

Carbon trading, REDD+ and the push for pricing forests

by Carbon Trade Watch
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How was carbon trading created?

The United Nations Framework Convention on Climate Change (UNFCCC) was created at the Earth Summit in Rio de Janeiro, Brazil in 1992, and entered into force two years later, when governments began international negotiations to address climate change which are referred to as the Conference of the Parties (COP). The UNFCCC recognizes "common but differentiated responsibilities" among countries, a principle that recognizes the historical and current responsibility of air pollution of industrialized countries for causing climate change, and thus affirms that industrialized governments should take the first steps for dealing with this "global" problem.

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The development model has its vital energetic base in the extraction of cheap fossil fuels (oil, gas and carbon). The countries that have consumed the most amount of this energy are in the Global North.

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Governments agreed to the Kyoto Protocol in 1997. Although the Protocol binded industrialized countries to reduce their emissions in an average of 5.2% below their 1990 emission levels, these targets could be reached through buying and selling "pollution permits". The United States' delegation at that time, introduced carbon trading as the "most efficient" solution to deal with the climate crisis. Even though it was slowly "accepted" by other governments, the US never ratified the Kyoto Protocol.

By 2001 most of the rules and procedures on how to implement the Kyoto Protocol were agreed. Under the Protocol, industrialised countries ("Annex I", referring to a list of 37 such countries under the UNFCCC) agreed to targets for reducing their greenhouse gas emissions in the first commitment period. This period started in 2005 and ends in December 2012. Countries from the Global South do not have reduction targets in this first commitment period following the "common but differentiated responsibilities" principle, however they are encouraged to take on voluntary mitigation actions.

The idea behind carbon trading, introduced through the Kyoto Protocol, was to allow industrialized countries to trade away their commitments of reducing emissions. The important point, so the theory went, was to achieve an overall reduction in the world through trading and offsetting pollution rather than reducing pollution at source. The "invisible hand" of the market would guide the process towards the cuts that were the cheapest to make.[i] This, in practice, busted the cap that Kyoto itself had placed on industrialized countries' emissions and shifted the burden into Southern countries.

Carbon trading was introduced within the UN climate negotiations as a way to promote "corporate friendly" measures and avoid regulations that could restrict polluting practices. This allowed no change in reducing pollution at source but further secured additional profit through the trading of carbon credits.

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How does carbon trading work?

Carbon trading appeared with a simple goal: to make it cheaper for governments and companies to meet emission reduction targets; however, this system is design in such a way that the "targets" can be "reached" without actual reduction taking place. The vested interests of corporate lobbies, polluting governments, financial institutions such as the World Bank, big conservationist NGOs, among many others, have supported this trading not only to legitimize and expand a clearly unsustainable economic system based on fossil fuels, but also as a source of further profit, land grabbing and greenwashing.

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Two interdependent mechanisms are behind carbon trading:

"Cap and Trade" and "Offsetting".

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= 1. Cap and Trade =

Under cap and trade, industrialized governments allot carbon permits (each permit being equivalent to one tonne of carbon dioxide) to their major industries in relation to the "cap" agreed under the Kyoto Protocol. When a polluter finds that reducing emissions gets too expensive, it can buy permits from another polluter that can make "equivalent" changes more cheaply (the trade). So industries exceeding their reduction commitments can sell their surpluses to those that have failed to reduce emissions.

"Cap and Trade" has many loopholes in its design. Some of the key problems are:

- Permits are sold by those with a surplus or excess, this is called "over-allocation of permits", that means that companies were given more free permits than they needed after intense corporate lobbying
- The trading part simply gives companies more maneuvering room to escape addressing pollution; it does not reduce emissions
- Chasing cheap and short-term reductions encourages quick "fixes" to patch up outmoded power stations and factories delaying any fundamental change
- Carbon trading claims to set a "price signal" that encourages polluters to switch to cleaner technologies. But carbon prices are (and will be) very volatile and prone to major crashes in large part because carbon is a made-up commodity

The European Union holds the largest cap and trade system to date, covering over 11,000 power stations and factories in 30 countries.[ii] It has failed to cut emissions, however, while power companies gained windfall profits estimated at \$19 billion in the first phase (2005-2007), and look set to rake in up to \$71 billion in the second phase (2008-2012). The scheme has acted as a de facto subsidy for polluters, with the first phase handing out around four per cent more permits than the actual level of pollution (over-allocation). A similar problem is being repeated in the second phase of the scheme, which is expected to result in a surplus of around 970 million in unused permits. These can be held over to the third phase.

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= 2. Offsetting =

This second mechanism is based on the assumption that pollution in one location can be "offset" by "saving emissions" somewhere else (namely, in the Global South). Implementing "emissions-saving" projects in the Global South (outside the cap area) generate carbon credits that can be used for meeting pollution targets or traded in the carbon markets. Although offsets are often presented as emissions reductions or as a way to be "carbon neutral", they do not reduce emissions. Even in theory, they at most "compensate" for the emissions somewhere else. Offsets run in parallel with "cap and trade" schemes. The carbon credits generated from offset projects allow pollution over and above the "cap".

Offset projects range from hydroelectric dams or wind farms to methane capture from industrial livestock facilities or monoculture plantations. These projects are undertaken by companies, international financial institutions like the World Bank, conservationist NGOs and governments. For companies, offsets are in general a cheaper option than changing polluting practices. Moreover, it has become an easy way to create a "green" image for consumers.

The largest offset scheme is under the UN administration and is called the Clean Development Mechanism (CDM). There are over 4,400 registered projects as of June 2012.[iii] However, there are also voluntary carbon markets (not under the UN regulation) which buys and sells offset credits for individual emissions (like the offers to offset an airplane flight or a specific event).

There are many well-documented problems with "Offsetting". Some key issues are:

- Somewhere else? Carbon offset projects often result in land grabs, local environmental and social conflicts, as well as the repression of local communities and social movements. In other words, the people who have had least to do with causing climate change are those who are most adversely affected by these "clean" "development" projects.[iv]
- Shifting responsibilities. Governments and companies in the North, which have the historical responsibility to clean up the atmosphere, are allowed to buy credits from projects in the South. The "efforts" of "saving emissions" are then Southern countries.
- $1 + 1 = 3$. The economic value of CDM projects is premised on constructing dubious "equivalences" between very different economic and industrial practices to ensure that a single commodity can be constructed and exchanged. This does not erase the reality that burning more coal and oil is in no way eliminated (nor compensated) by building more hydroelectric dams or wind farms.[v]
- "Carbon neutral"? Offset projects allow companies and countries to buy their way out of responsibility with theoretical reductions elsewhere, while legitimizing and expanding their dirty practices. The net result is that offsetting tends to increase rather than reduce pollution.[vi]
- Colonial paradigm. The use of "development" and "poverty" rhetoric masks the fundamental injustice of offsetting hands a new revenue stream to some of the most highly polluting industries, while simultaneously offering companies and governments in the North a means to delay changing their own industrial practices and energy usage. These projects are mostly expanding a developmental model that has increased inequalities and exclusions.
- Profitable future telling. Every offset project is supposed to be "additional" to what "would otherwise have happened" without the project (an unknowable future). So for example, a hydroelectric dam theoretically can only generate credits if it has been planned and implemented for offset purposes. If there was a governmental or private investment plan that would have constructed it anyways, the dam should not be considered as an offset. This offers polluters and consultancies the opportunity to create stories of many possible futures for generating further carbon credits.
- (Un)capping. While the cap and trade scheme in theory limits the availability of carbon credits, offset projects are a license to print new ones. When the two systems are brought together, they tend to undermine each other "since one applies a cap and the other lifts it. Most current and proposed cap and trade schemes allow offset credits to be traded within them" including the European Union's carbon market.

Offsets do not deal with the real causes of climate change. Carbon trading takes us away from any real transformation. It allows the constant over-production and over-consumption of energy, windfall profits for polluters, and "green" corporate images that benefit their sales. Corporations and industries are placed at the center of the decision-making tables.

œThe carbon market has become a lucrative business, commodifying our Mother Earth. It is therefore not an alternative for tackle climate change, as it loots and ravages the land, water, and even life itself.

The recent financial crisis has demonstrated that the market is incapable of regulating the financial system, which is fragile and uncertain due to speculation and the emergence of intermediary brokers. Therefore, it would be totally irresponsible to leave in their hands the care and protection of human existence and of our Mother Earth•.

(Peoples' Agreement, 2010, World Peoples' Summit on Climate Change and Rights of Mother Earth, Cochabamba, Bolivia)

Can there be “good” offset projects? And what about “renewable energy”?

No, there cannot be good offset projects. Offset projects exist to continue fossil fuel-based energy use and consumption, mainly in the North. It acts as a backdoor to avoid responsibility for reducing emissions at source. Further, the types of industry that are being funded are largely those which are already causing the worst social and environmental problems. Even taking a look at some of the “renewable energy” projects, it becomes clear that local communities rarely benefit from these “in numerous cases, communities do not receive electricity from wind turbines and other renewable sources. Such projects have often displaced and criminalized communities through land grabs and persecution by local authorities.

Offset projects accelerate the implementation of large-scale hydroelectric dams, wind farms or monoculture plantations under the label of “clean”, “renewable”, “sustainable”, “green” or “bio” energy. They argue that generating “green energy” instead of coal power plants, which would be necessary to produce the same amount of energy. However, these discourses are silent on the large amounts of lands needed to implement such projects, the local environmental and social effects and in many cases, the displacement, repression and criminalization of those who attempt to defend their territories.

In this context, the European Union has the target to turn 20% of its energy use into “bio energy”, which will undoubtedly intensify monoculture plantations and agrofuels. The United Kingdom alone would need 80 million tonnes of wood pellets as biomass for “green energy” to be burned in power stations each year, much of which will be sourced from countries abroad.[vii]

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From carbon trading to “environmental services”: An expansion of enclosure

The idea of “environmental services” is related to those functions within every ecosystem that are indispensable for the survival of humans and nature. The use of the word “service” is already a signal that refers to nature as a provider for humans, a service for which goods are priced and traded. REDD+ in this sense is considered an environmental service because the trees and soils have the capacity to absorb carbon dioxide. However, unlike nature’s gifts including wood, edible plants, medicines, among many others, the cycles of nature (i.e. pollination of insects, generation of water springs,

biodiversity balance, among many others) are mostly "invisible", therefore difficult to quantify and have yet remained outside of the market sphere.

Nature provides these "services" for "free" and has many values others than economic, but some people want them a monetary value (i.e. a price) in order to expand profits. For example, the capacity of one tree to absorb carbon dioxide and release oxygen in its life is a capacity in itself "separated" from all the other capacities of a tree and the ecosystem it belongs to. This is referred to as an "environmental service" and, the argument goes, no one is paying for it.

One step further is to talk about "Payment for Environmental Services" (PES), where the "payment" is added. PES defined as:[viii]

- (a) a voluntary transaction where
- (b) a well-defined environmental service or a land-use likely to secure that service
- (c) is being "bought" by a (minimum one) service buyer
- (d) from a (minimum one) service provider
- (e) if and only if the service provider secures service provision (conditionality).

In short, PES needs (minimum) one buyer, one seller, a well-defined and secured service, and a trade. PES has been usually used where a clear payment could be made; for example, from the upriver communities to the downriver communities to compensate for their water shortage, however, and especially in a large-scale, PES tends in practice to benefit large-scale landowners with clear land titles.

There are many serious problems with pricing the capacities of nature for balancing the earth's ecosystems and climate. First, this focus comes from a neoliberal ideology where the main objective is to set property rights and further profits, leaving all nature's complex and incredible processes to the "invisible hand" of the market, which, as we have learned history, benefits a few and seeks constant accumulation of wealth. Trade on "environmental services" moreover, do not attempt to change the production and consumption model. Also, it is highly problematic, if not also absurd, to attempt pricing the pollination of insects, for example. How much does a natural spring of clean water cost? Who is setting these prices? And under which "values" are these prices being thought of? By putting a price tag on these capacities, vested interests and corporate lobbies will search to further profit from these new markets. Trading environmental services would require territorial control so that buyers and sellers can monitor what is being traded, adding even more pressure to forests and Indigenous and forest-dependent communities' territories.[ix]

Besides the serious threats from the financial markets, the concept of putting a price on nature's capacities goes in direct contradiction with the paradigms and knowledges of many Indigenous, forest-dependent peoples and farmers, which see nature not as a service provider for humans but as a crucial part of life in harmony and equilibrium between human beings and the natural environment of which they are part.[x]

In this context, REDD+ is being based on the "experience" and "knowledge" of carbon trading. The neoliberal economies that dominate the climate talks are quickly expanding to many other possible markets that can be created out of other nature's capacities, such as biodiversity credits, water credits, and groundwater cycles.

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REDD+ and carbon trading

Since the earliest experiences of offsets, forests have been at the center of the debate. Referred to as "carbon sinks", forests were seen as a way to generate "services" or "credits".[xi] The initial practices in Costa Rica and Papua New Guinea in the early 1990s established a precedent for inclusion of tradable carbon sequestration offsets or carbon "sinks" in UNFCCC legislation.[xii] During the Kyoto negotiations the United States, Canada and Australia had vested interests for the inclusion of "sinks" in any deal as a means to make their emissions targets cheaper and easier to attain while northern based conservation NGOs took the lead in designing projects in the South.

Several REDD+ schemes are already underway, some hosted by the UN and the World Bank, others in response to bilateral and multilateral agreements between countries.[xiii] A number of countries have started their own REDD+ projects. The government of Ecuador for example, is strongly promoting a scheme called "Forest Partners Program" as a REDD+ preparation phase, which is bounding communities to long-term contracts for in most cases, losing their use-rights to their territories[xiv] A number of private conservation funds and voluntary offset projects have also established more REDD+ schemes.[xv]

During the divisive climate negotiations in The Hague, Netherlands, in 2000, one of the major controversies concerned the technical possibility of countries claiming carbon credits from "additional land and forest activities" within their borders as part of their Kyoto Protocol "reduction" commitments. The concept of carbon sequestration was accepted, but the possibility to trade credits from forests was not.[xvi]

Not until the negotiations in Bali, Indonesia, in 2007, however, the concept of forest offsets was repackaged and the UNFCCC adopted the program Reducing Emissions from Deforestation and Degradation (REDD). Although not explicitly market-based within UN-backed carbon trading schemes, the prospect of a market-based REDD+ set in motion what could arguably be the most reckless land grab in history.[xvii]

Indigenous Peoples Organizations note the current lack of a respect of the Free, Prior and Informed Consent (FPIC) right of Indigenous Peoples within the climate change negotiations as evidence that REDD+ is in contradiction to the UN

Declaration on the Rights of Indigenous Peoples (UN-DRIP), which was adopted by the UN General Assembly in 2007.[xviii]

The UN launched in 2008 a specialized program for REDD+ which aims “to assist developing countries prepare and implement national REDD+ strategies”. The Framework Document of UN-REDD admits a range of potential failings “noting that REDD+ could “deprive communities of their legitimate land-development aspirations” and “marginalize the landless”; that “hard-fought gains in forest management practices might be wasted”; that it could “lock-up forests by decoupling conservation from development”; and that it might “erode culturally rooted not-for-profit conservation values.”[xix]

Working in tandem with the UNFCCC, the World Bank launched its Forest Carbon Partnership Facility (FCPF) in 2007 with the aim to develop REDD+ pilot projects, securing funding and launch the market. Benoit Bosquet, a World Bank senior natural resources management specialist, who led the development of the Facility stated its “ultimate goal is to jump-start a forest carbon market.”[xx]

Although REDD+ is not yet based within an UN-backed emissions trading market, it does not alter the basic direction of the scheme for which it was designed. Besides, there are already bilateral and multilateral agreements between countries that are implementing REDD+ projects while the voluntary carbon markets are already trading credits from REDD-type projects. The question should not be, “Will REDD+ be included in a UN-based offset market?”TM, but rather, how is REDD+ and related-activities being designed to commodify forest carbon and how is this affecting land rights, property rights, sustainable agricultural practices and Indigenous Peoples’TM rights? “how is this already affecting the relationship between power and resistance on the ground?

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Rio+20 and REDD+

The United Nations Conference on Sustainable Development, Rio+20 marks the twenty-years anniversary of the first Earth Summit in 1992, where the promise of “sustainable development”TM coupled with “economic growth”TM was made. Years later, with a record of high environmental damage and emissions rising, the UN will launch a “green economy”TM, a new catchphrase that is based on furthering the use of market-based instruments to put a price on environmental damage and protection.

The carbon markets are used as an example of how it is not only a false solution to climate change but also it has turned the climate crisis into a business opportunity. REDD+ is a big focus for “green economy”TM proposals, despite the evidence of land-grabbing affecting farmers, forest-dependent communities, women and Indigenous Peoples, especially in the Global South.

The “green economy”TM also includes the creation of a market for biodiversity offsets, through which companies can buy “right to destroy a natural area”TM by buying credits from projects that “preserve another natural area”TM. These assumption false equivalences attempt to quantify and homogenize complex processes in order to trade credits and expand financial

markets.

Nothing in the "green economy"™ challenges an economy dependant on fossil fuels, based on over-consumption and production, especially in the North. The aim is to enclose the functions of nature under the market and technology control. The same economic logic has been covered with green paint in order to facilitate the opening of more territories, resources, and nature itself, to the same markets and financial gambling that is in crisis.

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[i] For further information on carbon trading, see Lohmann L (2009) "A critical conversation on climate change, privatization and power", Dag Hammarskjold Foundation, <http://www.carbontradewatch.org/publications/carbon-trading.html>; and Gilbertson and Reyes (2010) "Carbon Tradeing, how it works and why it fails", Carbon Trade Watch, <http://www.carbontradewatch.org/publications/carbon-trading-how-it-works-and-why-it-fails.html>

[ii] It is called the European Union Emissions Trading Scheme (EU ETS). For more information on this scheme see: Cohelo, R (2012), "Green is the color of money: The EU ETS failure as a model for the "green economy", Carbon Trade Watch, www.carbontradewatch.org

[iii] UNEP Risoe Analysis, www.cdmpipeline.org

[iv] Human Rights for all (2011), "Aguan Biogas Project linked to serious Human Rights", <http://global-human-rights.blogspot.nl/2011/07/aguan-biogas-project-linked-to-serious.html>

See more information in, for example, Ghosh, S and Kumar S. (2011), "The Indian CDM: Subsidizing and Legitimizing Corporate Pollution", <http://www.thecornerhouse.org.uk/resource/indian-cdm>; Bohm and Dabhi (eds.) Uppsetting the Offset, UK: MayFly, www.carbontradewatch.org/publications/upsetting-the-offset.html; and Bond, P (2012) "The CDM in Africa cannot deliver the money", <http://cdmscannotdeliver.wordpress.com/>

[v] Lohmann, L (2012) "The endless algebra of climate markets, The Corner House, <http://www.thecornerhouse.org.uk/resource/endless-algebra-climate-markets>

[vi] Zacune J (2012), "Nothing neutral here: large scale biomass subsidies in the Uk and the role of the EUETS", Carbon Trade Watch, <http://www.carbontradewatch.org/articles/nothing-neutral-here-large-scale-biomass-subsidies-in-the-uk-and-the-role-of-the-eu-ets.html>

[vii] Zacune J (2012), "Nothing neutral here: large scale biomass subsidies in the Uk and the role of the EUETS",

Carbon Trade Watch, <http://www.carbontradewatch.org/articles/nothing-neutral-here-large-scale-biomass-subsidies-in-the-uk-and-the-role-of-the-eu-ets.html>

[viii] Wunder S. (2005), "Payment for Environmental Services: some nuts and bolts", CIFOR, www.cifor.org/publications/pdf_files/occpapers/op-42.pdf

[ix] World Rainforest Movement (2012) Monthly Bulletin, Issue 175, February 2012, "Environmental services", <http://www.wrm.org.uy/bulletin/175/viewpoint.html>

[x] Goldtooth T (2011) "Why REDD/REDD+ is not a solution" in No REDD, A Reader, No REDD Platform, <http://noredd.makenoise.org/>

[xi] G. Arturo Sanchez-Azofeifa, Alexander Pfaff, Juan Andres Robalino, and Judson P. Boomhower, "Costa Rica's Payment for Environmental Services Program: Intention, Implementation, and Impact", *Conservation Biology*, DOI: 10.1111/j.1523-1739.2007.00751, 2007. The notion of "carbon sequestration" (or "sinks") was already established in the UNFCCC. See "United Nations Framework Convention on Climate Change", 1992, article 4.d.

[xii] G. Arturo Sanchez-Azofeifa, et. al. op cit. Supra note 1.

[xiii] There are many bilateral and multilateral agreements in place. The Norwegian government for example has committed USD\$600 million a year to REDD+; Australia is involved in REDD+ projects in Australia and Vanuata; the German technical cooperation agency (GTZ) is setting up projects in Indonesia and Laos. The governor of California, US, has made an agreement with the governor of Chiapas, Mexico and Accre, Brazil for implementing REDD+ projects.

The World Bank is a key promoter and broker of REDD+ projects and funds. In 2007 the Bank launched its Forest Carbon Partnership Facility (FCPF), a "market readiness" initiative for REDD+. The FCPF consists of two funds: the Readiness Fund and the Carbon Fund. The former supports Southern countries in developing a national REDD+ strategy, while the Carbon Fund is a public-private partnership which facilitates the trading in forest carbon credits.

See "Who benefits from REDD? Players and Power", Carbon Trade Watch, <http://noreddpoped.makenoise.org/>

[xiv] Ecuador is currently seeking donations from organisations and governments for its new "Forest Partners Program" ("Programa Socio Bosque"), set up to capitalise on future REDD+ funds. See http://www.ambiente.gov.ec/paginas_espanol/sitio/index.html The programme (and a counterpart, called Socio-Pájramo) has been criticised by the Confederation of Indigenous Nationalities from Ecuador (CONAIE) in its first women congress in 2009 stating "We reject the proposals to sell the carbon from the amazon forests. We demand to the Ecuadorian government that instead of these policies, promote the conditions for the development of our peoples and nationalities respecting our cultures and needs." See: Territorio Indígena y Gobernanza (2011), "Posiciones ante REDD+", www.territorioindigenaygobernanza.com/web/index.php?option=com_content&view=article&id=309&Itemid=326

For further information, See: Acción Ecológica (2012), "REDDes que lo atrapan todo", <http://www.carbonradewatch.org/articles/alerta-verde-164-reddes-que-atrapan-todo.html>

[xv] These include REDD+ projects sponsored by NGOs, including The Nature Conservancy, Conservation International, WWF, Environmental Defense Fund, Woods Hole Research Center, CIFOR, and the Wildlife Conservation Society "a number of which have been accused of coercing Indigenous Peoples to hand over their lands for new REDD+ schemes with little or no consultation. See www.redd-monitor.org and www.wrm.org.uy

[xvi] When the UN was drawing up rules for the CDM it originally discarded forests and opted to just include "afforestation and reforestation" activities, which in a nutshell means plantations. The reasons were linked to mainly accounting and monitoring questions.

[xvii] For more information on REDD+ see: "What is REDD? An introduction to forests and climate change" and "Who benefits from REDD? Players and Power", Carbon Trade Watch, <http://noreddpoped.makenoise.org/>

[xviii] Indigenous Environmental Network (2011) "Identifying violations of Indigenous Peoples' Rights by REDD-type projects" A quick reference guide to UNDRIP, in No REDD Papers, Volume I, No REDD Platform, <http://noredd.makenoise.org/>

[xix] UN-REDD Framework Document, p4-5, www.undp.org/mdtf/UN-REDD/docs/Annex-A-Framework-Document.pdf, Poverty Environment Partnership (PEP) Policy Brief www.povertyenvironment.net/?q=filestore2/download/1874/PEP-REDD-policy-brief-Oct-08.pdf

[xx] World Bank (2007), Forest Carbon Partnership Facility Takes Aim at Deforestation, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21581819~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>