

Truth about Kyoto: huge profits, little carbon saved

Tuesday 5 June 2007, by [DAVIES Nick](#) (Date first published: 2 June 2007).

On the eve of a G8 summit focused on climate change, Nick Davies reveals major flaws in the global system designed to reduce emissions.

In autumn 2005, three journalists working for the environmental group the Centre for Science and Environment decided to investigate some of the Indian projects which were trying to break into the lucrative new business of carbon trading.

They started looking at four schemes in Andhra Pradesh which were trying to convert biomass - dead plants, animal dung - into fuel. They studied the formal reports which the schemes had commissioned from a UK company, Ernst and Young, to satisfy the demanding requirements of the UN's Clean Development Mechanism. And they noticed a very odd thing.

Each of the four Ernst and Young reports had had to consult people near the proposed schemes to ensure that there was no risk to the local economy or environment. One report quoted three different community leaders, each expressing enthusiastic approval for the project and concluded: "Poor farmers are getting reasonable monitory gains for harvesting the available biomass and supplying it to project activity."

What was odd that with two of the other schemes, each many miles from the other, Ernst and Young quoted three sources who had the same job descriptions, the same opinions, summarised in precisely the same words which even included the same spelling mistakes (Secretry, monitory). In the fourth case, the wording was slightly different, but the opinions were the same, and it too concluded that "poor farmers are getting reasonable monitory gains etc."

The three journalists wrote up their conclusions in the group's magazine, Down to Earth, and made it clear that they were accusing Ernst and Young of simply cutting and pasting the same material into four supposedly separate and independent reports. Ernst and Young said there was nothing wrong: the local people in all four places happened to have said very similar things in response to a standard set of questions. But the environmental journalists were concerned enough to write to the executive board of the Clean Development Mechanism, offering further information.

The CDM board never even acknowledged their letter.

The CDM is one of two global markets which have been set up in the wake of the Kyoto climate summit in 1997. Both finally started work in January 2005. Although both were launched with the claim that they would reduce greenhouse gases in the atmosphere, evidence collected by the Guardian suggests that thus far, both markets have earned fortunes for speculators and for some of the companies which produce most greenhouse gases and yet, through a combination of teething troubles and multiple forms of malpractice and possibly fraud, they have delivered little or no benefit for the environment.

While the CDM is run under the umbrella of the UN, the second market is overseen by the European commission. Before launching, it churned through a mass of figures and produced a maximum number of tonnes of carbon dioxide which could be produced by each nation in the scheme; each nation then handed its big corporations and organisations a set number of permits - EU allocations - defining the number of tonnes of carbon dioxide they could produce between January 2005 and December 2007. But they got their sums wrong.

The carbon market's leading analysts, Point Carbon, recently calculated that this scheme handed out 170m too many EUAs. In the early days, nobody realised quite how badly the commission had miscalculated, and so the price of the EUAs was quite high, at up to €30 a tonne. But individual companies, particularly energy companies, rapidly saw they had millions of tonnes of EUAs that they didn't need, and so they sold their surplus, making huge profits. A 2005 report by IPA Energy Consulting found that the six UK electricity generators stood to earn some £800m in each of the three years of the scheme.

A separate report by Open Europe, in July 2006, found that UK oil companies were also poised to make a lot of free money: £10.2m for Esso; £17.9m for BP; and £20.7m for Shell. And behind this profiteering, the environmental reality was that these major producers of carbon emissions were under no pressure from the scheme to cut emissions.

At the other end of this EU market, smaller organisations like UK hospitals and 18 universities, who had been given far fewer EUAs, were forced to go out and buy them - while the price was still high. So, for example, the University of Manchester spent £92,500 on EUAs. Now that the truth about the glut has been revealed, the university would be doing well if it managed to get £1,000 for the lot of them.

While this EU market has failed to make any serious impact on climate change, the UN's Clean Development Mechanism has done little better. In contrast to the EU system, which sells permits to produce supposedly limited quantities of greenhouse gases, the CDM sets up projects which are supposed to reduce the quantity of greenhouse gases and then sells carbon credits which allow buyers to emit more gases.

Ten years after the idea was launched at Kyoto; six years after the guidelines were drawn up at Marrakech; a year and a half after it finally went to work: the CDM thus far has issued only 50m tonnes of certified emissions reductions to offset global warming: Britain produces more emissions than that in a single month.

There are doubts about the validity of some of these CERs, on two separate grounds. First, some of them appear to breach the CDM's requirements for sustainable development - 53% of the existing CERs come from just six monster projects, in India, China and South Korea, all of which engage in the most controversial form of carbon reduction. They manufacture refrigerant which produces as a side effect a gas called HFC-23. Although carbon dioxide is the most common greenhouse gas, HFC-23 is 11,700 times more likely than carbon dioxide to encourage global warming. Refrigerant companies find it relatively cheap to instal an incinerator to burn the HFC-23 and, once that is converted into certified reductions of emission, each tonne saved can be sold as 11,700 carbon credits. These companies are now earning millions of euros from these credits - more than from selling their refrigerant products.

The environmental problem is two-fold, first that HFC factories tend to pour out other pollutants which don't happen to be greenhouse gases but which are unpleasant or dangerous for local communities; and second, that the potential profits from burning HFC-23 are so great that companies are being encouraged to expand production of refrigerants so they can produce more

HFC-23 to incinerate, thus increasing the net amount of pollution.

Secondly, as our front-page story today reports, there is evidence that a significant percentage of current and future CDM reductions, possibly as many as 20%, may have been wrongly checked. This affects not just the 50m tonnes of CERs which have been issued already, but a massive quantity which is sitting in the pipeline as a result of hedge funds pouring an estimated €4,000m into high-profit carbon projects.

Within the world of carbon trading, there are numerous cases of projects which are widely regarded as breaking CDM rules. Some of them existed long before the CDM project was launched: if they do happen to be producing fewer greenhouse gases, that is the natural state and not a reduction which can be claimed and sold. Yet, such schemes have been validated by specialist companies and accepted by the CDM board; and the companies running them have been allowed to earn large amounts of money by selling unjustified Certified Emissions Reductions.

Axel Michaelowa, an expert adviser to the CDM board, investigated the case of a giant steel mill, run by a company called Jindal in the state of Karnataka. It had put forward three separate projects, all of which would capture waste heat and funnel it back into the mill as a source of energy. But the company insisted it could afford to do this only if the scheme was accepted by the CDM.

Michaelowa, however, found the mill had decided to do this years earlier and accused Jindal of making statements which were “blatantly wrong”. He warned the CDM board that the evidence showed Jindal would have gone ahead with the three schemes on purely commercial grounds and were, he reported, “clearly non additional”. But the board accepted the projects whose supposed cuts in carbon emissions are now being used to allow extra emissions, mostly in Europe.

SGS, the British company which validated the scheme said yesterday:

“Additionality is a complex concept. Proving additionality involves several steps and cross checks. As one of the steps Jindal showed that it would be financially unattractive for the project to go ahead without the CDM revenue. Based on this and the other evidence provided, SGS and the CDM board both regard the project as additional.” SGS also said it was not one of the three companies which had been recently criticised after spot checks.

Other suspect projects are new but they are highly profitable and would, therefore, go ahead on commercial grounds. Even if they are relatively clean, they can't be presented as adding to the reduction of greenhouse gases. There has been great controversy in South Africa over an attempt by Sasol, a giant mining company, to persuade the CDM to register a pipeline which it wants to use to import gas from Mozambique. The company argued that this would allow it to stop using coal, thus cutting carbon emissions, but that it could afford to build the pipeline only if it were allowed to register it with the CDM and sell carbon credits. However, campaigners say the company already had the funds to pay for the pipeline and were simply looking for extra cash.

There are generic problems with big hydro-power projects, where income from carbon credits amounts to such a tiny proportion of costs that it is hard to argue the projects would not have gone ahead without CDM finance. There are problems, too, with landfill projects which try to capture and harness another greenhouse gas, methane: it is tempting for projects to exaggerate the amount of methane which the landfill is leaking

Until July 2006, the CDM executive board did not reject a single project.

It was short of staff, short of experts and short of funds. So it relied on the specialist companies to get it right. Since those specialist companies are hired by the projects who stand to earn big profits if they are accepted, that is an inherently weak structure. As one carbon analyst put it: “The verifiers

are being paid by the people they are verifying. If it turns out the verified is a bad guy, he is paying the policeman to sign him off as a good guy.”

More recently, the CDM board has found its feet and is using a new team of experts to check the work of the specialist companies. Now, they are spotting bogus projects which previously were slipping through. Since July last year, they have rejected 14 of them. Some of them were blatantly inappropriate, and yet specialist companies had validated them.

If a significant number of the 1,900m CDM credits waiting in the pipeline also prove to be bogus, the whole Kyoto project would start to backfire.

Defenders of the CDM argue that these are the early days of a complex mechanism which will run for a hundred years and leave these problems behind it. Jørund Buen, of Point Carbon, the pre-eminent expert on the carbon market, said: “Some projects shouldn’t have received carbon credits, one of these specialist companies seems to have done a lousy job. However, most projects are highly credible, and most of these specialist companies do decent work.”

The chairman of the CDM executive board, Hans Jurgen Stehr, likewise insists that the market is stable, growing and improving. Against them, environmental groups argue that there never was a justification for attempting to tackle climate change by creating a carbon market.

P.S.

* From The Guardian:

<http://business.guardian.co.uk/story/0,,2093816,00.html>