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Black Gold ~ Patrick Brown

The Carbon Credit Myth

It's clear by now that there's no way Canada can meet its Kyoto commitments to reduce greenhouse gas (GHG) production to 6% less than 1990 levels by 2012. Canada, a spread out country with long cold winters and a high standard of living, is inherently a big energy user; our GHG emissions are now some 35% above the 1990 levels.

So it's not surprising that Canada's strategy has always been to purchase GHG credits on the international market to meet the targets. This strategy was adopted by the former Liberal government, and seems to be part of the unseen Conservative policy as well. It has even found its way into the Green Party platform.

But the proposal to purchase carbon credits (or permissions to produce GHGs) from elsewhere, instead of actually reducing GHGs, is deceptive, impractical, provides ample opportunity for fraud, and does little or nothing for global warming. It simply provides wealthy corporations producing large quantities of GHGs a means of avoiding any meaningful reduction.

'Cap & Trade'

This scheme is known as 'cap and trade'. How does it work?

Governments are expected to assign GHG targets each year to industries (the caps) who must either meet those targets or buy (or sell) credits until they do (the trade).

Part of the Kyoto agreement says that if you do better than your GHG reduction targets, you can sell 'carbon credits' to others who can't meet their reduction targets. Kyoto foresaw a growing international market in 'carbon credits', from three main sources:

• corporations which have achieved certified reductions in their GHG emissions

• countries which have achieved reductions since 1990, often because of large reductions in energy use stemming from de-industrialization (former nations of the Soviet Union and eastern Europe)

• new projects in developing countries which are specifically designed to reduce or sequester GHGs. These are known as Clean Development Mechanism (CDM) or Joint Implementation (JI) projects, depending on how they are financed.

Essentially, the purchase of carbon credits becomes an additional cost of using fossil fuel energy; they are privately traded so as to provide the GHG emitter with the choice of either reducing its own emissions or financing a cheaper emission reduction somewhere—anywhere—else. After all, the theory says, it's a worldwide airshed, so it doesn't matter where in the world the reductions are achieved.

Carbon Credits: What's Not To Like?

Well, it's a great theory, and it suited a lot of people. Wealthy corporations saw it as a way to buy off their obligations to reduce emissions, passing the costs on to the customer. Developing nations saw it as a way to finance new development. De-industrialized nations saw it as a way to profit from their economic decline. Some countries saw it as a means of helping their domestic corporations compete with foreign corporations; other countries saw it as nothing but an additional cost to their economies.

Politicians saw it as a means of appearing to do something about GHGs at no political cost. Brokers and financial houses saw carbon credits as a new financial instrument: an opportunity for trading, speculation, and the creation of new derivatives. Consulting and engineering companies saw it as a new business opportunity. And a remarkably few corporations saw it as an incentive to adopt new technology or to reduce energy use.

Deception Unlimited

But what has also become clear is that it is a scheme with almost unlimited potential for fraud, and that does little or nothing about global warming. Most of the deception arises around who sets the 'caps' and who does the trading.

The public is deceived because GHG producers are able to say that they met limits placed upon them by government (the caps) by purchasing these credits (the trade), usually from unrelated and less profitable industries. Government is deceived because industry claims to have met stringent limits while in fact their actual GHG production is not reduced. The world is deceived.

There is, first of all, a significant temptation and opportunity for fraud in the creation and certification of these credits. Buyers are in no position to confirm the actual existence of the claimed GHG reductions on which the credits are based, even should they wish to. Governments are in no position to certify

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them, and are under political pressure to be generous with the caps. To create an international market in commodities which cannot be seen, cannot be physically delivered, whose receipt cannot be confirmed, and whose quality the buyer cannot confirm, is to invite corruption on a huge scale.

Another Dysfunctional Market

There is, in fact, no chance of a meaningful market in GHG credits. The integrity of such a market cannot be guaranteed; no organization can discipline it and no government would have either the ability or the political will to control it. One need look only at the market in crude oil to see that a GHG market would quickly develop trading in futures and other derivatives where transactions would not be settled in certified credits (however ephemeral they might be) but in other futures and derivatives. The result would be that prices for GHG credits would be set by speculators, banks, and hedge funds (as with crude oil), rather than by industrial organizations for whom the price they would be willing to pay for such credits would be set by rational considerations.

The resultant market would be volatile in the extreme, vulnerable to speculative highs and lows, and not very useful to the industrial organizations trying to meet government imposed 'caps'.

The European Experience

As an illustration, look at Europe. During 2005, trading in carbon credits started in Europe, with all EEC countries required to set caps for four major emitting industries: energy & power production, iron & steel, pulp & paper, and mineral processing. They did, some on time, some later.

Some corporations started purchasing credits in 2005, at prices up to 30 Euros per metric tonne of carbon dioxide.

But after all the caps issued by all the European governments were added up, it turned out that they had been generous; the total caps were more than enough to cover existing levels of GHG emissions. That meant, of course, that there was no need for credits, and no market for them. As of the end of May 2006, the price was hovering around 5 Euros per tonne. And in the first year, some 38% of European credits were purchased by Japanese utility companies.

Canada's Tar Sands

It is time to halt the deception. Canada's oilsands-based petroleum production is probably one of the worst examples. Figures on the amount of GHGs emitted in the process of manufacturing synthetic fuels from tar sands are unreliable, but in any event are far in excess for the GHGs created by conventional oil extraction and refining. (One gallon of gasoline from conventional oil produces 8 kilogrammes of CO_2 in the processing, and another 2 kilogrammes when it is burned in a car.)

And in the past few years our role as a major supplier of oil to the US has led us to exploitation of the tar sands, using technologies which may burn up to two-thirds of the energy produced to process the remaining third for sale.

Under pressure from the United States, Canada is expanding its development of this oil source at a rate both irresponsible and unsustainable, and is doing so well ahead of any technological developments that might reduce the GHG produced per unit of oil manufactured.

Three times the energy used per unit results in three times the GHGs per unit.

As long as this proceeds, it is clearly impossible for Canada to meet any Kyoto-type targets, no matter what action is taken on the consumer front. In this single respect I must agree with the Conservative government, who are also clearly unlikely to attempt any reduction of oil production. I also doubt that any Canadian government would attempt to renegotiate or scrap the NAFTA energy proportionality clause, which describes our obligations to the US (see *Island Tides*, May 4, 2006).

Caps But No Trading?

The entire 'cap & trade' scheme is a meaningless mirage, a means by which large GHG producers and their government allies attempt to cover up the unalterable fact that the only ways to reduce GHG byproducts are either through significant technological advances (which take significant investment, may reduce productivity and thus profits, and most significantly take time, often many years, to develop and implement) or through reducing production itself.

But a government-set, per-unit cap on industrially-produced GHGs would be useful, no matter how arbitrary it might be. Rather than forcing the companies into a speculative and dysfunctional market in theoretical credits, the companies should simply accumulate and record the amounts by which they exceed their caps, and be prepared to pay a tax each year on the accumulated total excess GHGs they have created to date. This might provide an incentive to create less GHGs over the long term, and also to delay their production and accumulation.

Forget about trading; just accrue GHGs as a debt—to humanity, if you like. ✐

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