Where is carbon trading heading?

by Tamra Gilbertson and Oscar Reyes
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With UN climate talks in question, serious questions are being asked about the future of carbon trading, while a more detailed survey of new projects and policies shows that carbon markets continue to beat their destructive path.

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A postscript to Carbon Trading: how it works and why it fails

It was billed as the last chance to save the climate, but while the UN Climate Conference in Copenhagen was long on expectation, it was short on results - with a final Accord of less than three pages of rather vacuous diplomatic ruminations.

The carbon market received few explicit mentions in this text or the headlines surrounding it, but remains central to the flows of money and displacement of responsibility that pass for international climate policy. So let's forget Copenhagen for a moment and ask ourselves: "where is carbon trading heading?" Unfortunately, the expansion of such markets across the world continues on its destructive path with or without a new global climate treaty.

Let us start, though, with the most significant exceptions to this trend.

Right-wing opponents of climate legislation in the USA and Australia are attempting to kill cap and trade. Yet it is worth separating motives from effect. In the US, the DemocratsÂ´ compromises to hold onto the carbon market look set to open a new era to offer massive concessions to power, heavy industry, off-shore oil drilling and industrial agriculture. In other words, new climate legislation would provide a green light for increased emissions, which the market would serve to outsource and offset. Yet if the bill does not pass it could "change environmental politics in America and beyond", as The Economist points out,Â providing a stimulus for grassroots opponents of trading schemes, returning the emphasis of climate action to the "command-and-control techniques", and cutting off the major potential source of demand for carbon credits.1

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In either case, the European Union (EU) is likely to remain the largest source of demand for carbon offsets in the next decade. Legislation is already in place for a third phase of the EU Emissions Trading System, from 2013 to 2020, despite considerable evidence that it is failing to reduce emissions. The economic downturn, and the use of offsets, could well lead to such a surplus of permits that the EU might avoid any domestic reductions until 2020.2
Meanwhile, a series of scandals have spread fresh concerns about the

system - including a VAT fraud that accounted for up to 90 per cent of trading in some EU countries, and the "recycling" of CDM credits in Hungary, allowing their "reductions" to be counted twice.3

A different form of double-counting is state policy in New Zealand, where a new Emissions Trading Scheme initially allows companies to surrender 1 NZU (New Zealand Unit, equivalent to 1 tonne of CO2) for every 2 tonnes of emissions. It also allocates free units to heavy industry (such as aluminium smelting) and agriculture, the main polluting sectors, on an uncapped intensity basis - in effect, subsidising them to increase emissions.4

With such lax and failing schemes, the question remains: who will buy offsets? The largest direct buyers of CDM credits are all from the financial sector, with the main demand coming from the power sector in the EU, where a series of new coal-fired power plants are under consideration.5
But political difficulties in Copenhagen, Canberra and Washington have sown some doubts, which has seen a stagnation in CDM project development, and has even led some financial speculators to diversify their strategy and bank less upon the growth of carbon markets.6

Despite this, the damage that CDM continues to do on the ground should not be underestimated. On 6 January 2010, the UN's Clean Development Mechanism (CDM) registered its 2000th carbon offset project.7
By far the largest share of credits in 2009 come from spurious industrial gas reductions (of HFC23 and N2O), while four of the five largest projects registered in 2009 will subsidise the fossil fuel industry: coal and natural gas in China, and gas flaring in Nigeria.8
Hydroelectric dams, mostly under construction irrespective of CDM finance, remain a major source of activity too, seeking CDM credits as an additional subsidy stream.

Japan and Korea are in the process of setting up new cap and trade markets. In the latter case, the Chicago Climate Exchange - staffed by many of the key protagonists for international emissions trading - is the key advisor. It is also a key actor in the creation of a new trading scheme in China, seen as a prototype.9
Brazil, meanwhile, is considering a carbon market that would allow forestry projects to "offset" the emissions from its new offshore oilfields, Mexico has a trading scheme under discussion, and even the Indian government (which does not expect to take emissions targets) may yet come to view its new scheme for exchanging energy efficiency permits (called "Perform Achieve and Trade", PAT) as a springboard for emissions trading.

Meanwhile, the EU - largely sidelined in Copenhagen - continues to push for the creation of new "sectoral crediting" mechanisms, which would extend the logic of offsetting to whole industrial sectors (such as steel) and power production in what it lists as "major industrialising countries (the so-called BASIC grouping: Brazil, South Africa, India and China; plus other members of the G20, such as Mexico and Indonesia).10

The development of an international framework for Reducing Emissions from Deforestation and Degradation (REDD) is also geared, ultimately, to the continued exploitation of new sources for offsetting. As UN and World Bank bureaucrats and NGOs argue over certification and "gourmet" REDD schemes, there is growing opposition on the ground against land grabs, with this enclosure process severely threatening the lives and livelihoods of Indigenous Peoples, forest-dwelling communities and sustainable pastoralists.11

In this regard, the real world dynamic of carbon trading is more complex than the binaries of international climate talks - whose failure rests, ultimately, on the refusal of industrialised ("Annex 1") countries to take responsibility for their disproportionate historical and current contribution to accelerating climate change.

Against this backdrop, resistance to carbon markets, including REDD schemes, remains a crucial element in the struggle for climate justice. The carbon markets provide a green veneer behind which the big energy companies, industrial polluters and agribusinesses can hideÂ while claiming rights to â€˜development' in the name of addressing the climate crisis. To continue to build resistance to this smokescreen requires a far broader focus than climate summit protests, which form only one small piece in a vast jigsaw of global struggles to secure energy production, industry and agriculture in ways that promote and rediscover locally-adapted knowledge. To really achieve this, there are no short cuts around political organising - since the struggle against climate change is part of a larger fight for a more just, democratic and equal world.

Carbon Trading: how it works and why it fails is published by the Dag HammarskjÃ¶ld Foundation (www.dhf.uu.se). The book can be downloaded for free from: www.carbontradewatch.org/publications/carbon-trading-how-it-works-and-why-it-fails.html

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2Â For more details, see Tamra Gilbertson and Oscar Reyes, Carbon Trading: how it works and why it fails, Uppsala: The Dag HammerskjÃ¶ld Foundation, November 2009; http://www.carbontradewatch.org/publications/carbon-trading-how-it-works-and-why-it-fails.html

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