Global coal gets a boost from the carbon market

by Kevin Smith
Thursday, 16 October 2008

From the October Issue of Environmental Finance magazine

In 2007, the UN decided to allow more efficient coal-fired power stations to gain carbon financing as an offset project through the Clean Development Mechanism. Kevin Smith from Carbon Trade Watch writes how the carbon market is now being used to support new coal in the South as well as the North.Â

Had it been apparent just over 10 years ago, when the Clean Development Mechanism (CDM) was being ushered in, that the mechanism would ultimately be used to provide enormous financial subsidies the corporate owners of coal-fired power plants, it would have faced a lot more opposition than it did.

Allowing such plants to earn carbon credits will do nothing for development, will help subsidise some of Asiaâ€™s most reprehensible companies, and is unlikely to encourage more efficient technologies. Most seriously, it undermines the very effort to move away from the filthiest fossil fuel â€“ both in Asia and the global North.Â

Over the last few years, the underlying definition of what constitutes â€˜clean developmentâ€™ (a supposed prerequisite for qualifying as a CDM project) has been stealthily widened to the point of meaninglessness. Who will receive the â€˜developmentâ€™ benefits from marginally more efficient coal-fired plants? Will the quarter of the worldâ€™s population witho access to electricity receive that electricity any cheaper as a result of super-critical coal plants receiving carbon financing? Or will this money simply be swallowed up in the already quite substantial profit margins of the capital-intensive industries receiving it?

Indiaâ€™s Tata Power is building one of the worldâ€™s largest coal-fired plants in Gujarat, which, when it comes operational, w pump out 23.4 million tonnes of carbon dioxide (CO2) a year. The International Finance Corporation, which is helping to finance the plant, claims that it would emit 3.6 million tonnes less of CO2 each year than any other subcritical coal plant in India. If it was able to sell those reductions at current market prices, it could earn around â‚¬70 million/year. In the 2007/2008 financial year, Tata Powerâ€™s net profits were up 25%, reaching $184 million.Â This is clearly not an economically struggling company that needs additional revenue streams to upgrade and improve its technological efficiency.

In addition, the wider Tata group has an appalling environmental and human rights record across the Indian sub-continent â€“ with controversy currently raging around its Tata Nano factory in West Bengal, where six farmers committed suicide, allegedly after their land was acquired for the plant. In July 2006, when the company tried to build a steel factory in Orissa, police fired on the local people protesting against the plant, leaving 12 dead.

Moreover, some commentators argue that carbon finance is not necessary to encourage the uptake of super-critical technology â€“ at a time when concerns are rising over â€˜non-additionalâ€™ (business-as-usual) projects qualifying under the CDM. The rising cost of coal means that both the public and private sectors in countries like India and China have been moving towards its adoption.

If this super-critical technology is being adopted anyway, then there is the potential for another slew of â€˜business as usualâ€™ projects being tarted up to qualify under the CDM and garner extra cash. Supposedly stringent measures to ensure additionality have so far failed to prevent the large numbers of hydro-projects in China that have been shown to have been going ahead regardless of the carbon financing.

In addition, the carbon market has proven to be grossly ineffective at implementing such energy efficiency measures â€“ which should instead be a matter of regulatory intervention. However, the large sums of money that the likes of Tata stand to gain through the carbon market will act as a perverse incentive, discouraging local governments from bringing about such regulation as it would mean an end to domestic projects qualifying for CDM money.

Carbon finance being used to subsidise the fossil fuel industry is possibly the illogical logical conclusion of the carbon market. The construction of such new coal-dependent energy infrastructure is locking us into decades more of massive greenhouse gas emissions. The fact that institutions such as the International Energy Agency project ongoing fossil fuel dependency for decades to come does not mean that this is a given â€“ the whole point of attempting to consciously bring about a transition to a global low-carbon society means that we shouldnâ€™t be beholden to such projections â€“ let alone be paving the way for them to become self-fulfilling. We should be deciding what is necessary for our future energy needs and â€˜backcastingâ€™ from there, rather than accept the inevitability of a fossil fuel future.

The inclusion of marginally more efficient coal-fired power stations within the CDM is taking place in the context of many industrialised countries and companies struggling to reach their compliance targets, and of a bottleneck within the CDM pipeline where, for a variety of reasons, projects are not being pumped out at the rate at which developers had hoped. Widening the CDM to fossil fuel projects is not about providing clean development, and itâ€™s certainly not about dealing with climate change â€“ it is about maintaining a steady flow of carbon credits to industrial sectors in the industrialised North who are failing to make adequate emissions reductions.

The irony is that, with power companies such as E.ON likely to need large amounts of carbon credits in the future to offset the potential emissions from their planned new coal-fired plants across Europe, there is a very real possibility that the CDM will be used in different ways in both hemispheres to prolong the shelf life, for many decades to come, of the dirtiest, most emissions intensive fossil fuel there is.

Kevin Smith is the London-based researcher of Carbon Trade Watch (www.carbontradewatch.org), a project of the Transnational Institute. E-mail: kevin@carbontradewatch.org