Climate change, Kyoto, and carbon trading

Part 1: The Howard government and the Kyoto Protocol

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The following is the first of a two-part series. Part 2 *will be published tomorrow, Thursday November 8.*

The 2007 federal election is the first in which the threat of climate change has become a major political issue—and the Howard government, the Labor Party, and the Greens have responded by making great play of their environmental credentials. Opinion polls indicate that ordinary people of all ages and backgrounds are deeply concerned about the global warming crisis. Awareness has grown in recent times through the release of a series of scientific studies on the subject, the screening of popular documentaries such as Al Gore's *An Inconvenient Truth*, and the increased occurrence of drought, bushfires, and storms.

While many people have a general understanding of what climate change is, there has been a deliberate suppression, by the political and media establishment, of the agendas underlying the various solutions being advanced by the major parties. Very few people even know what the most commonly used terms—Kyoto, carbon trading, carbon offsetting etc.—actually mean, let alone how these mechanisms work in practice.

What exactly is the Kyoto Protocol? Does Labor's support for it signify a more progressive alternative to the Howard government's approach? How does carbon trading work and does it reduce emissions? Why do the major parties advocate different long-term emission reduction targets? Do the Greens' policies represent the most environmentally sound solution to the global warming crisis?

When one carefully examines these issues, it becomes clear, firstly, that the policy differences between all the establishment parties are minimal, and secondly, that they reflect the rival interests of different sections of the corporate elite. The privately owned coal, oil, electricity, nuclear, and renewable energy industries each has its own agenda, while the "climate change industry"—involving international carbon trading and offsetting—is now a multi-billion dollar market. These competing interests find expression in the different pro-market schemes promoted by Labor, Liberal, and Greens.

In order to explore this in more detail, let us first briefly review the central climate change proposals of the two major parties.

Last July Prime Minister John Howard announced that his government would establish a carbon trading market in Australia by 2012. The scheme would be modelled on the European Emissions Trading Scheme (ETS) which was established in 2005. Howard has also promised to announce a long-term national emissions reduction goal by 2008. This marks a shift by the government, which previously refused to consider any such target on the grounds that it would adversely affect the Australian economy. The Howard government, however, still refuses to ratify the 1997 Kyoto Protocol.

Labor leader Kevin Rudd and environment spokesman Peter Garrett, have trumpeted their commitment to sign on to Kyoto as evidence of their superior stance on the environment. Ratifying Kyoto and establishing an Australian carbon trading scheme are Labor's two main policies regarding climate change. Labor also promotes other tokenistic schemes such as offering subsidised solar panels for homes and funding new research into "clean coal" and other technologies. Rudd has declared that 20 percent of Australia's electricity supply will derive from renewable energy by 2020. This compares to the Howard government's 2020 target of 15 percent from renewable sources and "clean coal". Rudd has also pledged to reduce total carbon emissions to 60 percent of their 2000 level by 2050, and will next year announce an interim target for 2020.

Labor's "targets" are meaningless, because no explanation has been offered as to how they will be reached. A revealing moment in the televised debate between Howard and Rudd came when the Labor leader was asked what he would do to reduce emissions in the next five years, if he won government. Rudd could only mumble vaguely about complying with the Kyoto provisions. The Howard government has nevertheless sought to make an issue of Labor's 2050 target by demagogically posing as a defender of "Australian jobs" and warning of a "Garrett recession."

These claims and counterclaims can only be understood within the context of the development of climate change policy in Australia over the past decade, and its international and historical context.

Australia's corporate polluters and the Kyoto Protocol

Ever since it came to power in 1996 the Howard government has cultivated strong connections with leading corporate polluters, including in the coal, oil, aluminium, mining, and electricity industries. These fossil fuel industries contribute a disproportionately large share of Australia's carbon emissions. For example, six aluminium smelters—owned by a number of private companies including Alcoa and Rio Tinto—are responsible for 16 percent of total electricity consumption—equivalent to nearly 6 percent of the country's greenhouse gas emissions.

As the scientific evidence confirming climate change piled up in the 1990s, Australia's major polluters began to fear the imposition of measures impinging on their highly profitable operations. Fossil fuel industry lobbyists—who privately referred to themselves as the "greenhouse mafia"—attempted to cast doubt on the evidence and warned that restricting Australia's carbon emissions would cause recession and massive job losses. These lobbyists enjoyed exceptionally close relations with senior Howard government ministers and were consulted prior to the release of almost every official statement and policy announcement relating to global warming.

When the Kyoto Protocol negotiations commenced in 1997, Howard's government was the only participant to include representatives of the leading corporate polluters in its official delegation. This brazen move underscored Howard's contempt for any international agreement that would impose unwelcome obligations on his fossil fuel industry friends. The government threatened to sabotage the Kyoto negotiations unless it was offered generous concessions.

In the end, Australia became one of only three advanced countries (together with Iceland and Norway) permitted to increase its emissions. By 2012, Australian carbon emissions were to be no more than 8 percent above their 1990 level.

A major loophole, however, effectively rendered this target a dead letter. In the face of threats by the Howard government to walk out of the negotiations, other delegates conceded what became known as the "Australia clause". This provision authorised Kyoto signatories to include net carbon emissions from land clearing as part of their targets. Australian land clearance rates in 1990 had happened to be twice as high as normal. In that year, 675,000 hectares were cleared, adding over a million tonnes of carbon dioxide to annual emissions. As the rate of land clearing returned to its usual level after 1990, Howard could claim a reported reduction in carbon emissions even as the major polluters expanded their operations.

Excluding land clearing, by 2010 Australia's carbon emissions will be 30 percent higher than their 1990 level. But thanks to the "Australia clause", the Kyoto Protocol's stated target of an 8 percent increase by 2012 is expected to be met. Despite all this, the Howard government has still refused to ratify the protocol, leaving Australia one of three countries (along with the US and Kazakhstan) that signed, but did not ratify, the agreement.

Significant sections of big business now regard this decision as a major blunder.

"I think with hindsight it would have been a good idea," the former head of the Business Council of Australia Michael Chaney told the *Australian* last Friday. "Most other countries would have defaulted on their commitments and we would have met ours and looked good."

Senior government ministers clearly agree. Six weeks ago, according to a cabinet leak, Howard's environment minister Malcolm Turnbull recommended to his fellow ministers that the government ratify Kyoto. The leak, which has embarrassed the government in the middle of the election campaign, was widely attributed to Turnbull himself. The environment minister is suspected of releasing his pro-Kyoto cabinet submission in order to highlight his "green" credentials and fend off Labor's challenge in his own electorate.

Kyoto and the European carbon trading market

The Kyoto Protocol is bound up with definite material interests. While ratifying the agreement would not oblige the Australian government to take any action to reduce carbon emissions, it would open up highly lucrative international opportunities for big business. This is because Kyoto has led to the establishment of a multi-billion dollar carbon trading and carbon "offsetting" industry based in Europe.

Kevin Rudd and Peter Garrett want the protocol signed so that Australian companies can gain access to this market. Their position has nothing whatsoever to do with protecting the environment. Labor's key argument is that the Howard government has looked after the interests of one section of big business, the fossil fuel industry, at the expense of the broader interests of the Australian ruling elite as a whole.

A number of scientific studies have demonstrated that carbon trading and "offsetting" do nothing to reduce emissions to safe levels. Rather, they are deliberately designed to complement and extend the workings of the capitalist market, the very mechanism responsible for the climate change crisis.

Pollution trading schemes were first implemented in the US by the Reagan administration as an alternative to imposing environmental regulations and other restrictions on the activities of the major corporations. Promoted by the Clinton administration in the 1990s, emissions trading then became the central mechanism through which the Kyoto Protocol's carbon targets were to be reached.

The European Emissions Trading Scheme (ETS) is the world's largest carbon market. It is based on the "cap and trade" model, which involves governments establishing a national limit, or cap, on carbon emissions and then issuing so-called carbon credits to the various polluting industries. These "credits" establish how much carbon each particular company can emit. If they want to emit more, they need to purchase additional credits. The market is then supposed to lower emissions by effectively converting these pollution quotas into tradeable property, providing an incentive for companies to reduce carbon output below their credited amount and sell their surplus credits on the market to other polluters.

In the lead-up to the handout of carbon credits in Europe, the major polluters lobbied their national governments and ratcheted up reported emissions in order to claim many more credits than they actually required. Once the market came into effect in January 2005 they then returned to business as usual. Without reducing any emissions, businesses were able to sell their surplus credits for significant sums. British oil companies BP and Shell, for example, made £17.9 million and £20.7 million ($40 million and $46 million) respectively through the sale of their carbon credits.

The credits' market price crashed in March 2006 after an audit revealed the excess credits in the system. The price collapse sparked fears that the entire scheme would break down, but authorities responded by removing the excess credits from the system in order to boost the carbon price. These measures have seen the market significantly expand over the past 18 months, and its estimated value is now $32 billion.

Entire divisions of some of Europe's leading banking and financial institutions are devoted to investment and speculation in carbon credits. Carbon brokers, carbon trading exchanges, and carbon futures are on the rise. Subsidiary industries have also flourished. Accountants are needed to audit carbon inventories, while lawyers have to be on hand to resolve carbon contracts and other complex legal issues relating to the unusual trade in a commodity that does not physically exist.

Because the ETS only permits those countries that have ratified Kyoto to participate, Australian companies and financial operators have been largely locked out of this bonanza—leading to enormous losses in potential revenue. A study commissioned by the Australian Conservation Foundation and released last month estimated that Australian business was losing investment opportunities arising out of the protocol worth $3.8 billion annually.

Carbon "offsetting" and the CDM

Some of the foregone profits relate to the so-called Clean Development Mechanism (CDM), another central component of the Kyoto Protocol. The CDM works by generating new ETS carbon credits through the promotion of projects in less developed countries that supposedly help reduce carbon emissions. Most of the projects are located in China, Brazil, and India. For many European industries unable to keep emissions under their allotted "cap", the cheapest way to secure additional credits is by funding CDM operations. The CDM, valued at $5.4 billion, generates about one-fifth of all ETS carbon credits.

While there are enormous profits generated through the scheme, there is no evidence that it effectively reduces carbon emissions. The CDM is plagued by corruption, with one UN source recently telling the British *Guardian* that at least 20 percent of all carbon credits generated through the CDM were based on non-existent or fabricated emission reductions.

Many other projects that reportedly lower emissions—by installing new technologies in Chinese or Indian factories for example—would have been launched anyway, irrespective of the money pumped in through the CDM. Moreover, the scheme often creates incentives for additional pollution. An article published by *Newsweek* in March, for example, reported on India's Gujarat Fluorochemical, which made $42 million through the CDM in the last quarter of 2006—triple its total company earnings compared with the same period in 2005. The additional revenue helped fund a new plant that produces teflon and caustic soda, both polluting substances.

Once again, Australian companies are barred from investing in CDM projects—because only countries whose governments have ratified Kyoto are eligible.

Some Australian firms, however, have exploited a loophole permitting joint ventures. Pacific Hydro has invested more than $300 million in hydro-electricity projects in Fiji and Chile and sells the CDM-generated carbon credits to British electricity companies on the European market. "We've had to joint venture at the local level in each of those countries [Fiji and Chile] to ensure that we can paint ourselves and the joint venture as a truly non-Australian company," Pacific Hydro's general manager Rob Grant told the ABC last year. But the company's growth had been stymied because the government had not ratified Kyoto. "We certainly haven't been hoisting the Australian flag, let's put it that way," he said.

The inability of Australian corporations to fully access the CDM has hampered the development of the voluntary "carbon offsetting" industry. New corporations are offering industries and individuals the chance to "offset" their emissions by investing in projects that supposedly reduce emissions elsewhere. Such projects typically involve tree planting or subsidised renewable energy schemes. Major companies such as Rupert Murdoch's News Corporation and investment bank Goldman Sachs have announced that their operations will soon be "carbon neutral". Many wealthy individuals, keen to parade their "green" credentials, are also handing over large sums of money to offsetting companies in order to be able to boast of a "carbon neutral lifestyle".

Carbon offsetting is a complete fraud, and it has been appropriately likened to the medieval Church's sale of "indulgences" to sinners. It promotes the illusion that it is perfectly fine for corporate polluters to continue their current levels of carbon emissions, so long as they "offset" their emissions through the carbon offset industry. This conveniently eliminates any need to carry out the major restructuring of the global economy required to resolve the climate change crisis.

Many carbon offsetting projects are based on junk science. Scientists have not yet determined, for example, exactly how much carbon dioxide trees can ultimately absorb, making it impossible to accurately estimate how many new trees need to be planted to offset other emissions. Moreover, if these trees are chopped down or burned, they release greenhouse gases, undoing earlier carbon absorption. A number of scientific studies have also demonstrated that many tree planting projects have had damaging environmental effects. Local biodiversity has been harmed through the creation of vast tracts of single-species plantations, which often absorb unsustainable amounts of groundwater and deplete soil nutrients.

According to a report in the *Financial Times* last April, the international voluntary offset market is expected to be worth $4 billion by 2010. Not surprisingly, Australian companies are among those vying for a slice of the pie. And various "environmental activists" are deeply involved in the offsetting industry. Former head of Greenpeace Australia and Greenpeace International, Paul Gilding, for example, is now the CEO of Easy Being Green, which promises to neutralise the "carbon footprint" of ordinary people if they purchase hundreds of dollars worth of carbon offsets.

To be continued

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