\$2.7 billion with little more than 200 million tons of CO₂e with a price (average) of US\$12.7 in 2009

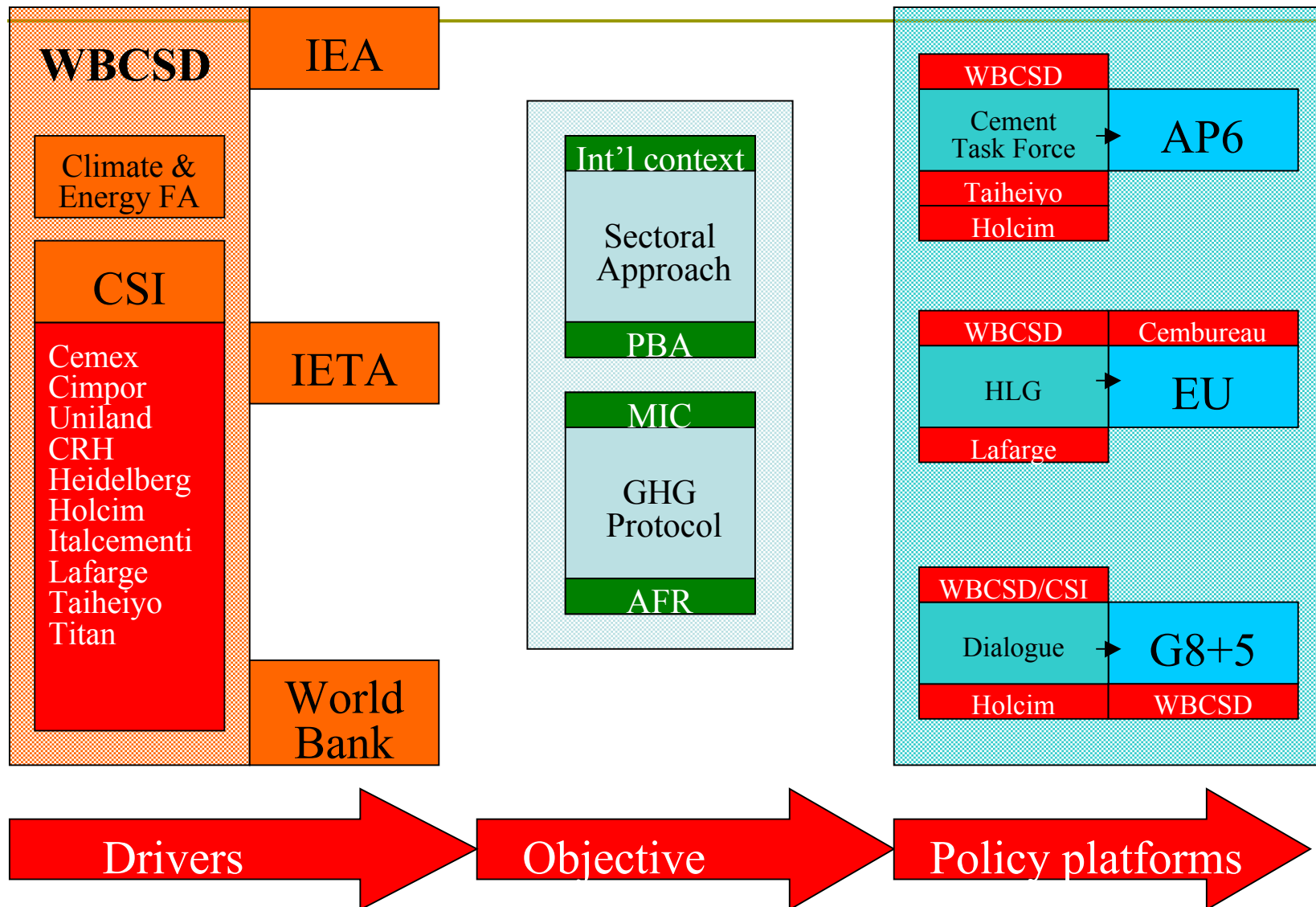
Cap and Trade & Offsets



Who benefits from CDM?

- ❑ Big fossil fuels
- ❑ Governments
- ❑ Banks, funds, traders
- ❑ Consultancies
- ❑ Polluting Industries in the South

Lobbying



Source: Holcim, (cement company) http://www.publicaffairs.ac/publicprogrammes/AC2008/RolandJanMeijer_Climate_Change.ppt

08/2006 PV/MIR

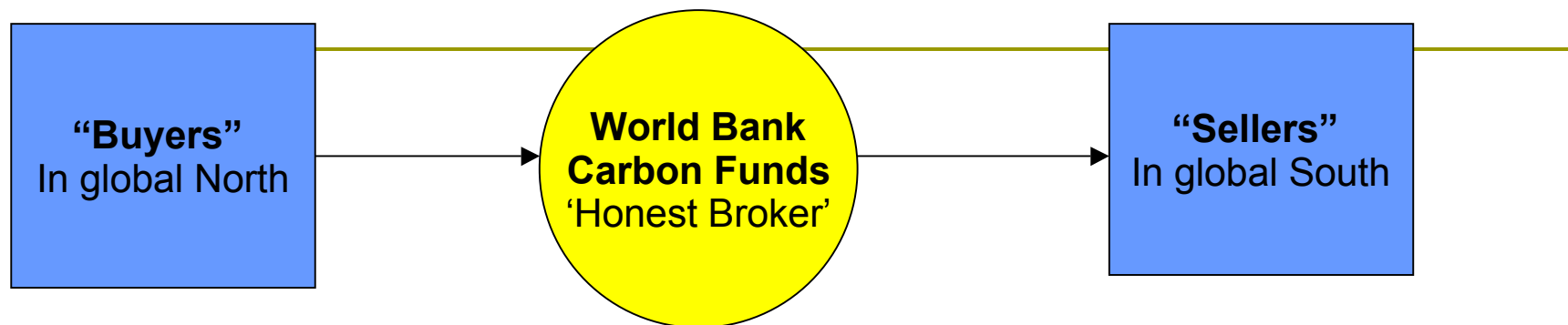
Carbon trading: problems

- ❑ Carbon trading abstracts from the important question of where and how climate change is tackled
- ❑ Traders choose for the cheapest credits available at the time, but what is cheap in the short-term is not the same as what is environmentally effective or socially just

Carbon trading

- ❑ *Making things the same.* Carbon trading constructs a whole series of dubious “equivalences” between very different economic, industrial and agricultural practices
- ❑ The uncertainties of comparison overlooked to ensure that a single commodity can be constructed.
- ❑ This doesn't alter the fact that burning more coal and oil is in no way eliminated by building more hydro-electric dams, planting more trees or capturing the methane in coal mines.

World Bank Carbon Finance



- 9 new funds + FCPF
- 16 governments; 66 private participants
- Fossil fuels & energy
- Cement
- Chemical & metals
- Agro-industry
- Carbon traders

- \$2 billion in capital in Carbon finance portfolio
- 69 active, 49 pipeline,
- 21 CDM, 48 voluntary
- ~13% 'overhead' (\$260 mil)_

- \$1 billion disbursed
- Forest agencies
- Oil & coal
- Cement
- Iron & Steel
- Agro-industry
- Carbon Traders
- Private landfills

The Spanish State

Green Investment Schemes (GIS)

- Hungary y Estado Espanol
 - 8 million (mil millones) tonnes
 - In-home heating efficiency programme (AAUs)
 - Crisis Economica
 - Stolen or mismanaged?

Who Pays?

“[F]ew in the market can deal with communities.”

“Pocos en el mercado puede manejar las comunidades.”

Rabobank official

“The carbon market doesn’t care about sustainable development. All it cares about is the carbon price.”

“El mercado de carbono no se preocupa por el desarrollo sostenible. Lo único que le importa es el precio del carbono.”

Jack Cogen, Natsource



Nam Song, Payuhakiri near Nakhon Sawan, Thailand



Nam Song Environmental Conservation Club resisted for 6 years against the biomass factory A.T. Biopower. The Thai Human Rights commission declared that the factory would be a violation of their human rights.



A.T. Biopower in Phichit a 60km



Truck hauling rice husks to the factory in Phichit



Residue from the biomass waste next to community homes



Residents of the community complained of respiratory and skin conditions since the factory was implemented. They have to keep their doors and windows closed at all times. When the community complained about this and the noise the factory offered them ear plugs.



Aracruz Cellulose, Espírito Santo, Brasil



Traditional
Tupinikim Dance



Traditional
Guarani Dance



International Womyn's Day, 8 March 2005
Vitoria, ES, Brasil





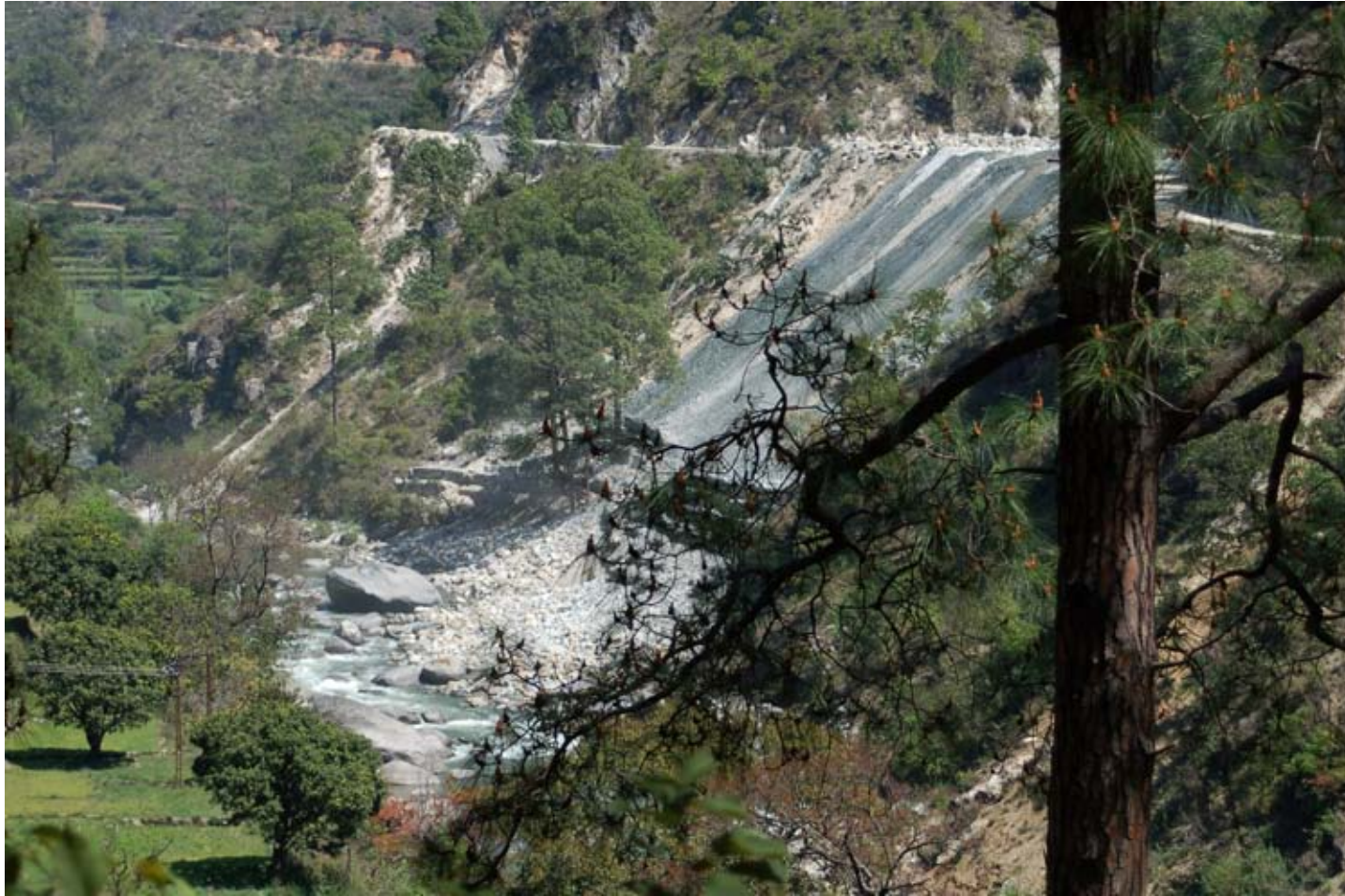








Bhilangana Dam, India





Community of Sarona




















In 2005, the Asia Commission of Human Rights declared urgent action. There are three projects now being built on the Bhilangana y over 150 in the state of Uttaranchal.



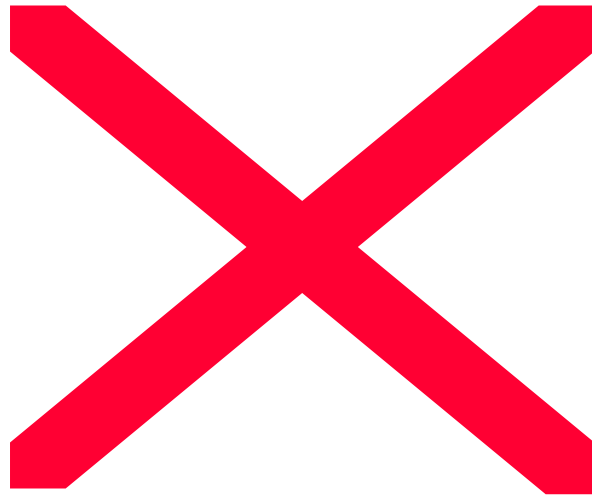
“There are no
victims of CDM.”

Yvo de Boer, 6 December 2007

Satara, Maharashtra

Wind Farms

How do you define
'renewable energy'?





Once common lands for animal grazing and diverse forest products



A pond once used for the cattle



The need to graze animals on the former common lands has led to violence and even imprisonment of the villagers that see the wind generators as 'piles of junk metal'.



Villagers receive no electricity from the wind energy generators



Kadre Kurd village



Shivaam Ahane from the village of
Kadve Kurd

“The police came at 2am to take 15-20 us to the police station. We were held for three hours but they kept me for one day. The lawyer from the company went to talk to me at the police station but I refused to cooperate and the police got angry. They were going to beat me but I threatened the police and they let me go. The police said that they forgave me and let me free. Later other police officers were sent by the company to the village to threaten my life so I fled the village for 2 months.”



Sub station near Tata Motors Wind Generators

Rajasthan, near Ranthambore

*CARBON CREDITS FOR SPECULATIVE FIREWOOD
SAVINGS IN A DESERT*






The wall around Ranthambore National Park



‘The mechanic showed up and said it was a good idea to get and that I had to pay 3,000 rupees for the installation. I am worried about my wheat harvest next year after the bio-digester is installed. I will not be able to use the dung from my cattle as fertilizer and will need to buy chemical fertilizer for my fields or we will starve.’

REDD: What are the dangers?

- ❑ Land Rights issues especially for Indigenous Peoples
- ❑ Built to be linked to the carbon market
- ❑ Plantations
- ❑ Expanded to include Agriculture
 - Catering to big GMO interests
- ❑ Concessions for Logging companies
- ❑ Pitting communities against each other
- ❑ Perverse Incentives

A vertical bar on the left side of the slide, composed of three segments of different shades of green.

“REDD will not benefit Indigenous Peoples, but in fact will result in more violations of Indigenous Peoples’ rights. It will increase the violation of our human rights, our rights to our lands, territories and resources, steal our land, cause forced evictions, prevent access and threaten indigenous agricultural practices, destroy biodiversity and cultural diversity and cause social conflicts. Under REDD, states and carbon traders will take more control over our forests.”

*The International Indigenous Peoples
Forum on Climate Change, 2007*

As ecological anthropologist Michael R. Dove from Yale School of Forestry and Environmental Studies has observed:

“whenever a resource at the periphery acquires value to the centre, the centre assumes control of it (e.g., by restricting local exploitation, granting exclusive licenses to corporate concessionaires, and establishing restrictive trade associations).

Perverse Incentives

- ▣ These perverse incentives are already at work in Guyana, where President Jagdeo has launched an “avoided threatened deforestation” scheme. An editorial in Guyana’s *Kaieteur News* in May 2009 argued that Guyana “should precede full steam ahead with the exploitation of our forestry resources. In addition to placing our future development more firmly in our own hands, it will ironically make our arguments for REDD/REDD+ even stronger.”^[i]

^[i] REDD/REDD+ Monitor, 24 June 2009, <http://www.REDD/REDD+-monitor.org/2009/06/24/offsetting-a-dangerous-distraction/>.

First and foremost, REDD/REDD+ is – and is always in danger of being – a component of carbon markets.

- On September 22, 2010 a 'reforestation project' in Tanzania became the first forestry investment to earn carbon offsets after credits were issued in the Voluntary Carbon Standard (VCS) registry.
- Grattan MacGiffin, head of GTE Global Trading Ltd, stating, "(California's) Climate Action Registry has been doing forestry for a while but the VCS news is bigger, potentially adding impetus to the growing support for a CDM REDD methodology to be given the green light."^[i]



^[i] Reuters, "Forestry gains momentum in voluntary carbon market," Nina Chestney, 28 Sept 2010.
http://uk.reuters.com/article/idUKTRE68R3IR20100928?loomia_ow=t0:s0:a54:g12:r6:c0.285310:b38262784:z3

REDD estimates

- ❑ The UN estimates that REDD+ could be worth up to US\$30 billion a year for developing countries and investors but more likely higher returns for private investors in the North. [\[i\]](#)
- ❑ Comparable with the CDM, where often less than 30 per cent of financing goes towards the project itself, with the rest absorbed by consultancy fees and taxes. [\[i\]](#)
- ❑ [\[i\]](#) UN-REDD Programme Website: <http://www.un-redd.org/AboutREDD/tabid/582/Default.aspx>
- ❑ [\[i\]](#) Carbon Retirement, *The efficiency of carbon offsetting through the Clean Development Mechanism*, London, 2009, 4.

The World Bank

- “The focus to date has been on REDD+ readiness, though it is expected that the Carbon Fund, which will provide payments for verified emission reductions from REDD+ programs in countries that have achieved, or made considerable progress towards, REDD+ readiness, will be launched in the course of 2010 as a public-private partnership.”[\[i\]](#)
- The FCPF includes over 37 countries in the South and 14 financial contributors in the North worth \$165 million (\$115 million to the Readiness Fund, aimed at preparing countries for REDD, and \$50 million to the Carbon Fund).



<http://www.forestcarbonpartnership.org/fcp/node/12>



“People who live with the forests don’t want REDD.”



“We conserve forests because forests are life, not a commodity.”



**No Carbon
Market for
FOREST**



MAJOR SUPPORTERS OF REDD

The Nature Conservancy,
World Bank
Merrill Lynch
Environmental Defense
Dow Chemical
International Timber Trading Organization
Chicago Climate Exchange
Plantation industries
Conservation International
Baker & MacKenzie
various United Nations organizations
Woods Hole Oceanographic Institute
Van Ness Feldman
John Kerry
National Resources Defense Council
Al Gore
Government of Norway

Who (and what) benefits?



“Ramping up” Compensaciones

- Exender los Mercados de Compensaciones
 - Para nuevos Mercados de EEUU, Australia, NZ
 - OECD-wide Mercado de Carbono para 2015
(Organisation for Economic Co-operation and Development)
- REDD (Reduced Emissions from Deforestation and Degradation) IPs y plantaciones
- MDL – Sectoral and Programmatic
- Agrofuels en MDL en octubre
- NAMAs (National Appropriate Mitigation Action crediting)

Climate Justice

- Leave fossil fuels in the ground
- Drastically reduce consumerism
- Recognise that there are struggles, networks and movements that exist already!
- Payments for Climate Debt
- Protection for resources and the people who protect them including energy, forests, lands and water
- Sustainable agriculture and food sovereignty

The legacy of this resistance: This broader context of struggle includes the activities of a range of groups, movements and networks:

- ❑ Actions by groups, especially IPs and forest-dwelling communities, to protect community forests and other local commons are a powerful force against climatically destabilising land clearance, commercial logging, industrial fish farming, tree plantations and industrial agriculture.
- ❑ Networks against trade liberalisation, privatisation and commodification help slow growth in unnecessary transport and protect local subsistence regimes against threats from fossil fuel-intensive sectors.
- ❑ Popular movements against fossil fuel extractions, including movements against oil wars, gas and oil pipelines, fossil fuel extraction, power plant pollution, liquefied natural gas (LNG) expansion, coal mining and mountain top removal, tar sands extraction and airport and highway expansion, all help curb extraction of fossil fuels.
- ❑ Popular movements in both North and South against fossil fuel pollution from electricity generating and other industrial installations contribute to public awareness.
- ❑ contribute to building solidarity and stopping dangerous pollution that causes climate change.
- ❑ Initiatives to set up small, community-led renewable energy sources for local benefit, whether off-grid or on-grid, build resistance by providing more sustainable direct energy. Often they provide a cheap alternative to fossil fuel-oriented centralised generating systems particularly in many areas of the South.

Climate Justice

- ▣ This is not simply a question of money. The knowledge systems that are currently being applied to address climate change tend to reproduce the ingrained privilege of the wealthy minority that caused climate change. Recognising and learning from existing climate solutions, by contrast, requires drawing on a multitude of locally adapted technologies and practices that do not neatly fit with the grand schemes promoted by current economic elites.

Climate Justice

- Leaving fossil fuels in the ground
- Radically reducing wasteful consumption (in the North and by Southern elites)
- Repayment of “climate debt”
- Resource conservation that promotes peoples' sovereignty over energy, forests, land and water
- Sustainable farming and food sovereignty
- Taking domestic action – not “offsetting”

‘What is your alternative to carbon trading?’

- ❑ This question needs to be turned around:
- ❑ Carbon trading itself is a novel elite ‘alternative’ for addressing climate change and undermines other, more fruitful mainstream strategies of movements
- ❑ Not only are these strategies more ‘technically’ realistic than carbon trading, they are more politically realistic – provided environmentalists and other activists fulfil their responsibility to help build alliances

CARBON TRADING UNDERMINES:

- ❑ Subsidy shifting
- ❑ Public investment in structural change
- ❑ Support for existing efforts to defend or promote low-carbon ways of life
- ❑ Legal action
- ❑ Taxation
- ❑ Attention to historical processes rather than numerical targets
- ❑ Recognition that there are no political short cuts; economy through social choice, regulation, standards rather than quantification-heavy focus on individuals
- ❑ Promotion of public discussion in plain language rather than the jargon inevitable with carbon trading

Ways Forward:

A non-exhaustive list of such proposals includes measures to:

- ▣ shift subsidies away from fossil fuels to help keep them in the ground
- ▣ re-assess energy demand and efficiency
- ▣ advance the public debate on climate change and ecological debt
- ▣ expand useful forms of conventional regulation
- ▣ institute carefully-directed programmes of public investment
- ▣ undertake legal action against climate offenders
- ▣ secure land tenure for Indigenous Peoples' and forest-dependent communities
- ▣ promote sustainable local farming and people's food sovereignty
- ▣ build alliances between communities and movements based on local needs and desires
- ▣ Re-routing defense funds
- ▣ organise and support local action
- ▣ explore taxation as a supplementary measure

Ways Forward

- “There are no short cuts around the difficult work of political organising and alliance-building. There are no back roads or techno-fixes around the historical and international policies that have created climate change. No aspect of the debate on climate change can be disentangled from discussions about colonialism, racism, gender, women’s rights, exploitation, land grabs, agriculture and the democratic control of technology. Carbon trading will never address these critical issues because the struggle against climate change has to be part of the larger fight for a more just, democratic and equal world.”

- *El mercado de emisiones - Cómo funciona y por qué fracasa*
 - Por Tamra Gilbertson e Oscar Reyes

Mas info:

- ❑ www.carbontradewatch.org
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- ❑ noredd.wordpress.com
- ❑ www.thecornerhouse.org.uk
- ❑ www.ienearth.org
- ❑ www.redd-monitor.org
- ❑ www.wrm.org.uy
- ❑ www.accionecologica.org
- ❑ www.globaljusticeecology.org
- ❑ www.etcgroup.org
- ❑ www.risingtidenorthamerica.org
- ❑ www.ofraneh.org
- ❑ www.foei.org/