Climate change, emissions trading schemes and the profit system

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Public meetings called by the WSWS and the Socialist Equality Party (Australia) in Sydney and Melbourne last week exposed the real agenda behind emissions trading schemes and the official climate change "debate".

WSWS international editorial board member and SEP national secretary Nick Beams and WSWS writer Patrick O'Connor delivered reports to audiences of students, workers, professional people and retired workers on "The Economics and Politics of the ETS: Socialism and Climate Change".

Against the backdrop of the national conflicts and rivalries dominating the Copenhagen climate change conference, the reports demonstrated that only the socialist re-organisation of economic life on an international scale could harness the immense resources and technology needed to avert the developing ecological and social catastrophe.

The following is the report delivered by Patrick O'Connor. The report delivered by Nick Beams will be published on the WSWS tomorrow.

Our meeting is titled "The Economics and Politics of the ETS: Socialism and Climate Change". For all the media coverage of the opposition Liberal Party's recent "meltdown" over the issue, virtually no serious analysis has been presented of either the politics or the economics of the Rudd Labor government's proposed carbon emissions trading scheme—the so-called Carbon Pollution Reduction Scheme (CPRS).

There has been no shortage of commentary on the various personalities and leadership styles involved. But what are the conflicting material interests underlying the rupture that has emerged to the surface of the political superstructure? What are the implications of the emissions trading scheme (ETS) for the working class?

In attempting to outline a brief answer to these questions this evening, it firstly ought to be noted that the vast lack of understanding on the part of ordinary people regarding how emissions trading schemes are supposed to work is not accidental. Rather, it reflects a deliberate strategy on the part of the major parties and the media to restrict debate on both the environmental effectiveness of such trading schemes and their far-reaching economic and social impact.

Essentially, emissions trading schemes represent an attempt to fashion a "free market" solution to a crisis that is itself caused by the anarchic and destructive operations of the capitalist market.

Emissions trading was first seriously promoted in the US in the 1980s and was regarded by many bourgeois economists and policy makers as a potential means of avoiding placing any additional regulatory burdens on corporate polluters. The Clinton administration continued to promote this position throughout the 1990s, and emissions trading mechanisms were built into the heart of the 1997 Kyoto Protocol at the insistence of the US and its chief negotiator, then vice president Al Gore.

What then are emissions trading schemes? For all the mystification that has accompanied the official discussion, the basic principles and mechanisms underlying emissions trading schemes are fairly straightforward.

Perhaps the best way to explain these is to outline our own hypothetical emissions trading scheme.

Let us say there are three large companies—one owned by myself, another by comrade Nick Beams, and another by our chairperson—each of which pollutes 100 units of carbon dioxide into the atmosphere each year. Under emissions trading schemes, or as they are also known, "cap and trade" schemes, the government first sets an assigned limit of emissions (the "cap") and converts each unit of pollution into a discrete and tradeable commodity. If the government wishes to reduce emissions by a total of 5 percent, then our three companies will be issued with 95 carbon credits each.

Each company has to decide how it wishes to proceed. Imagine that I discover for my company many significant and cheap ways to reduce my carbon dioxide emissions—by installing new technologies, devising more efficient production methods, etc.—so that I can reduce my pollution by 10 percent. I am now emitting 90 units of carbon dioxide into the atmosphere—but own 95 carbon credits. I can sell the surplus credits on the open market for a tidy profit.

Imagine that Nick's company has been running as a pretty tight ship—he has already installed energy saving light globes and other devices, eliminated wasteful energy use, and there are no cheap technologies available to him to further reduce emissions. In this case he may decide it is most profitable for him to continue to emit 100 units of carbon dioxide. Given that he was only given 95 carbon credits by the government, he must now purchase five more from my company, to make up the shortfall.

Our chairperson's company finds it makes most commercial sense to reduce emissions to 95 units of carbon dioxide, using its assigned credits and therefore not needing to buy or sell any others.

This scenario is of course a highly simplified one, but in essence this is how emissions trading schemes work. One obvious difference is their scale. The European ETS now covers more than 10,000 corporations, while in Australia the proposed scheme is to include 1,000 firms.

The theory—or rather dogma—behind emissions trading is that once a cap is set, the "invisible hand" of the free market supposedly allows privately owned companies to determine the most efficient and least costly means of reducing emissions through the trade in carbon credits.

The reality, as we will see, is very different. The first issue that immediately arises in relation to the capacity of emissions trading schemes to deliver even the most marginal reduction in pollution is corruption and cheating. Unsurprisingly, corruption is rife in these schemes, as an inevitable consequence of creating profit incentives through the conversion of pollution into a lucrative commodity. The same people who now urge emissions trading schemes, are those who previously promoted the various financial mechanisms—collateralised debt obligations, derivatives, sub-prime mortgage debt—that came crashing down in 2008.

Let us take first the question as to how carbon credits are calculated and distributed. In our hypothetical scenario, everything was neat and transparent—three companies emitted 100 units of carbon dioxide, the cap was set to cut pollution by 5 percent, so 95 carbon credits were allocated to each company. What happens in reality is that corporations make every effort to secure as many credits as possible, by inflating or over-reporting their initial level of emissions, and also by lobbying the politicians and governments responsible for implementing the trading scheme.

The European ETS, established in 2005, saw an enormous over-allocation of carbon credits. In 2006, many of the major corporate polluters cashed in their surplus credits—without reducing their emissions—effectively raking in profits for doing nothing. British oil companies BP and Shell, for example, made £18 million ($US29 million) and £21 million respectively in bonus profits generated by the sale of carbon credits.

The handing out of excess credits is not merely a "teething problem" experienced by newly established trading schemes. On December 6, the London *Sunday Times* reported that the world's largest steel maker, ArcelorMittal, stands to make £1 billion from its surplus European ETS credits. Owned by Britain's wealthiest individual, Lakshmi Mittal, the steel producer secured the credits after an intensive lobbying effort in Brussels, which included, according to the *Sunday Times*, "threatening to move plants out of Europe at a cost of 90,000 jobs".

The world trade in carbon credits has generated its own specialist retailers, speculators, lawyers, middle men and horse traders. As with so many other divisions of the global finance industry, the line dividing cutting-edge investment activity from outright criminality is often blurred.

To take one recent example, *Bloomberg* reported that French authorities had arrested four carbon traders for a €156 million ($US230 million) scam. The charges included "criminal conspiracy, money laundering, misuse of corporate funds, and carbon trading and tax fraud". The traders' scheme involved purchasing duty-free offshore carbon credits and selling them in France, collecting the valued added tax (VAT) but not transferring the tax mark-up to the French Treasury. This scam—known as carousel fraud—has become so widespread in the carbon market that many European governments are now simply removing VAT from carbon credits, thereby making the pollution trade tax-free.

Another area for massive corruption is the Clean Development Mechanism (CDM), a scheme incorporated into the Kyoto Protocol to involve the so-called developing world in the carbon trade. Corporations involved in projects that supposedly reduce emissions in factories and sites in countries such as China, India, Brazil, and Mexico can generate credits equivalent to the carbon dioxide allegedly prevented from entering the atmosphere. These credits can then be sold back into the trading schemes in the advanced capitalist countries. So to return to our hypothetical example, Nick's company can either purchase the five additional credits it needs from my company, or alternatively he can invest in a business project in an impoverished country, report reduced emissions, and by doing so generate his five credits.

According to David Victor, a carbon trading expert at Stanford University in the US, up to two-thirds of all CDM projects are bogus, that is, are not generating any real reductions in emissions. Moreover, the CDM creates an incentive for people in impoverished countries to step up their polluting activities in order to attract investment interest from the advanced capitalist countries. One especially potent greenhouse gas, triflouromethane, is used in refrigerant cooling systems. According to a 2007 estimate in *Nature* magazine, a total of about €4.7 billion will be generated in triflouromethane carbon credits—even though less than €100 million would be required to install the technology required to eliminate the gas from fridge factories around the world. The incentives for CDM-credit windfalls are so great that numerous reports have emerged of companies expanding their triflouromethane production solely in order to subsequently shut down their operations, claiming carbon credits for the "reduction" in pollution.

Pollution trading, public investment and energy technology

The most fundamental problem with carbon trading is that it does not address the question of how to refashion the power-generating basis of the world economy. Many scientists have indicated that the level of atmospheric carbon dioxide concentration has already exceeded the maximum safe levels, and to avoid the impact of even more severe climate change, what is required is a rapid transition to a global economy with net zero emissions, that is greenhouse gas emissions no higher than what can be absorbed through natural processes. Emissions trading schemes are inherently incapable of producing such a transition.

A vast restructuring of broad areas of social and economic life, such as urban planning, transport, land use and agriculture needs to take place. At its heart must be the immediate phasing out of fossil fuel-based energy such as oil and coal, and the development of renewable power sources. That can only be achieved on the basis of a massive public investment program, harnessing the world's scientific and technological resources in a rational and planned manner. The problem is not a lack of potentially available resources. The International Energy Agency has estimated that to cut global emissions in half by 2050, research and development spending on energy would need to be increased by an additional $US10-$100 billion annually. By way of contrast, Washington now spends $16 billion *per month* on the direct costs of occupying Iraq and Afghanistan.

Carbon trading works by rewarding corporations for making marginal reductions in their emissions wherever it is profitable to do so, while at the same time working to block the development of new technologies and infrastructure. These are almost inevitably unprofitable in the short run, but are nevertheless vital for the long-term wellbeing of the world's population and the stability of the earth's eco-system.

While emissions trading has done nothing to resolve the climate change crisis, it has imposed substantially higher energy and petrol prices on ordinary people. At the same time, it has developed into a vast international racket that has further enriched a narrow layer of financiers and speculators. The value of the market is increasing exponentially, and is now worth more than $120 billion. Some analysts have predicted that carbon will develop into a more lucrative commodity than oil in the next decade, with one report issued last month predicting that it will grow to a $3 trillion a year industry, twice as large as the vast oil market.

The Labor government's climate policies are centrally directed toward ensuring that Australian finance capital secures its share of this market.

Prime Minister Rudd made an important part of his 2007 election campaign a pitch to finance capital and other sections of big business that had been marginalised by his predecessor John Howard's favouring of fossil fuel interests. Until his attempt at a last-minute U-turn in 2007, Howard had refused to consider an Australian emissions trading scheme. He also rejected ratifying the Kyoto Protocol. Decisive sections of business regarded this as a major blunder. While ratifying Kyoto would not have obligated Australia to lower its emissions, it would have fully opened up the European ETS and the CDM to Australian corporations. Under Kyoto's terms, only firms from countries that have ratified the protocol are allowed to participate in its various carbon trading mechanisms.

In addition, Australian business hopes that a national ETS will help position Sydney as the potential regional hub for a future East Asian carbon market, potentially including China, Japan, India, Korea, and other major economies. The finance sector in London has reaped enormous benefits by entrenching itself as the European capital of the carbon trade since Britain gained “first mover” advantage by establishing a national ETS prior to the European scheme.

Rudd’s approach to implementing an ETS in Australia was to do everything possible to compensate big business. The final total of public funds to be handed over as corporate compensation was a staggering $A123 billion ($US106 billion). Every step of the policy development process was marked by further handouts. Even the government-appointed author of the initial ETS policy review, Professor Ross Garnaut, was moved to protest late last year when Rudd announced that the privately owned coal-fired power generators would receive $3.9 billion. Insisting that there was “no public policy justification” for this, Garnaut declared, “Never in the history of Australian public finance has so much been given without public policy purpose, by so many, to so few.”

But this Churchillian paraphrasing turned out to be somewhat premature—the power companies received another $3 billion under the final terms of Rudd’s ETS. This payment was announced after the plant operators said that they may be forced to abruptly shut down operations, cutting off the power supply to several cities. We noted at the time on the *World Socialist Web Site* that an organisation threatening to cut off power to major urban centres unless it received billions of dollars from the government might expect to be classified a terrorist organisation. But not, as far as official Australian politics is concerned, in the context of negotiations for an ETS.

Despite Rudd’s best efforts, not every sector of the fossil fuel industries was satisfied with the ETS—the coal industry and the coal-fired power generators still maintain that they will lose money as a result of the scheme. This reflects the fact that even marginally reducing carbon emissions in Australia will inevitably impinge on the interests of these sectors, given the country’s power supply dependence on extremely inefficient and polluting coal-fired plants.

The crisis continuing to wrack the opposition Liberal Party expresses the shifting balance of forces within the Australian bourgeoisie. Malcolm Turnbull, the former leader who backed the ETS, was oriented to the same interests as the Rudd government—above all finance capital. New leader Tony Abbott is now dependent on a faction of the Liberal Party that remains wedded to the fossil fuel interests that previously held sway under the Howard government. And these remain powerful interests. Their concerns found political translation in the final days of Turnbull’s leadership, when the coal sector and power generators took out full-page newspaper ads and threatened mass job cuts if the ETS were passed. Less competitive farming interests, which feared the impact of higher energy costs, found their representatives in the Liberals’ coalition partner, the National Party, while the far right-wing of both opposition parties lent credence to various conspiracy theories, such as that climate change is a hoax and the Copenhagen negotiations are aimed at creating a “one world government”.

Turnbull’s ousting frustrated Rudd’s plan of quickly ramming the ETS through the Senate before the Copenhagen conference—in order to use the world summit as an opportunity to promote the Australian carbon market to the large number of carbon traders and investors gathered in the Danish capital. Rudd has nevertheless clearly indicated that he does not want to call an early election over the ETS. Instead he calculates that decisive sections of big business will pressure enough Liberal Senators to defy their leader and cross the floor when another vote is taken in February. The prime minister declared on December 3: “This summer provides a great opportunity for calmer, wiser heads of the Liberal Party to prevail. It’s good also for the sage council of business to register their voice as well about what is needed for the future.”

Labor is acutely aware of the danger of allowing any genuine public discussion. Such focus on the details of the scheme would undermine the key factor so far working in the government’s favour—the general lack of knowledge on the part of ordinary people about what the ETS actually entails. Serious scrutiny of the issue makes clear that just as there is no “socially neutral” solution to the world economic crisis, nor is there any “socially neutral” solution to the global ecological crisis.

The question is: who will be made to pay for the crisis? As far as all the parliamentary parties are concerned, the answer is unambiguous—the working class. The Labor government’s proposed ETS will see ordinary people pay an estimated $1,000 a year more in energy expenses. Rudd has promised that most will be fully compensated, but there has been no public discussion of what happens when the initial cap on the price of carbon credits is lifted and the Australian ETS is integrated into the world carbon market. Many experts have predicted that the world carbon price will rise by at least 500 percent over the next decade—leading to equivalent hikes in how much people will have to pay to fuel their cars and heat their homes. Under Labor’s ETS, what people are forced to pay for such necessities of life will ultimately be determined by the combined activities of the world’s carbon traders and speculators.

What of the alternatives to an ETS promoted in certain quarters? There have been a number of calls for a carbon tax to replace the proposed ETS. This is essentially a surcharge on every purchase of energy. Prominent NASA climate scientist James Hansen recently demanded the imposition of carbon taxes internationally and expressed his hope that the Copenhagen negotiations would fail, in order to prevent the further spread of emissions trading schemes. But a carbon tax would not resolve any of the underlying issues and would be highly regressive, hitting those who can least afford it with steep rises in basic costs of living.

In Australia the Greens similarly demand, as part of their policy platform, a substantial rise in petrol and energy prices. This position is consistent with the hostility toward the working class and outright misanthropy that pervades the petty bourgeois environmental protest movement and which falsely attributes climate change to overpopulation and over-consumption. The Greens’ opposition to the government’s ETS is purely tactical—it is based on dissatisfaction with the government’s emissions targets. They back emissions trading and other proposed “free market” measures, and their representatives in the Senate have boasted of “never being isolated from the debate”.

The positions of the ex-lefts and opportunists in the misnamed Socialist Alliance are no better. Their central demand for a so-called “people’s movement” against climate change is yet another expression of their orientation to the Greens in seeking to pressure Labor to do more. This bankrupt perspective, accompanied by the inevitable “radical” phraseology, is designed to head off any independent articulation by the working class of its own class interests on the question of climate change.

The working class must independently intervene into the political struggle over the ETS and the climate change crisis. Such an intervention must be based on an internationalist and socialist perspective, with the goal of reducing global carbon emissions by the objectively-required levels on the basis of an internationally coordinated plan, abolishing the profit system and restructuring the world’s economy to address the danger of a catastrophic climate breakdown, as well as providing every human being with a decent, secure standard of living. That is the perspective of the International Committee of the Fourth International, and its Australian section, the Socialist Equality Party.