

Scrap carbon trading

by Oscar Reyes
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This flawed system has failed to cut emissions. It's time to tackle the broader economic system that led to the climate crisis, argues Oscar Reyes.

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Every time the carbon market fails to reduce emissions, the politicians and businesses who promote the market as the solution to the climate crisis reach for their Samuel Beckett: "Try again, fail again, fail better."

With the price of carbon collapsing, and even the head of EDF Energy in the UK, Vincent de Rivaz, warning of a speculative "carbon bubble", the EU continues to promote the expansion of carbon markets globally – with its proposal to create an OECD-wide carbon market by 2015, which it hopes to expand to major industrialising economies by 2020.

We've been here before. In the first phase of the EU Emissions Trading Scheme, prices collapsed because the "permits to pollute" that are the basis of such a system were over-allocated in response to corporate lobbying. In other words, the cap-and-trade scheme that was supposed to set a limit on carbon emissions failed to "cap" anything.

The EU's response was to stress that this was a test phase, and promote an expansion of the scheme (which was passed into EU law last December). This was broadly akin to arguing that a car that disintegrates in a crash test should then be considered roadworthy.

Now that the price has collapsed again, we need to examine the deeper failings of the carbon market. It is not simply a question of Europe's power companies cashing in on a surplus of allowances which should have been sold rather than given away to them for free. The carbon markets themselves were designed by many of the same Chicago School economists who brought us derivatives trading, and they adopt a similar logic.

New financial products are made by parcelling up real world objects into commodities – in this case, "carbon". To make the market function, a broad range of very different activities are then treated as equivalent, although you don't need to be a climate scientist to see that burning more coal and oil is not eliminated by building more hydro-electric dams or capturing the methane in coal mines – and that funding the latter to cancel out the former can end up subsidising the very industries that need to change if we are to avoid catastrophic climate change.

In fact, the whole basis of carbon offsets (which are tied into the EU scheme through a regulation called the Linking Directive) is that credits are issued for projects deemed "additional" – rewarding companies and consultancies for turning stories of an unknowable future into bankable carbon credits. This is fundamentally unjust, insofar as it uses the global South to clean up a mess that Northern, industrialised countries have created. Numerous cases have been documented where such projects have resulted in land grabs and the repression of local communities.

The response of the political leaders at the World Economic Forum in Davos is to call for a reformed and extended carbon market. Here in the Brazilian city of Belem, where the World Social Forum is taking place, the response is different – with climate justice activists and campaigners arguing for the whole flawed system of carbon trading to be scrapped.

We have seen already the corrosive effect of the carbon market on climate negotiations – with the UN currently debating how best to construct new markets in forests (called REDD in the jargon), rather than tackling the real drivers of deforestation, such as pulp mills, mining and biofuel plantations.

If the road to Copenhagen, where a new global climate deal should be signed in December, is to be anything other than a dead-end, it is time to recall the many means of non-market based regulation and public sector investment that have been more successful in achieving environmental change, and to learn from communities with low-carbon lifestyles. It is time, in other words, not simply to talk of the impact of the financial crisis on the carbon market, but to examine and correct the failings of the broader economic system that led to the climate crisis in the first place.

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