Trading away the Future?
Climate Politics and the Gulf

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For most Gulf leaders, getting ready for the end of oil has long been on the agenda. Massive developments in real estate, finance, tourism, aluminium, pharmaceuticals, education, ports – all testify to a determination to diversify for the long term.

Whatever one thinks of these particular schemes, advance planning is looking more important these days than ever. Even before rates of oil extraction begin the inevitable, terminal decline dictated by geology and technology, international public concern about runaway global warming – and the associated catastrophic floods, droughts and agricultural collapse – guarantees that pressures will grow to keep most remaining fossil fuels in the ground. Many reserves that are recoverable technologically will turn out not to be recoverable climatically or politically. Former Saudi oil minister Sheikh Zaki Yamani put it best years ago: "the Stone Age did not end for lack of stone, and the oil age will end long before the world runs out of oil."

In business terms, that translates into a move away from large, long-range investments in fossil fuel-related technology, such as coal-fired power plants and oil refineries. Radical shifts toward non-fossil investments will be needed over the next two or three years to avoid even more painfully drastic changes later.

How are the world's governments reacting to these realities? There are a few encouraging trends, not least among oil-exporting nations. Ecuador, for instance, is asking for international reimbursement for keeping oil in the ground in one of its significant forested areas.

Yet the mainstream official international response to the urgent need for a new pattern of investment has been denial. Nowhere is this clearer than in the Kyoto Protocol and the EU Emissions Trading Scheme (EU ETS), the world's leading agreements aimed at addressing climate change.

Both instruments revolve around a concept developed by US economists called carbon trading. The idea of carbon trading is to reduce greenhouse gas emissions, but to make those reductions as cost-effective as possible. That means shifting around the pollution allowed at any one time so that the least money is spent on controlling it.

The problem with this approach is that while it may save some money in the short term, it also delays technological change and investment in a long-term non-fossil future.

For example, suppose laws are passed that limit your carbon emissions over the next few years, but you want to put off taking the expensive, creative steps that would

eventually free you from fossil fuel dependence entirely. With carbon trading, you can buy time by purchasing cheap pollution rights from companies that have overshot their own targets by making technologically easy cuts. Or you can buy even cheaper "offset" credits from, say, companies planting trees in Uganda, burning off methane from coal mines in China or recycling carbon dioxide at a Bahrain fertilizer facility. Enormously complex, such schemes do little to wean the world off fossil fuels. For a decade, their main product has been procrastination.

Carbon trading substitutes empty talk about numbers for the hard thinking about historical pathways needed for planetary survival. It tempts us into long debates about whether we want to reduce greenhouse gas emissions 5 per cent by 2012, or 90 per cent by 2050, but leaves the complex industrial transformation needed actually to achieve such targets mainly to price movements. Moreover, its accounting system tells us that high per capita carbon dioxide emissions in nations like Qatar, Kuwait, UAE and Bahrain are those countries' own responsibility, forgetting the historical and continuing role of oil importers.

It is precisely such limitations, however, that have made carbon trading attractive to many industrialized country political elites, starting with the Bill Clinton regime, which pushed it on the world community in 1997 in Kyoto. Carbon trading gives the concerned public the impression that serious efforts to tackle climate change are being made, even if the reductions it requires are minor, short-term and difficult to enforce. It appeals to many fossil fuel-dependent companies keen on avoiding substantive changes in industrial structure. And it attracts financiers looking for innovative instruments to profit from the redistribution of risk – which is one reason Wall Street investment firms have piled in.

Superficially, carbon trading might also look reasonable to oil exporters tempted by high oil prices and enduring demand to hope that the fossil fuel era can be drawn out indefinitely. And if big oil importing countries are still pushing false solutions to global warming through the Kyoto Protocol and EU ETS, why should it be up to exporters to lead the way toward more effective approaches?

Still, if there's one thing that's understood in the Gulf better than most other places, it's that the transition to a fossil-free future can't be left solely to the vagaries of markets.