Carbon Trade-off

by Kevin Smith
Friday, 01 August 2008

The carbon-offsets market is gathering pace at a frenzied rate, notably in Asia. While it seems a good solution to the growing climate crisis on the face of it, look beneath and it may all just be hot air, writes Kevin Smith

Thereâ€™s a global gold rush taking place, with a stampede of investment galloping towards the various forms of carbon trading and offsetting that have been rolled out to supposedly deliver global emissions reductions in the most cost-effective way. Advocates of the booming carbon market say that, in todayâ€™s world, itâ€™s green, not greed, thatâ€™s good

In Asia, the biggest involvement in the carbon market has been through the Clean Development Mechanism (CDM). This is a regulated market under the Kyoto Protocol by which countries and companies in the developed world can meet their emissions reduction targets by buying carbon credits that have been generated through projects that bring about reduced or avoided emissions in developing countries. In 2007 this market was worth US$17.5 billion, an enormous 200 per cent increase in market value since 2006. Asia has so far been the global leader in generating CDM credits â€“ in 2007, China alone provided an enormous 62 per cent of the credits on the market, while Indonesia was responsible for 10 per cent and India 5 per cent.

Increasing numbers of critics are challenging the rosy win-win portrait of the CDM market that has been painted. Some commentators in the countries in which the projects are being undertaken, have seen it as creating a new colonial commodity in which the ability to make cheaper reductions in the developing world is being treated as a new resource to be extracted and profitably used for the benefit of Western countries.

Aside from this more politicised perspective of the market, the CDM appears to be failing by the standards it has set itself, with many people asking what happened to the â€œDâ€• in CDM? The market has been draped in benevolent rhetoric of sustainable development, so that projects are only supposed to qualify for carbon financing if they have some sort of development benefits. In practice, host governments need only rubber stamp their approval to this condition, and genuine developmental benefits on the ground have proven to be elusive to the point of non-existence. An article in the September 2007 academic journal, Climatic Change, stated that, â€œClose to 200 studies on the CDM have been carried out since its birth in 1997â€¦ The main finding... is that, left to market forces, the CDM does not significantly contribute to sustainable development.â€•

Critics of the CDM have pointed out that, not only do the projects not contribute to development, but, in many cases, the recipients of the money are large, polluting industries that are responsible for all kinds of adverse environmental impacts to the communities who have to endure them. Many thousands of residents of the state of Chhattisgarh, India, have mobilised against the expansion of Jindal Steel and Power Limitedâ€™s notoriously polluting sponge-iron factories. Yet the biggest of these factories in the world, which is currently threatening to wipe out three neighbouring villages in a proposed expansion, is currently earning enormous amounts of money and some degree of environmental credibility for having four separate CDM projects on the go.

CDM money is also being used to support the palm oil biofuel industry in Indonesia, which has recently been the subject of a great deal of global concern over its social and environmental impact. In Riau, Indonesia, PT Murini Samsam, a wholly owned subsidiary of the Wilmar Group, received US$8 million in DM funding to expand its crude palm oil refinery.

Leaving aside the issues of sustainable development and the impact on communities, the question that needs to be asked is if the CDM is genuinely providing climatic benefits. One of the thorniest problems with this is â€œadditionality.â€• The carbon financing through the CDM is supposed to provide emissions reductions above and beyond what would have happened if the money hadnâ€™t been available â€“ i.e in addition to business as usual. If this is not the case and a project that was going to happen anyway is used to justify emissions elsewhere, it can result in a net increase in atmospheric carbon.

Despite the regulatory procedure that is supposed stringently to guarantee that emissions reductions under the CDM are all additional, the market seems to be riddled with examples to the contrary. An adviser to the executive board of the CDM in 2006 conducted an investigation into CDM projects in India and concluded that one third of them were non-additional.

China is home to the lionâ€™s share of hydro-electricity projects registered under the CDM â€“ at the end of 2007, 402 of the 654 hydropower projects in the CDM pipeline were to be found in China, generating 71 per cent of the global annual carbon credits expected from this project category. Given that the Chinese government has been promoting such hydropower development for many years, there are grounds for being suspicious that these projects were happening anyway, and that the government had simply applied for additional funding through the carbon market. The pressure group International Rivers conducted a study that showed that the rate of construction of new hydropower projects in China has been constant for some time. The fact that there has been no significant increase since such carbon financing became available strongly suggests that these projects are simply generating hot air.

Commentators are starting to draw attention to the parallels between the recent sub-prime mortgage credit crunch and the carbon market. In both financial spheres, there is enormous pressure to push through large numbers of transactions regardless of the quality of the deals being done. The UN body administering the CDM has admitted that there is â€œa clear and perceived risk of collusionâ€• between the project developers and the private, third-party auditors, who are supposed to be verifying the quality of the credits. If in five or 10 yearsâ€™ time, it becomes even more widely apparent that the majority of CDM credits that have been profitably generated and sold were based on dubious methodologies or even outright deceit, then the impact could be even more catastrophic than the recent financial instabilities caused by the credit crunch. And unlike the global credit crisis, no injection of capital will be able to turn the clock back on an ever-decreasing window of opportunity to meaningfully address the climate crisis.