

Fault lines in climate policy: what role for carbon markets?

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In a recent review of our book *Upsetting the Offset: The Political Economy of Carbon Markets* (Böhm and Dabhi, 2009), Axel Michaelowa has taken issue with a range of our critiques of carbon markets. In what follows we respond to some of the issues raised and put Dr Michaelowa's book review into a broader context of the political and economic debates around carbon markets. The review confirms the ever clearer fault lines around which climate policy debates are structured and therefore deserves wider discussion and debate.

Not many proponents of carbon markets take the time to directly engage with their critics. Although Dr Michaelowa is clearly a strong supporter of carbon markets, he has always been at the forefront of taking up difficult issues, arguing with anti-carbon market activists, and raising awareness of such critiques among his fellow carbon market proponents. As he confirmed in a recent email to one of the contributors to the book, it is important to 'stop and listen'; this, he continues, 'we should do much more often than we actually manage!'. So, we applaud him for managing to 'stop and listen' more than many of his colleagues do. We would also like to thank him for recommending that 'everybody except the carbon banker trying to maximize his [sic] wealth should read Böhm's and Dabhi's collection' (2011, p. 841).

Ever since carbon markets became the preferred policy tool to deal with the climate change crisis, a growing number of academics, activists, politicians, and entrepreneurs have expressed serious doubts about their effectiveness. Such commentators question the ability of carbon markets to turn capitalist economies, particularly those in the North,

onto greener, more decarbonized and more sustainable development paths – not to mention their implications for social, economic, and environmental justice around the world. These critics have been gaining ground. *Upsetting the Offset* is just one of many publications that reveal the failures of carbon markets and the injustices connected to this preferred policy tool. The movement against carbon markets should not be understood simply as an academic exercise. Thousands of people who are directly affected by carbon market projects around the world are resisting carbon-offsetting projects, organizing themselves locally, nationally and internationally, and fighting against those who simply want to profit from these markets without any regard for the livelihoods of local communities. Increasingly these people are winning, as case studies in the book show, putting forward alternative visions for a world without greed for excessive profits, as well as visions for different relationships between human and non-human nature.

Obviously, these are not simply 'semantic critiques' (2011, p. 840), to use Dr Michaelowa's term used to dismiss one of Larry Lohmann's contributions to this book. Something big is at stake, and, as Dr Michaelowa acknowledges, not everything is right with the way carbon markets are being implemented and governed around the world. 'Böhm and Dabhi are right', he notes, 'when they say that entrepreneurs try to sneak around the CDM's aim to provide sustainable development benefits for the local population, often with the tacit consent of the national CDM approval bodies' (2011, p. 839). Dr Michaelowa would even like to extend the critique offered in the

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50 book, suggesting that 'the World Bank's shady role in carbon markets' (2011, p. 840) should have been discussed more directly.

55 So, there is a real debate going on even within the camp of carbon market advocates. However, it appears that one of the unspoken rules of this debate is that all participants must agree beforehand that market tools are the best way to deal with the climate crisis. *Upsetting the Offset* can only be heard in the debate – or at least in Dr Michaelowa's review – if it is 'translated' into a treatise about 'the fault lines which need to be overcome to make carbon markets succeed in the long run' (2011, p. 841). No alternatives to carbon markets may be considered.

60 Dr Michaelowa uses terms like 'anti-capitalist ideology' (2011, p. 839) and 'die-hard left-wing ideologues' (2011, p. 840) to put a tag on opponents without actually engaging with their arguments. Anything that cannot be interpreted as a proposal for making carbon markets work better is branded as 'ideological'. Contrary to many proponents who insist on the possibility of an objective, value-free account of the world, the book insists that climate policy is always about a clash of different values and worldviews. Thus, Dr Michaelowa's dismissal of 'ideology' is an argument in favour of his own ideology, whether explicitly acknowledged or not. This 'ideology of non-ideology' means that he misreads demonstrations of the climatic inefficacy of offsets merely as expressions of an 'aversion to capitalism' or a distaste for measures that support the North's 'profligate lifestyle' (2011, p. 839). Dr Michaelowa 'gets' some technical arguments and follows them vigorously to their logical conclusions. However, those technical arguments revealing the process of carbon commodity formation or carbon accounting methodologies to be problematic for the climate are not sufficiently recognized.

80 For example, his claim that the 'HCFC-22 problem' has been solved is merely an article of faith. The fact that no new HCFC plants (factories that produce hydrochlorofluorocarbon, a gas used, for example, for refrigeration and air-conditioning units) can apply for CDM funding does not eliminate the possibility of perverse incentives. The plants that are receiving money for destroying HFC-23 (which is a very potent GHG and a by-product of HCFC-22 production) can increase their HCFC-22 production and make huge profits, even if they do not sell the excess production. Equally, Dr Michaelowa's claim that the pig industry (based on concentrated animal feeding operations) CDM projects 'will lead to a reduction in illegal discharges, as a discharge means the loss of valuable methane generation potential' (2011, p. 840) ignores Cristian Alarcón's argument that such projects provide general incentives for increased discharges.

In the most extreme cases, Dr Michaelowa's avoidance of discussing the inherent contradictions of carbon offset markets leads to certain chapters either being ignored or interpreted in ways unintended by the authors. For example, Lohmann's chapter on regulation is misunderstood as saying that non-additional projects are 'corrupt' (2011, p. 840) – whereas Lohmann's point is not only that no distinction between additional and non-additional projects can be made ('there is no such thing as non-additionality', Lohmann writes), but also that, as a result, there can be no criterion for distinguishing between fraudulent and non-fraudulent projects. Similarly, Chris Lang's demonstration of the conflicts of interest inherent in the forest carbon market are not acknowledged in the review; instead, the review falsely implies that Lang's message is that Papua New Guinea is a 'puppet' (2011, p. 841).

65 Some of the technical arguments of the book are slighted by Dr Michaelowa out of a belief that they 'have nothing to do with the CDM' (2011, p. 840). For example, he does not respond to the argument that the carbon accounting for each CDM landfill methane capture project should be obliged to undertake the task of quantifying the carbon consequences of the legitimization it provides for maintaining a consumption system that is geared towards the general expansion of landfill methane emissions. Perhaps this is because the current CDM carbon accounting methodology neglects this task. However, this is not an argument against its logical and scientific obligation to do so.

70 Similarly, the methodological inability of carbon traders to question whether palm oil plantations should continue to replace tropical forests and peat mangroves and their priceless ecosystems is a problem for carbon market advocates – and unresolvable within their framework. By the same token, Dr Michaelowa misinterprets Fenwick et al.'s chapter as being about a 'sustainability curriculum in schools' (2011, p. 841), rather than about the key importance of local solutions (as in the chapter's title) and about addressing normative questions concerning the kind of world we want to leave for our children.

85 An important point made in the book is about the dangers of non-transparency of carbon markets (2011, p. 839). The availability of documents on the website of the United Nations Framework Convention on Climate Change is not the same thing as transparency. For example, Project Design Documents (PDDs) are filled with technical information for 'experts' such as engineers, but are not accessible to the general public. Nor are calculations using Internal Rate of Return (IRR) or Net Present Value (NPV) methodologies, which, in addition, reveal little

about corporate activities. Many of us have also been trying – without much luck – to ascertain data about the precise money flows in the CDM. Requests for interviews with directors of companies that participate in carbon markets are frequently declined. This is the non-transparency the book talks about. Also, a small number of private firms are responsible for validating the bulk of CDM projects, raising further questions about checks and balances. Who validates the validators?

In this regard, it can hardly be an oversight that the Mumbai office of a major international consultancy is responsible for several PDDs that feature passages describing consultations with local communities and sustainable development in essentially identical terms. Although Dr Michaelowa is clearly aware of such dubious practices, he seems to think that these are just ‘bad apples’ that can, eventually, be disposed of rather than symptomatic of the fundamental failure of the carbon market approach.

Further, and despite the extensive documentation in the book, Dr Michaelowa claims that no CDM regulators are either offset buyers and sellers or executives in private-sector carbon businesses. The record shows otherwise. A multitude of figures move between roles as regulators and as carbon businesspeople – sometimes migrating in their careers between roles or simultaneously holding different, sometimes conflicting roles. For example, as the book points out, Lex de Jonge, Head of the Carbon Offset Purchase Programme of the Dutch Government, was CDM Board Chair and is now Vice-Chair of the Methodology Panel, whose decisions affect the supply and prices of carbon offsets throughout the system. Dr Michaelowa himself is not only an academic but simultaneously a CDM regulator (as a member of the CDM Registration and Issuance Team of the CDM Executive Board), a carbon businessman in a private carbon consultancy that helps its clients with the CDM, as well as a Senior Associate at Point Carbon and a baseline methodology expert for the CDM Executive Board. Many other examples of conflicts of interest or ‘revolving doors’ between the public and private sectors exist in the carbon markets. This needs to be acknowledged more explicitly, together with an examination of the ethical, political, and practical implications.

Dr Michaelowa’s encounter with our book appears to have been shaped by the desire to recruit it for the project of making carbon markets ‘succeed in the long run’ (2011, p. 841). We do not want to be instrumentalized in this way. Part of the book’s purpose is to show that there are clear alternatives to carbon markets. From peasant movements to transition towns, political lobbying to personal

transformation, the book points towards the thousands of practical solutions to the climate crisis that already exist. Dr Michaelowa observes that none of the alternatives mentioned in the book ‘provide the silver bullet to resolve the climate crisis’ (2011, p. 841), but it is precisely the assumption that such ‘silver bullets’ are either forthcoming or desirable that the book argues against. In particular, the ‘silver bullet’ of the ‘market solution’ does not address issues of continued ecological degradation, poverty, and real sustainable development. The purpose of the book has been to expose carbon markets as inherently corrupt and unjust, pointing towards the alternatives that are already available. The climate problem is complex, multifaceted, multi-scale, and trans-boundary and requires responses and solutions that are equally multifaceted, interdisciplinary, trans-disciplinary, and complex.

Dedication

This article is dedicated to Ricardo Carrere, who led the World Rainforest Movement between 1996 and 2010 and who was also a contributor to the book *Upsetting the Offset*. Ricardo sadly died on 16 August 2011.

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