Why are carbon markets failing?

by Steffen BÃ¶hm - The Guardian
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For years we have put our faith in the market to incentivise cleaner technology, and for years the carbon market has been riddled with corruption. It's time to try something else

Carbon markets have lost us more than 15 years in the battle against climate change yet we continue to plough forward with scaling them up. Why?

Some hope that this global expansion of carbon markets will revive their fortunes, helping to raise billions for investments in low-carbon and climate change mitigation technologies. Others, including myself, take a more evidence based approach, arguing that this hope of the pro-market lobby is unfounded, given the inefficient and even corrupt nature of carbon markets so far. There is an urgent need for alternatives to be considered, as the world is running out of time to curb the most serious impacts of run-away climate change.

The principles of carbon markets were established in the 1997 Kyoto Protocol, but to date there have been few, if any, measurable reductions in greenhouse gas (GHG) emissions that can be attributed to these measures. The two most important carbon markets so far â€“ the EU Emissions Trading System (EU-ETS) and the UN's carbon offsetting scheme, Clean Development Mechanism (CDM) â€“ are failures, yet, new carbon markets based on these schemes are being planned in both developed and developing nations.

The EU-ETS is in turmoil at the moment, as the scheme is more over supplied with carbon allowances than ever before. This means that power stations and factories have been allocated more allowances than they actually need, due to the serious recession in many countries, but also due to intense industry lobbying. There has also been a flood of cheap CDM carbon credits, which has contributed to the price of carbon being so low that it currently is a negligible cost to industry, and, more importantly, it does not incentivise investments in low-carbon technologies.

Profiting from global warming?

As a result, many financial institutions have closed their carbon trading desks and have reduced their stakes in renewable energy funds. In fact, "working under the assumption that climate change is inevitable, Wall Street firms are investing in businesses that will profit as the planet gets hotter", as Bloomberg reported recently. While new start-ups invest in adaptation, many big energy companies are getting out of renewables and instead bank on profits from increased extraction of fossil fuels.

If it seems unethical that companies would forego mitigation to profit from a hotter planet, it is also surprising that renewed hope and political energy is being put into introducing new carbon markets in places such as California, Australia, Japan and Canada. In addition, the World Bank has been busy introducing carbon markets in many developing countries, such as Brazil, Mexico, Colombia, Thailand, Vietnam and South Africa.

Why are carbon markets failing?

Carbon markets would not suddenly work better if the carbon price was right. There are at least three systemic failures with the carbon trading approach. The first concerns the link between carbon markets in the developed world and offsetting opportunities in developing countries. In a WikiLeaks released cable, government officials claimed recently that none of the CDM projects in India (the second biggest host of CDM projects after China) can be considered 'additional'. This means that every CDM project should go beyond 'business as usual', that is, be greener than what would have taken place otherwise. In fact, the opposite is often true.

The GFL gas project in Gujarat, India, for example, has been one of the biggest producers of CDM carbon offset credits in the world, selling them to many of the biggest polluters in the EU. GFL has profited immensely from the CDM, and Europe's polluters have had a cheap way to offset their climate responsibilities without actually greening their way at all. The EU Climate Action Commissioner, Connie Hedegaard, has admitted that such projects have a "total lack of environmental integrity".

The second reason is that carbon markets have been infested by corruption and non-transparency. When studying one project in India, my research team realised that the Mumbai office of a major international consultancy appeared to have copied and pasted large chunks of documentation from one CDM project to another. In fact, carbon markets have created a lot of income for consultants, carbon brokers and project developers, not to mention the validators, policy makers, NGO professionals and academics who have made a living from these markets. There is very little independent and democratic oversight in the system. Instead, there are many revolving doors between the business, policy, NGO and university worlds, fuelling accusations of corruption.

Contrary to their claims, carbon markets have fuelled unsustainable practices. AT Biopower, a Thai company that generates renewable electricity by the burning of rice husk is able to sell carbon credits to Japanese and other polluters. AT Biopower presents rice husk as a waste product, but, as Carbon Trade Watch activist Tamra Gilbertson says it is actually a vital source of fertilizer in the local, sustainable economy of subsistence farmers. Farmers now have to buy petroleum-based, chemical fertilisers, which makes them worse off and creates negative environmental impacts.

Although it is plain to see that carbon markets have not worked at all, as they have failed to reduce GHG emissions, new trading mechanisms are currently planned in many countries around the world. Given the manifold problems outlined above, more than 100 civil society organisations are currently calling for the EU-ETS to be scrapped. They ask: why should we put our hope and trust into a system that has failed us so far? There are plenty of more powerful policies that can and should be explored: promotion of local economies, energy conservation, community-owned energy generation and carbon taxes.

None of these will provide a one-fits-all solution. But we cannot afford to lose another 15 years in our quest to rapidly decarbonise our economies, businesses and societies. Carbon markets have given the appearance of us doing something about climate change, while actually legitimising the constant rise of emissions. We need to go back to the drawing board and come up with solutions that actually work in practice.

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