Obscenity of carbon trading

If we want to curb climate change, carbon trading won't do.

In 1992, an infamous leaked memo from Lawrence Summers, who was at the time Chief Economist of the World Bank, stated that "the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable, and we should face up to that".

The recently released Stern Review on climate change, written by a man who occupied the same position at the World Bank from 2000 to 2003, applies a similar sort of free market environmentalism to climate change.

Sir Nicholas Stern argues that the cost-effectiveness of making emissions reductions is the most important factor, advocating mechanisms such as carbon pricing and carbon trading.

While dumping toxic waste in the global South might look like a great idea from the perspective of the market, it ignores the glaringly obvious fact of it being hugely unfair on those getting dumped upon.

In a similar way, Stern's cost-benefit analysis reduces important debates about the complex issue of climate change down to a discussion about numbers and graphs that ignores unquantifiable variables such as human lives lost, species extinction and widespread social upheaval.

'Junk economics'

Cost-benefit analysis can be a useful tool for making choices in relatively simple situations when there are a limited number of straight-forward options to choose from.

But as Tom Burke, visiting professor at Imperial College London, has observed: "The reality is that applying cost-benefit analysis to questions such as [climate change] is junk economics... It is a vanity of economists to believe that all choices can be boiled down to calculations of monetary value." Some commentators have applauded the Stern Review for speaking in the economics language that politicians and the business community can understand.

But by framing the issue purely in terms of pricing, trade and economic growth, we are reducing the scope of the response to climate change to market-based solutions.

These "solutions" take two common forms:

- under emissions trading, governments allocate permits to big industrial polluters so they can trade "rights to pollute" amongst themselves as the need arises

- another approach involves the generation of surplus carbon credits from 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 emissions reduction

Such schemes allow us to sidestep the most fundamentally effective response to climate change that we can take, which is to leave fossil fuels in the ground. This is by no means an easy proposition for our heavily fossil fuel dependent society; however, we all know it is precisely what is needed.

What incentive is there to start making these costly, long-term changes when you can simply purchase cheaper, short-term carbon credits?

Forcing the market

In the current neo-liberal economic environment, trading rules inevitably succumb to the pressures of corporate lobbying and deregulation in order to ensure that governments do not "interfere" with the smooth running of the market.

We have already seen this corrosive influence in the European Union's Emissions Trading Scheme (ETS), when under corporate pressure, governments massively over-allocated emissions permits to the heaviest polluting industries in the initial round. This caused the price of carbon to drop by more than 60%, creating even more disincentive for industries to lower their emissions at source.

There are all manner of loopholes and incentives for industry to exaggerate their emissions in order to receive more permits and thereby take even less action.

Market analyst Franck Schuttellar estimated that in the scheme's first year, the UK's most polluting industries earned collectively £940m ($1,792m) in windfall profits from generous ETS allocations.

Given all we know about the link between pollution and climate change, such a massive public concession to dirty industries borders on the obscene.

We are being asked to believe that the flexibility and efficiency of the market will ensure that carbon is reduced as quickly and as effectively as possible, when experience has shown that lack of firm regulation tends to create environmental problems rather than solve them.

Community interest

There is a groundswell of opinion that the "invisible hand" of the market is not the most effective way of facing the climate challenge.

The Durban Declaration of Climate Justice, signed by civil society organisations from all over the world, asserts that making carbon a commodity represents a large-scale privatisation of the Earth's carbon cycling capacity, with the atmospheric pie having been carved-up and handed over to the biggest polluters.

Effective action on climate change involves demanding, adopting and supporting policies that reduce emissions at source as opposed to offsetting or trading. Carbon trading isn't an effective response; emissions have to be reduced across the board without elaborate get-out clauses for the biggest polluters.

There is an urgent need for stricter regulation, oversight, and penalties for polluters on community, local, national and international levels, as well as support for communities adversely impacted by climate change. But currently such policies are nigh-on invisible, as they contradict the sacred cows of economic growth and the free market.

There is, unfortunately, no "win-win solution" when it comes to tackling climate change and maintaining an economic growth based on the ever increasing extraction and consumption of fossil fuels.

Market-based mechanisms such as carbon trading are an elaborate shell-game of global creative accountancy that distracts us from the fact that there is no viable "business as usual" scenario.

Climate policy needs to be made of sterner stuff.

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