Profiting From Pollution: the G8 and climate change

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Tackling climate change is likely to be at the top of the agenda at this month's G8 summit in Heiligendamm, Germany. But the emissions trading schemes promoted by G8 countries are deferring genuine climate action, while generating massive profits for the largest polluters. Kevin Smith investigates

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The hegemony of the G8 in international forums such as the United Nations Framework Convention of Climate Change means that global climate policy is being chosen for its compatibility with the existing economic system rather than its effectiveness in reducing emissions.

Carbon trading is central to this approach. It turns the earth's carbon-cycling capacity into property to be bought or sold in a global market.This use of market forces to address environmental problems takes two forms. First, governments allocate permits to big industrial polluters who then trade these 'rights to pollute'. Second, surplus carbon credits are generated from carbon offset projects that claim to reduce or avoid emissions in other locations, usually in Southern countries.These credits may be purchased to top up any shortfall in permits. Under the Kyoto Protocol, such offset projects are carried out in the South through the Clean Development Mechanism (CDM), or in Northern countries through Joint Implementation (JI).

The market is growing enormously.A World Bank report valued it at US$21.5 billion for the first three quarters of 2006, up 94 per cent on its value of $11.1 billion in 2005.

Gleneagles onwards

Despite the hype, the 2005 G8 summit in Scotland produced little in the way of concrete action in dealing with climate change.The final communiqué made limp resolutions to 'promote' better practice on climate change, with no mention at all of reducing the rate of extraction and consumption of fossil fuels. Blair was widely praised, however, for bringing the heads of state of Brazil, China, India, Mexico and South Africa to the negotiating table, and it was with these countries that the G8 plus 5 Climate Dialogue was launched.The dialogue brings senior legislators together with international business leaders, civil society representatives and opinion leaders to discuss a post 2012 climate change agreement, with the aim of agreeing a consensus statement at the G8 2008 Japan summit.

The dialogue has a heavy bias towards trading schemes as the best way of dealing with climate change, with one of its four working groups dedicated specifically to developing market mechanisms. Furthermore, the G8 plus 5 summit has mandated the World Bank to facilitate the creation of a framework for climate change management, clean energy and sustainable development.This is in spite of the fact that the World Bank is part of the climate problem rather than the solution: since the UN climate convention was signed at Rio earth summit in 1992, the Bank Information Centre calculates that the World Bank has single-handedly financed over $25 billion in fossil fuel based projects. In response to the G8 mandate, the World Bank produced a report called Clean Energy and Development:Towards an Investment Framework, an updated version of which was presented at the G8 plus 5 meeting in Mexico in October 2006.

The report promoted carbon trading as the main means of financing the development of clean technology.

The Bank's promotion of emissions trading through the G8 plus 5 creates a clear conflict of interest in that it is also the largest public broker of carbon purchases, with over $1 billion in its carbon credit portfolio. It generates a great deal of revenue for itself through receiving a percentage commission on all the carbon credits it purchases to administer through its Prototype Carbon Fund.Through its influence in political processes like the G8 plus 5, it has actively lobbied to make the CDM a more attractive proposition for investors and less effective in terms of actually reducing emissions.

The G8 plus 5 met again in February 2007 in Washington, at a meeting spearheaded by five US senators who have introduced a congressional bill that would allow US companies to certify emissions reductions, which may be traded on the international market to other nations. Keynote speakers included German chancellor Angela Merkel as well as Nicholas Stern, whose influential Stern Review on climate change has been promoted as providing the economic rationale for the global carbon market, and Paul Wolfowitz, president of the World Bank.

It is not yet clear what targets there are for dealing with climate change at the 2007 G8 summit in Germany, but the majority of governments, industry and international financial institutions are keen to see the groundwork laid for an international emissions trading framework to extend beyond the 2012 Kyoto commitment period that will include the other greenhouse gases and other emissions-producing sectors, such as the airline industry.

Carbon trading won't work

The G8 and free-market environmentalists have been at the forefront of championing a rosy narrative of 'win-win' scenarios in which the quest to maximise corporate profits can go hand in hand with addressing the climate crisis. But this is largely an act of faith, as there is no evidence that climate change can be tackled while maintaining an economic growth pattern based on the ever-increasing extraction and consumption of fossil fuels. Carbon trading encourages the industries most dependent on coal, oil and gas to delay shifting away from fossil fuels. There is little incentive for expensive plans for long-term structural change if you can get by in the short term by buying cheap permits-pollution rights from operations that can reduce their emissions.Yet for G8 countries seeking to demonstrate their commitment to climate action, these inherent problems of emissions trading are swept aside in favour of a system that sustains the economic dominance of the most powerful industrialised nations.

_The G8 nations and emissions trading

France, Germany, Italy & UK

Since the start of 2005, France, Germany, Italy and the UK have been participating in the European Union Emissions Trading Scheme (EU-ETS), the biggest experiment yet in carbon trading, and the harbinger of the global market that will begin in 2008. The EU-ETS works on a ‘cap and trade’ basis. The amount of permissible carbon pollution is divided up between industrial locations (called ‘installations’ in the scheme) across Europe – this is the ‘cap’ part. If any installation goes over its limit, it must purchase the equivalent amount of permits on the market, and conversely, if an installation is under its limit, it can sell its shortfall on the market – this is the ‘trade’ part.

The first phase of the scheme has been a disaster. Under sustained corporate lobbying, almost all EU governments made huge overallocations of permits to industry in the first phase. In 2005, the first year of trading, the relevant industries across Europe emitted 66 million tonnes less than the cap that had been allocated. This meant that the cap was effectively meaningless as it had not forced any net emissions reductions. A preliminary analysis of the 2006 data shows that 93 per cent of the 10,000 installations covered by the ETS emitted less than their allotted quota.

These over-allocations have resulted in windfall profits for the biggest polluters who, in successfully exaggerating their need for emissions allowances, received enormous amounts of permits that they could then profitably sell on. The companies also made money by passing on the nominal ‘market costs’ of these free permits to consumers. The German environment minister has claimed that the four biggest European power producers – Eon, RWE, Vattenfall and EnBW – have profited from this to the tune of ?6 billion and ?8 billion. With the second phase of the EUETS due to start in 2008, the evidence suggests that lessons haven’t been learnt. A working paper released in November 2006 by German researchers said that of the 25 second-phase national allocation plans submitted for EU approval, 18 were too generous, and many of the new caps were set above 2005 emissions levels.

Japan

As the most energy-efficient country in the industrialised world, Japan is struggling to meet its Kyoto commitment to below 6 per cent of 1990 levels (current levels are 8 per cent higher than 1990). Consequently, Japan is heavily committed to using emissions trading to make up the shortfall. The Japanese government set aside 5.4 billion yen (US$45.9 million) in its 2006 budget to purchase carbon credits from abroad, and has approved some 41 predominantly CDM projects, in countries such as Malaysia, India, South Korea, Indonesia, China and Vietnam, with even greater numbers of such projects in the pipeline. In addition, Japan is one of the biggest investors in the World Bank Prototype Carbon Fund, with eight out of the 17 corporate investors being Japanese corporations, as well as the government’s own Japan Bank for International Cooperation.

Canada

Canada’s conservative government has been making disgruntled noises about its Kyoto commitment of reducing its emissions to 6 per cent below 1990 levels. Environment minister Rona Ambrose has stated this target is ‘impossible’, that the EU trading scheme was a failure, and that the CDM was little more than a recipe for corruption and wasted money. The conservative administration has not delivered on promised funding for the CDM executive board, the international body that oversees and approves CDM projects, and it has underfunded the Canadian office for administering CDM and JI schemes to the point of its near irrelevance.

Russia

The collapse of Russia’s economy during the 1990s has seen a slump in emissions, at one point reaching 40 per cent below 1990 levels. This has resulted in Russia having a huge supply of surplus carbon credits that it can sell on to other countries when the global emissions market opens for business in 2008. But these have been achieved by external circumstances rather than by the country having implemented any sort of energy efficiency or renewable energy measures, an example of how emissions trading can be profitably exploited with no sustainable action to tackle climate change. Not surprisingly, Russia has been enthusiastic about its opportunities to profit from emissions trading, with one World Bank estimate suggesting that it could profit by $11 billion under Kyoto.

USA

George Bush famously refused to ratify the Kyoto Protocol in 2001, so the US is not taking part in emissions trading in order to meet any domestic compliance targets at the national level. Yet several private initiatives, including the Chicago Climate Exchange, are trading in offset credits. With the recent Democrat takeover of Congress the US attitude to emissions trading looks set to change. Ten US corporations, including DuPont and General Electric, have joined with green groups to form the US Climate Action Partnership to urge Bush and Congress to create a carbon market for the US. At the 2007 World Economic Forum in Davos, chief executives of European and US power and industrial companies said that the US needs to lead the way in setting up a global carbon emissions trading regime.

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