

Risk



Risk

Uncertainty

Ignorance

Indeterminacy

Overview

- Emissions Trading in Trouble
 - CDM and JI in Trouble
- Difficulties for ECAs involved in carbon trading (as opposed to support for renewables, etc. simpliciter)

- Emissions Trading in Trouble

Measurement

Innovation

Property Rights

Measurement

“There is no reason to expect that countries will reduce their greenhouse gas emissions to comply with quotas that cannot be effectively monitored and enforced.”

Daniel Cole, Indiana University

Innovation thwarted

- *Difficult structural changes postponed*
- *Incentive for short-term changes*

Shin-Kicking by the EU ETS

Quasi-Privatization of the Existing Global Carbon Dump by the UK

*Proposed National Allocation under
the EU Emissions Trading Scheme, 2005*

Industrial Sector	Annual Gift of ERs (mtCO₂)	+/- Average Annual Emissions 1998-2003	% of 'Available' World Above-Ground Carbon Dump	Approx. Current Value @ €26/tCO₂
Power	145.3	-6%	1.5-3.0	€3.778b
Iron/steel	23.3	+16%	02.-.05	606m
Refineries	19.8	+11%	02.-.04	515m
Offshore	19.1	+14%	02.-.04	497m
Cement	10.7	+18%	.01-.02	278m
Chemicals	10.1	+12%	.01-.02	263m
Other	23.7	+17%	.02-.05	616m
TOTAL	252.0	+2%	2.6-5.1	€6.552b

→ *Conflict*

within business community

between business and government

between trading proponents and
environmentalists and the public

- **The big six UK electricity generators are getting around US\$1.2 billion per year in windfall profits from the EU ETS.**
- **Metals manufacturers threaten to stomp out of Germany over having to pay for the EU pollution allowances German utilities got from their government for free.**

→ Risk to market for JI and
CDM projects

→ Risk to allowance trading
activities

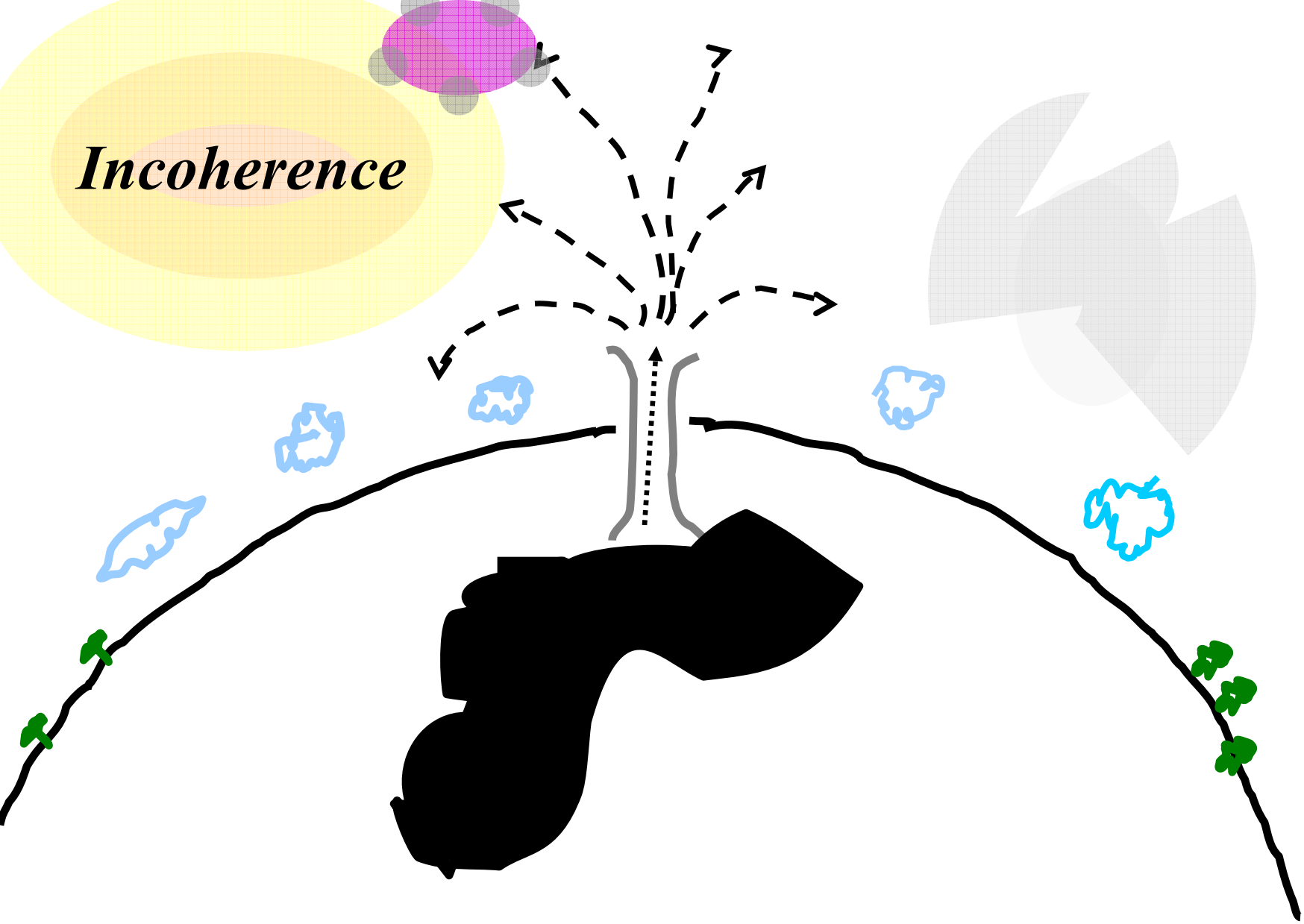
- CDM and JI in Trouble

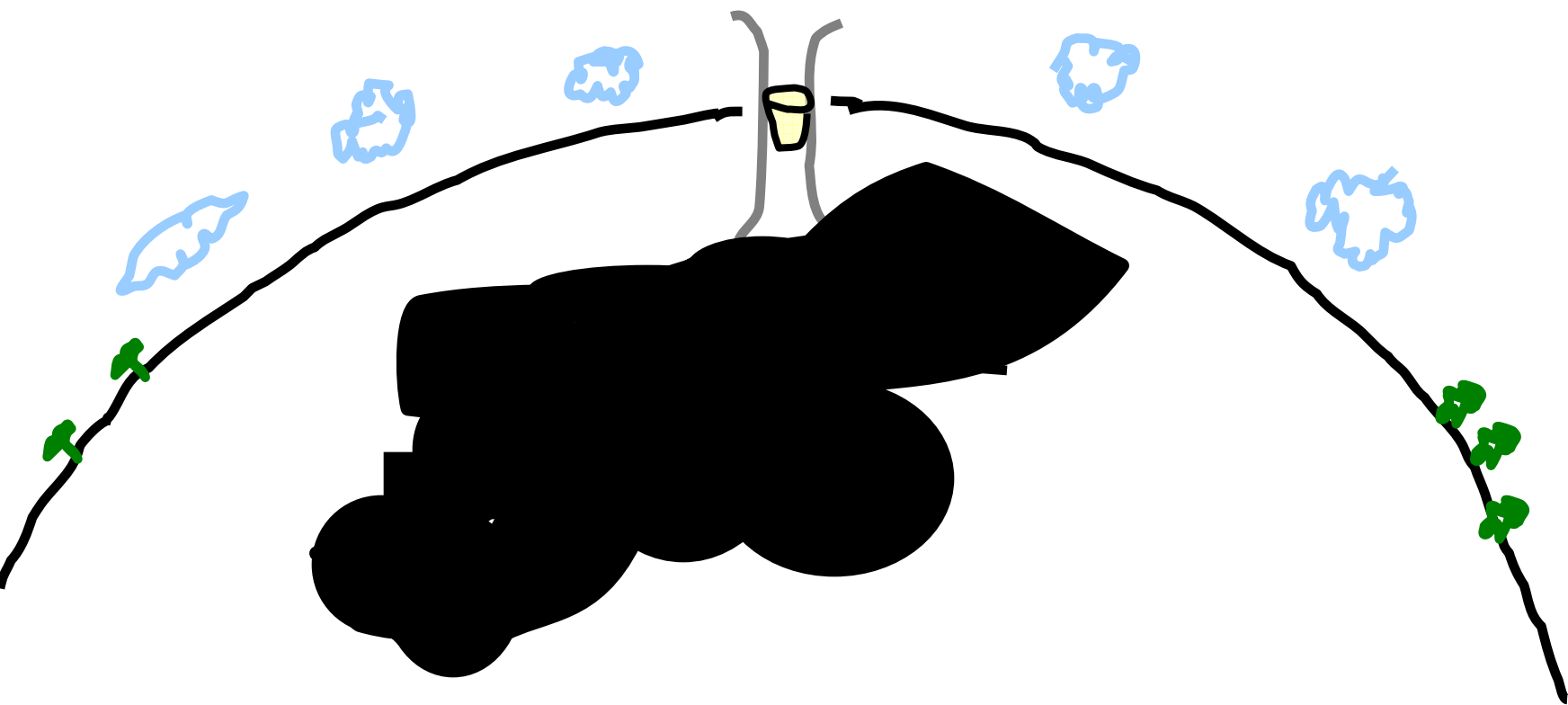
Incoherence

Measurement

Innovation

Property Rights





Measurement

“Many carbon project proponents “tell their financial backers that the projects are going to make lots of money” at the same time they claim to CDM officials “that they wouldn't be financially viable” without carbon funds.

James Cameron, Climate Change Capital

There is a lot of relabelling of business as usual as “additional”. Up to 50 per cent of projects are not really “additional.”

Michael Schlup, The Gold Standard

CDM carbon-accounting methodology “will create other Enrons and Arthur Andersens.”

Bruno vanderBorgh, Holcim Cement

Innovation through CDM?

- North – no
- South – no

“So far the impact of the Kyoto Protocol is rather limited.”

Jose Donoso

The CDM is “not working.”

CDM Gold Standard staff member

It “is not encouraging companies to devote funds to renewable energy sources . . . to the extent . . . hoped”

Wall Street Journal, 11 August 2005

“It is widely recognized that . . . [the end-of-pipe developments that so far constitute the bulk of CDM projects] have no direct development benefits.”

Holm Olsen, UNEP

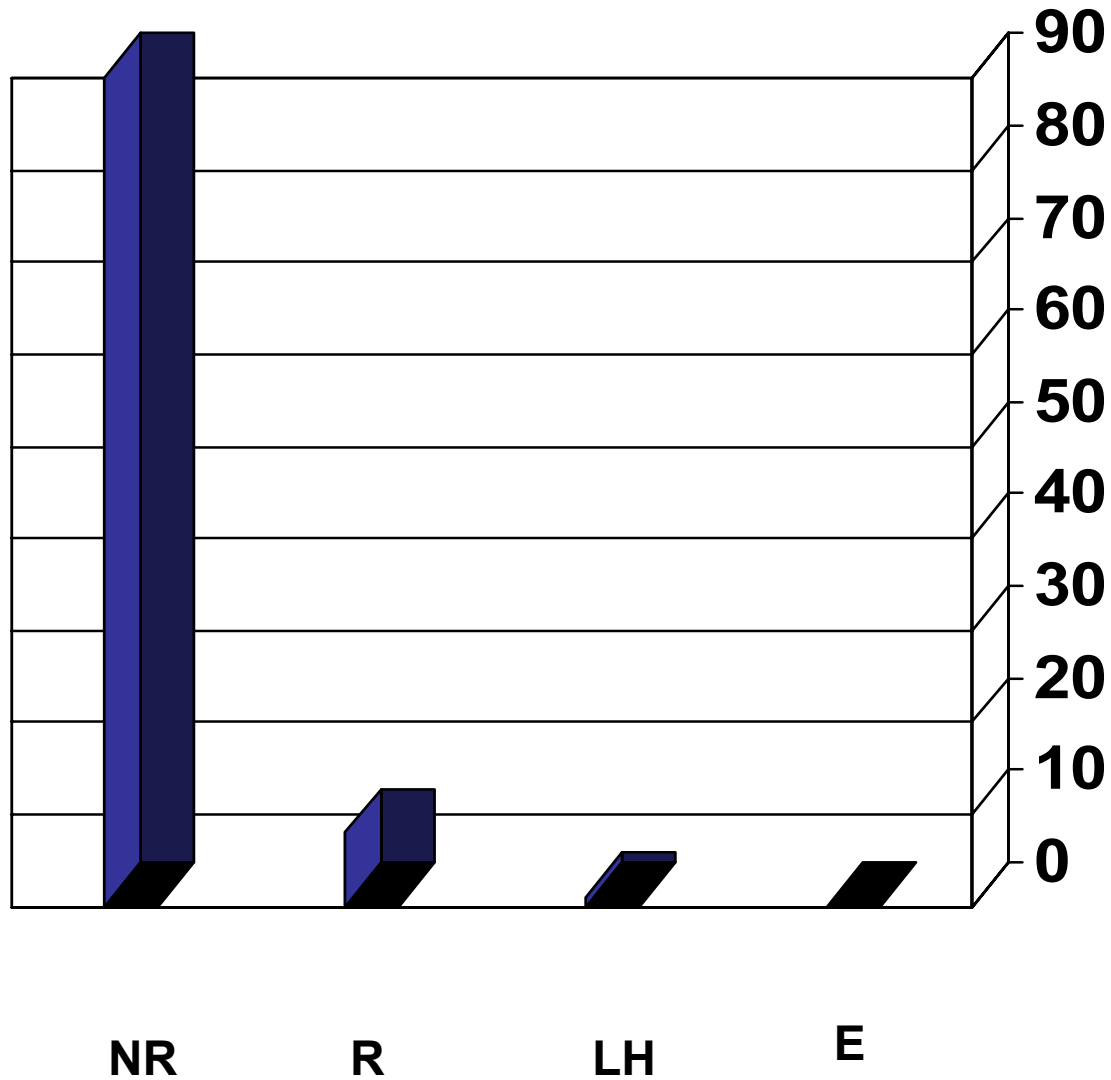
While “there were high hopes that the CDM would usher in climate-friendly FDI . . . this remains largely to be seen.”

R. A. Alburo Guarin,
Development Bank of the Philippines

“The carbon market doesn't care about sustainable development. All it cares about is the carbon price.”

Jack Cogen, Natsource

% of CERs generated/yr



Rights

Concern within business community

Conflicts with grassroots:

“Few in the market can deal with communities . . . We ran into a big storm . . . we had a lot of permanence rocks thrown at us. . . . It was like stepping into a stream full of piranhas.”

Rabobank official

Shin-Kicking by CDM

“The argument that producing pig iron from charcoal is less bad than producing it from coal is a sinister strategy. . . . What about the emissions that still happen in the pig iron industry, burning charcoal? What we really need are investments in clean energies that at the same time contribute to the cultural, social and economic well-being of local populations.”

Brazilian trade unions, local peoples,
experts

“To gain the emissions reductions credits they will keep this site open as long as possible. Which means the abuse will continue as long as possible so they can continue getting those emissions reductions credits. To them how much money they can get out of this is more important than what effect it has on our lives.”

Local resident

Shin-Kicking by JI

We do not “consider [Tzankov Kamak] as suitable for the implementation of the Kyoto protocol, *ever more since it might be a pilot project in that direction*, and OeKB not to support it. . . . the Bulgarian energy situation offers a significant potential for profitable investment in energy efficiency which should become a priority for national and foreign investors, including Export Credit Agencies supporting them. One of the most important places for the protection of the priority protected riparian habitat types (code 91EO) will be destroyed ”

Balkani Wildlife Society, CEIE, Za Zemiata

Conclusion: ET, CDM, JI are all in trouble

- Current and future conflicts over rights between
 - business-business*
 - business-government*
 - bus/gov – grassroots*
- Future conflicts over climatic ineffectiveness between
 - trading proponents – enviros*
 - trading proponents – public*