REDD: Breathing new life into the scam of carbon trading

Reduced emissions from deforestation and forest degradation (REDD) is based on a simple idea: Making forests worth more alive than dead. But on closer examination, it is not simple at all. To forest peoples, forests already are worth more alive than dead. REDD could involve the biggest ever transfer of control over forests – to international carbon financiers and polluting companies.

A massive new market in forest carbon would come with a series of new (and not so new) risks. In an article describing how Goldman Sachs helped create (and profit from) the financial bubble that so spectacularly burst a couple of years ago, journalist Matt Taibbi explains that "Instead of credit derivatives or oil futures or mortgage-backed CDOs [collateralised debt obligations], the new game in town, the next bubble, is in carbon credits . . . a groundbreaking new commodities bubble, disguised as an 'environmental plan'." This new market in carbon derivatives "will be vast, complicated, and dauntingly difficult to monitor," writes Rachel Morris in Mother Jones magazine.

But it is not only journalists who are concerned about the complexities of this new market. Feike Sijbesma is the Chief Executive Officer of Royal DSM, one of the largest Dutch multinational corporations. "There are now already in development derivatives of CO_2 prices that are so complicated that I do not understand it any more," he said at the World Economics Forum earlier this year. "If you get a reservoir of derivatives which becomes so big that it becomes an industry in itself that is very dangerous because you can get the tail wagging the dog."

At least one hedge fund company is already betting on the carbon market collapsing. "We think there's a 30 percent chance the [carbon] market collapses," says Anthony Limbrick, the chief investment officer of the hedge fund firm, Pure Capital. Limbrick, however, is not too worried about a collapse. "That could create a 'fat tail' (a very rare event with major consequences) for us to make money."

Proponents of financing REDD through carbon trading put forward two apparently contradictory arguments. The first is the "low-hanging fruit" argument - stopping deforestation is one of the cheapest and easiest ways of reducing emissions. "Tropical forest conservation is a critically strategic climate change solution," says Jeff Horowitz of Avoided Deforestation Partners, "because it is more affordable than technologically intensive solutions therefore allowing bigger pollution reductions than would otherwise be economically or politically feasible." Horowitz and his organisation have lobbied hard to make sure that carbon offsets are part of the draft climate legislation in the US. Horowitz also estimates that "protecting tropical forests will cut the cost of U.S. climate legislation almost in half – saving [U.S.] Americans billions."

The second is that reducing deforestation needs so much money, that the only way of financing REDD is to make sure that the carbon markets are involved. Here's Horowitz again: "The only path to secure the $40 billion annually that may be needed to end and ultimately reverse deforestation is through creating incentives for private investment."

Of course there is no guarantee that throwing vast sums of money at the problem of deforestation will make it go away. Underlying causes of deforestation include corruption and illegal logging. The Forestry Ministries in several REDD countries are the most corrupt ministries in some of the most corrupt countries in the world. Illegal logging accounts for a large proportion of timber exports from many of the countries currently interested in implementing REDD.

"Alarm bells are ringing," says Peter Younger, a specialist in environmental crimes at Interpol. "It is simply too big to monitor. The potential for criminality is vast and has not been taken into account by the people who set it up." In an interview with the Guardian last year, Younger notes that "Organised crime syndicates are eyeing the nascent forest carbon market . . . REDD schemes are open to wide abuse."

Abuse is already happening, in both the forest and the market. Papua New Guinea has seen fake carbon credits, carbon cowboys and a series of dodgy-looking deals with landowners. Meanwhile in Europe, carbon credit fraud in the Emission Trading System (ETS) has resulted in losses of about five billion euros. The European Law Enforcement Agency estimates that "in some countries up to 90 per cent of the whole market volume was caused by fraudulent activities."

The risks are obvious. So is the impossibility of regulating such a complex market. And the point of this whole shaky edifice, apart from generating huge profits for carbon traders? To ensure that companies can buy carbon credits allowing them to continue pumping out greenhouse gases.

By Chris Lang, http://chrislang.org