SIX SOUNDBITES ON CLIMATE MARKETS

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1. Carbon Trading is Aimed at the Wrong Objective

Carbon trading is aimed at the wrong target. It doesn't address global warming.

Solving global warming means figuring out how to keep most remaining fossil fuels in the ground. It means reorganizing industrial societies' energy, transport and housing systems – starting today – so that they don't need coal, oil and gas. Carbon trading isn't directed at that goal.

Instead, it's organized around keeping the wheels on the fossil fuel industry as long as possible. Carbon trading allocates industries generous short-term numerical emissions budgets and then tries – through trading – to make it cheap and easy for them to continue business as usual within those budgets.

Emissions budgets are numerical because that's the way a market works. You can't trade what you can't measure. Industry needs to know how much pollution it is trading around or it won't know what it's getting for its money.

Emissions budgets are generous because if you set tough targets right away your carbon price will go through the roof. Business and consumers will revolt if they haven't been given any technological and social alternatives that would keep them from having to pay that price.

Emissions budgets are also generous because big market players, once they recognize that the earth's carbon-cycling capacity has become a lucrative asset, will lobby governments in order to pull in as much gravy as they can.

Emissions budgets are short-term because no government has the power to enforce a target to cut emissions drastically by 2050 – or even 2025 – without immediately starting to redirect subsidies from fossil fuels to renewable energy, undertake big programs of public investment in rejiggered energy, transport and consumption systems, and so forth. It won't do these things if it's committed to the ideology that carbon prices will be the main mechanism for change.

2. Carbon Trading Squanders Resources and Ingenuity on the Wrong Things

It's bad enough that carbon trading is aimed at the wrong goal. What's worse is that to try to achieve that goal, it has to set up an apparatus that ties up so many resources that it leaves little room for anything else.

Vast bureaucracies are created to measure, monitor, register, certify, validate and enforce millions of separate emissions cuts. Thousands of bright technical people go to work inventing ways of achieving those cuts as cheaply as possible. Regulators try to keep market players happy, with little time left to think about the long-term future. Carbon buyers, sellers and consultants concentrate on finding cunning means of producing carbon permits for short-term profit. Wall Street gets into the act to cash in on opportunities for speculation and market-making.

Ingenuity goes into milking the system, not into weaning the world off fossil fuels. Rhodia, a French chemical firm, makes adipic acid at a factory in South Korea. By investing $15 million in equipment that destroys nitrous oxide – an unwanted byproduct – the company is set to produce $1 billion in UN-approved carbon credits for sale to polluting industries in industrialized countries. Nitrous oxide is a greenhouse gas said to be 310 times more potent than carbon dioxide, so Rhodia can generate 310 tons of carbon credits just by burning one ton of the compound.

Clever. But does the trade reduce overall greenhouse gases? No. Customers buy Rhodia's credits only so that they can continue to invest in fossil fuels. Does the trade help Korea decarbonize? No. At best, it's irrelevant; at worst, it encourages the country to build more dirty industries so that it can make money cleaning up later. Rhodia already makes 35 times more money selling carbon credits than it does from the adipic acid market. Nor does the deal promote green innovation: the technology Rhodia uses dates from the 1970s.[1] Rhodia makes out very well. The struggle to keep fossil fuels in the ground gains nothing. Such schemes are the rule in carbon trading, not the exception. Does the world have time for this charade?

3. Carbon Trading Requires Knowledge We Don't Have

Carbon trading assumes that the climate doesn't care where we make a one million ton cut in carbon dioxide emissions. If Lahore can cut a million tons more cheaply than LA, then let Lahore do the work and LA can pay for it. The market saves everybody money by abstracting from how and where emissions cuts are made, and by whom.

The problem is that no one can actually know whether the cut in Lahore is going to be as climatically effective in the long term or not. The more expensive cut in LA might be just the one you want from the perspective of 20 years hence, because it helps lead to a step change away from fossil fuels, whereas the easy cut in Lahore does nothing of the kind. The calculations can't be made.

It gets worse. Suppose you want to delay or avoid reducing your fossil fuel use. Carbon trading allows you instead to buy pollution rights from companies planting trees in Uganda, building dams in India, burning off methane from coal mines in China, or setting up wind farms in Argentina.

All these "carbon offsets" are supposed to be climatically equivalent to cutting your coal, oil or gas use. But you can't prove that. You can add up how much greenhouse gas your offset "saves" only if you assume that without it, only a single world would be possible. This assumption has no scientific basis. Researcher Dan Welch sums up the difficulty: "Offsets are an imaginary commodity created by deducting what you hope happens from what you guess would have happened."[2]

Another dirty little secret: carbon trading needs exact measurements of emissions at hundreds of thousands of locations. Few countries are capable of making these measurements. In fact, they're not being made even in Europe. No one knows for sure how far European countries really are from meeting their Kyoto Protocol targets.

4. Carbon Trading is Antidemocratic

In the carbon markets, both buyers and sellers have an incentive to conceal from the public whether emissions reductions have actually been made. Buyers want to snap up cheap pollution rights; sellers want to make money flogging them. It doesn't matter to either whether the setup actually does any good for the climate or not.

And because measurement and enforcement is inadequate or impossible, they can get away with it. Who's going to be the watchdog for a public increasingly concerned about the climate crisis? It's not clear.

For example, UN carbon market regulators and expert bodies are heavily populated by individuals with conflicts of interest: technical experts who have set up their own carbon consultancies to cash in on the market, investment bankers, heads of government offset purchase programs, and so on.

Raise questions about the arrangement and you often get the response that we have to trust the traders, economists and carbon nerds because no one else understands the dizzying complexities of carbon trading.

We've heard that one before – with ENRON, WorldCom, LTCM and the subprime mortgage market.

Who benefits from carbon trading? Big fossil fuel-using companies. Governments that want to delay climate action. Energy traders. The nuclear industry. Polluting companies that are rich enough to hire the consultants and grease the wheels that enable them to sell certified carbon credits. Hedge funds and commodities traders. Banks and law firms.

Who loses? People fighting polluting fossil fuel developments in their local areas. Communities in countries like India or Brazil who find that their local corporate bad citizens have just gotten an extra cash injection from carbon trading. Communities trying to preserve or develop low-carbon ways of life. Renewable energy developers. Consumers who are charged for carbon permits generators have gotten cheaply or for free. And a global public increasingly at risk from climate change.

5. Carbon Trading Interferes with Positive Solutions to Global Warming

On India's Bhilangana river, local farmers run a finely-tuned terraced irrigation system that provides them with rice, wheat, mustard, fruits and vegetables. This ingenious, extremely low-carbon system of agriculture is threatened by a new hydroelectric project designed to help power India's heavy industry. Villagers may have to leave the valley, losing not only their livelihoods but also their knowledge of a uniquely sustainable modern technology.

Is carbon trading stepping in to support the villagers' piece of the solution to global warming? On the contrary. It's supporting the hydropower company, which has hired consultants to argue that their dam will result in fewer carbon emissions than would have been the case if it had not been built. The firm plans to sell the resulting carbon emission rights to polluting companies in Europe.

The example is typical of the way carbon markets are undermining positive approaches to climate change everywhere. The bulk of carbon credit sales under the Kyoto Protocol benefit chemical, iron and steel, oil and gas, electricity and other companies committed to a fossil fuel-intensive future, not communities, organizations or firms working to overcome fossil addiction.

In California, the environmental justice movement opposes carbon trading as a "charade to continue business as usual". One reason: carbon trading would help facilitate the construction of 21 new fossil fuel-fired power plants there. Local activists want the money to be spent instead on building a green economy that would provide new jobs for the poorer communities of colour that now suffer the most from fossil fuel pollution.[3]

Carbon trading obscures the real solutions to global warming. Chicago derivatives trader and economics professor Richard Sandor – one of carbon trading's architects – claims, for instance, that forests in less industrialized countries can be saved from "slash and burn" agriculture by turning them into production zones for carbon credits.[4]

More experienced observers of the plantation, dam, logging and oil industries know, however, that such forests are threatened not principally by poor farmers, but by precisely the type of land grab that Sandor advocates. Saving forests – and their moderating effects on climate – means respecting local people's needs, not trying to evict them or turn them into workers on a carbon production line.

6. Carbon Trading is Based on Faith, not Experience

The case for carbon trading is based largely on lofty, unsubstantiated abstractions.

Here's one, from Matthew Whittell of Climate Exchange: "None of us is clever enough to work out what is the best way to tackle climate change, but if we have a global carbon price, the market sorts it out."[5]

Here's another, from Oliver Tickell: "Markets are generally the best means of allocating finite resources without unnecessary waste, while keeping as many people happy as possible."[6]

The near-religious faith of such sentiments might almost be enough to move you to tears. But the response to a crisis that threatens human civilization needs to be grounded not on unsupported faith in vague slogans but in a sober review of historical experience and a hard empirical understanding of the problem.

Carbon trading is the centrepiece of the Kyoto Protocol; Kyoto has failed. Carbon trading is the centrepiece of Europe's response to climate change; the EU Emissions Trading Scheme has failed. Before Kyoto, pollution trading had also largely failed in the US, the only country in which it had ever previously been tried.

These failures were not accidental. The reasons for them go deep and can't be overcome by economists twiddling a few dials – auctioning a few more pollution rights here, trying to tighten up carbon offset regulation there.

The failures will be repeated if carbon trading comes to dominate the North American climate agenda. Prices can do many things, but one thing they have never done is solve problems that require structural change in so many fundamental areas of industrial life. If disaster is to be staved off, it will not be by letting technicians and Wall Street investment firms try to turn the world's carbon-cycling capacity into a resource to make money out of, but by a democratic resolve to enter into a new kind of discussion worldwide about the kind of societies that people want in a post-fossil fuels age.

NOTES

1 Charles Forelle, "French Firm Cashes in under UN Warming Program", *Wall Street Journal*, 23 July 2008, p. 1A.

2 Dan Welch, "A Buyer's Guide to Offsets", *Ethical Consumer* 106, May/June 2007. See also Larry Lohmann, "Marketing and Making Carbon Dumps: Commodification, Calculation and Counterfactuals in Climate Change Mitigation", *Science as Culture* 14, 3, 2005, pp. 203-235; "Toward a Different Debate in Environmental Accounting: The Cases of Carbon and Cost-Benefit, forthcoming in *Accounting, Organisations and Society*.

3 See www.ejmatters.org.

4 Michael Specter, "Big Foot", *The New Yorker*, 25 February 2008.

5 Mike Scott, "Market Meltdown? Carbon Trading is just Warming up", *Independent on Sunday Business*, 27 July 2008, p. 4.

6 Oliver Tickell, *Kyoto 2: How to Manage the Global Greenhouse*, Zed Books, London, p. 9.