WORKSHOP REPORT FORM

Number and title of workshop:

4.5 - Corruption and Carbon Trading Projects: Is Carbon Finance Helping to Combat Detrimental Climate Change?

Date and time of workshop: November 1, 11:00-13:00

Moderator Oscar Reyes, Transnational Institute

Rapporteur Aled Williams, U4 Anti-Corruption Resource Center

Panellists:

1. Larry Lohman, The Corner House (UK)

2. Daphne Wysham, Institute for Policy Studies (Washington D.C.)

3. Trusha Reddy, Institute for Security Studies (South Africa)

Main Issues Covered

- The impact of corruption in its various forms on the viability of carbon trading mechanisms as they currently stand – is reform of the Clean Development Mechanism (CDM) to achieve overarching goal of addressing climate crisis at all possible, or are corruption challenges too entrenched within the system?

- Comparison of carbon trading with financial derivatives as an illustration of the CDM system's abstraction from real places, actors and costs – and hence in addressing the underlying problems of climate change by weaning the world off fossil fuel extraction. Both systems trade in imaginary commodities and share a common history, architects and trust in the efficiency of the market.

- Failures in the way carbon trading currently works have led to calls for better regulation and other corrections. These often generate further abstractions, while competing with industry-led calls for self-regulation or deregulation. New private rating agencies have been established, though the lack of credibility of credit rating agencies - as shown by the recent financial crisis - give cause for caution in such approaches.

- The World Bank, as a leader in carbon financing, is beset by conflicts of interest in relation to this issue since it is also a major investor in fossil-fuel projects. There is a lack of transparency in its fossil-fuel based lending, as it does not publish data on its environmental impacts. The WB's role as a 'standard setter' for Multilateral Development Banks (MDBs) and private investment firms adhering to the Equator Principles is also problematic.

- Corruption not only refers to specific abuses of power or office for illegitimate private gain or to instances of illegal activity. It is a question of deeper structural arrangements which allow for undue influence of vested interests at the expense of the public good. Examples are cases of state and regulatory capture, where the corporations benefiting from a particular market play a direct role in establishing its rules, as was the case with carbon trading. Ultimately, corruption relates to deeper misuses of power: what are the motivations behind decisions made, and who decides who makes these decisions?

Main Outputs

3 PowerPoint presentations:

- Governance as Corruption - Carbon Trading and Financial Derivatives.
- A Carbon Debit Mechanism to Reward Climate Justice & Challenge Conflict of Interest among MDBs, ECAs.
- Solving Corruption in Africa's Carbon Trading Projects: Regulation or Conundrum?

Recommendations, Follow-up Actions

- Policy proposals tabled in relation to carbon trading were: Halting CDM project funding; disbarring fossil fuel investors (like the WB) from also playing a role in carbon market funding; creating a carbon debit system; eliminating non-CO2 gases from the carbon market (since these allow for spurious equivalences to be posited that can be exploited for profiteering); ensure security of the rights of Indigenous Peoples' and project-affected communities – in particular upholding the right to prior and informed consent.

- A new international environmental governance institution within the UN system was also tabled. At present, the World Bank is the de-facto international environmental organisation but actual and perceived conflicts of interest mean it is unsuitable for this role. There were also calls for a new international renewable energy agency.

- More fundamentally, the basic market structure incentive system needs to be questioned. Carbon trading is not facilitating the transition away from fossil fuel investments to investments in renewable energy – it is, in fact, delaying this transition. This is also true of 'cap and trade' schemes (like the EU Emissions Trading Scheme, where corporate lobbying has generated over-allocation of permits, and large power producers have gained large windfall profits).

- Price mechanisms and resource economics play a central role in current mitigation strategies, but are inadequate for the task of addressing human-induced climate change – 'you can put a price on everything but that price is not a sufficient conduit of value'.

- Adaptation finance will imply large financial flows, which raises similar issues: the WB should not be the de facto agency dealing with these. A Tobin Tax on currency transactions might be an alternative revenue source.

- The media - including community-based media – can play a crucial role in improving public understanding of the CDM system and environmental governance issues arising from it. The technical language of carbon markets needs decoding if the public is to understand the issues and voice concerns.

Workshop Highlights (including interesting quotes)

- Studies have shown that between 2/3 and 3/4 of CDM credits are not resulting in any emissions reductions at all. In fact, a 'lose-lose' scenario is being generated. An example from Panama is that AES (a US-based coal power provider) is investing in new large hydro dams that are impacting on the social rights of indigenous communities and destroying biodiversity, while simultaneously generating credits that sanction continued fossil fuel production in the United States.

- South Africa is one of the world's top 20 polluters, and has the highest percentage of carbon emissions per unit of GDP in the world. Historically, its energy mix has relied on dirty coal. The country's recent energy crisis has seen a 'solution' posited that mixes new coal capacity (3 new power stations), nuclear power and investment in large dams (including elsewhere in sub-Saharan Africa: DRC and Mozambique). Sustainable, renewable energy, by contrast, is less than 1 per cent of the energy mix.

- The case of the Arcolor-Mittal CDM project in South Africa was presented to illustrate a number of problems with the carbon market. ArcolorMittal is both a buyer and seller of carbon credits – those generated in South Africa are sold to subsidiaries of the same company in Annex 1 countries (those heavily industrialised countries with a binding commitment to reduce GHG emissions under the Kyoto Protocol). There are also serious concerns about public participation and sustainable development

- Ultimately, environmental governance will not be improved simply by reforming corruption out of the carbon trading system. The carbon market itself has systemic failings because it generates structures that legitimise conflicts of interest between economic and environmental goods.

Signed

Aled Williams, U4 ACRC