Climate justice briefs #8

THE DANGER OF CARBON MARKETS

November 2010, Cancún

We consider inadmissible that current negotiations propose the creation of new mechanisms that extend and promote the carbon market, for existing mechanisms have not resolved the problem of climate change nor led to real and direct actions to reduce greenhouse gases.

People's Agreement, April 2010, Cochabamba

Key messages

- The so-called Clean Development Mechanism has failed miserably
- Carbon offsets allows Annex I countries to use an even bigger portion of atmospheric space
- Developed countries want to count financial flows from offsets toward their financial obligations to developing countries for mitigation and adaptation. This is a clear case of double counting
- The use of offsets must be immediately scrapped
- A public fund to support appropriate clean technologies, as well as mitigation and adaptation in developing countries is a better option than carbon markets.

Why were carbon markets introduced?

To entice the United States to ratify the Kyoto Protocol (KP), carbon markets were included to provide industrialized (Annex I) countries more flexibility in meeting their emission reduction targets.

The idea was to allow them to save money by buying "emission reduction" credits from developing countries rather than cutting their own emissions, and instead pay developing countries to reduce emissions for them.

At the time, Europe was opposed to the use of market mechanisms, but it now has the world's largest carbon market. And the United States refused to ratify the KP. The world is left with a concept that is deeply flawed in principle and in practice.

A bad idea gone wrong

In theory, carbon markets do not reduce emissions in developed countries but merely shift the burden of doing so to developing countries.

In practice, one of the Protocol's market-based mechanisms, the Clean Development Mechanism (CDM), has failed. It is estimated that anywhere from 20 to 65% of projects do not result in real emission reductions.[1]

It can't be proven that projects yield real reductions. Doing so requires proof that a project is additional (i.e. it wouldn't have happened without the extra carbon finance). Yet, this is impossible to know.

Increasing climate pollution

The majority of funded projects are not cutting edge clean-tech projects, such as solar power. Rather, they're business as usual projects (e.g. hydro dams). Or big fossil fuel projects that are less polluting than the norm (e.g. supercritical coal-fired power plants). So developed countries receive credits to continue polluting, although the reductions don't actually occur in the developing country.

Worse, there is evidence that carbon markets are actually encouraging emissions to grow in developing countries. Projects to capture waste gases from refrigerant factories, for example, yield over 11,000 credits for capturing merely one tonne of waste gas; providing a perverse incentive for companies to increase refrigerant production, just to gain the credits.

The CDM, then, is enabling emissions to continue in developed countries, while providing perverse incentives to increase climate pollution in developing countries and undermine the policies required to cut emissions in practice.

Serving big countries and corporations

Most of the money stays with rich countries and corporations. Only 0.5% of the value of the carbon market in 2009 went towards reducing emissions, while double this amount was spent on verifying and marketing CDM projects.

Of this, the vast majority has gone to the largest developing countries, excluding smaller countries, and demonstrating that the market is not a reliable means for providing adequate and predictable funding.

And there is growing concern about the risk of "subprime carbon" – i.e. the potential for risky carbon credits based on unsuccessful offset projects, to cau-

se financial contagion like the "subprime mortgage" crisis.

Capturing the Earth's carbon budget

Developed countries have already used more than their fair share of the Earth's capacity to absorb greenhouse gases – its atmospheric space or carbon budget – and so owe a 'debt' to developing countries.

Rather than repay their debts, they now want to appropriate an additional share of the Earth's limited emissions budget via the market, leaving even less for developing countries. Lifting people out of poverty is directly linked to access to energy.[2] So developing countries must have fair access to Earth's global commons, and the technologies to live within its limits. Carbon markets are inconsistent with this objective.

As well as grabbing the carbon budget, carbon markets allow industrialized countries to grab the cheapest mitigation options, leaving developing countries with the more expensive mitigation options. In essence, carbon markets let industrialized countries get developing countries to clean up their mess, while shifting the burden to developing countries and increasing their costs over the longer-term.

Avoiding commitments for mitigation and finance

Under the UN Climate Convention, developed countries must reduce their emissions and provide technological and financial resources to developing countries to cover costs related to mitigation and adaptation.

Rather than fulfill their commitments, industrialized countries are doing their best to mix apples with oranges. They are shifting the burden to developing countries via the market. And rather than providing public funds, they are seeking to count carbon finance – which really funds compliance with their own commitments – as funding for developing countries. This is a clear case of double counting by developed countries.

Potential also exists for triple and quadruple counting. Triple counting occurs when climate-related financial flows are also counted toward official development assistance (ODA) obligations. Quadruple counting occurs where the buyer and seller claim emission reductions from the same offset project as mitigation in each respective country, even though a reduction can only actually occur in one location.

New markets, new risks

Some countries want to expand carbon markets to cover deforestation, soil carbon and other agriculture projects. They propose commodifying soil and forests to sell carbon credits to wealthy corporations in developed countries, to enable them to continue polluting.

Unfortunately such types of credits have numerous problems. Monitoring changes in forest and soil carbon is rife with problems. And there is potential for carbon leakage. For example, if trees in one region are saved, but deforestation moves elsewhere, then emissions have not actually been avoided.

Furthermore, they want to expand markets to include new approaches that would allow credits for reductions across whole sectors in developing countries. Only advanced developing economies can take advantage of sectoral crediting and many credits are unlikely to be additional.

Killing the Kyoto Protocol

Carbon markets should have no role under the Convention and only a limited role under the Kyoto Protocol, and this should be stopped. Yet, rich countries are including markets in negotiations under the Convention, as a step towards killing the KP and replacing it with a non-binding approach based on the controversial Copenhagen Accord.

Markets haven't resulted in real emission reductions or supported the transfer of clean technologies to developing countries. What the world needs are proven solutions such as public investments, removal of fossil fuel subsidies, regulations and support for sustainable development through a global climate fund.

Key issues for negotiations

- The discussion of markets should only take place in the KP; introducing the KP market mechanisms into the Convention would pave the way for the termination of the KP
- There should be no introduction of new market mechanisms under the Convention or the KP
- Current market mechanisms under the KP should be stopped
- REDD (reducing emissions from deforestation and forest degradation) should be a fund-based mechanism, rather than a market-based mechanism
- A climate fund, with new and additional financial and technological flows to cover mitigation and adaptation should be established, under the guidance and authority of the Parties

[1] Schneider, L.,Erhebliche Anfangsprobleme, GEO Magazin, Dec. 2010

[2] World Economic and Social Survey, 2009; Promoting Development, Saving the Planet, United Nations

ActionAid
Arab NGO Network for Development
Asian Indigenous Women's Network
Campagna per la Riforma della Banca Mondiale (CRBM), Italy
Friends of the Earth International
Institute for Agriculture and Trade Policy
International Forum on Globalization
International Rivers
JS - Asia/Pacific Movement on Debt and Development (JSAPMDD)
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