



REDD and carbon markets: A look at two parallel planets

Chris Lang, www.redd-monitor.org

**Civil Society Workshop on Carbon
Markets in South East Asia,**

12-14 October 2011

Outline:

- What is REDD-Monitor?
- REDD as a carbon trading mechanism
- Planet earth: Carbon markets are collapsing
- Planet UN: Carbon markets are the only way to save the planet



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REDD in the news: 3-9 October 2011

10th October 2011



A round up of the week's news on REDD, in chronological order with short extracts (click on the title for the full article). REDD-Monitor's news page ([REDD in the news](#)) is updated regularly.

[read more »](#)

Villagers respond to REDD in West Kalimantan: "We need to be recognized as legitimate carbon owners"

7th October 2011



Last year, Sébastien de Royer spent six weeks in two Dayak communities in West Kalimantan researching his MSc thesis. Based on this research, he concludes that "secure tenure is a key underlying issue for REDD in order to limit risk for local communities".

reddisms:

"Carbon offsetting makes sense if you are seeking a global cut of 5% between now and forever. It is the cheapest and quickest way of achieving an insignificant reduction. But as soon as you seek substantial cuts, it becomes an unfair, impossible nonsense, the equivalent of pulling yourself off the ground by your whiskers. Yes, let us help poorer nations to reduce deforestation and clean up pollution. But let us not pretend that it lets us off the hook."

— [George Monbiot](#), *The Guardian*, July 2009

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REDD is a carbon trading mechanism

- **World Bank:** “The FCPF’s ultimate goal is to jump-start a forest carbon market that tips the economic balance in favor of conserving forests.”

<http://bit.ly/qNG0t1>

- **UN-REDD:** “The final phase of REDD involves developed countries paying developing countries carbon offsets for their standing forests.”

<http://bit.ly/mRBWKH>



“Effectively, we can securitise the carbon, allowing companies and governments to buy into it to offset their emissions on a long-term basis... If we get this business right, it will be huge.”

“I’m doing it to make money. The numbers are colossal.”

Vincent Tchenguiz, property entrepreneur.

<http://bit.ly/gdpELi>

<http://bit.ly/dXmZ95>



“The thing that will most kill renewable development is low carbon prices.”

James Cox, Pöyry

<http://bloom.bg/nKRVx7>

“Carbon offsets neared all-time lows [in August 2011], confirming their status as the **world's worst performing commodity.**”

Reuters <http://reut.rs/pZUhb5>

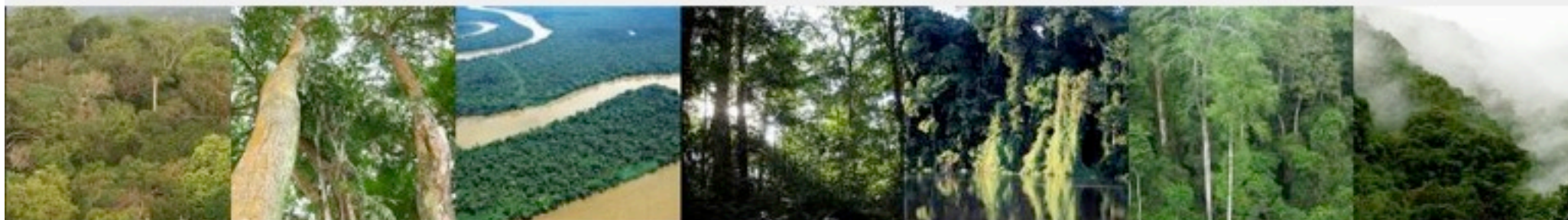
EUA last 30 days



Some recent *Point Carbon* articles:

Shares in a company called **Trading Emissions** at historic low. Company does not have cash collateral against forward purchases.

- Shares in London-based carbon broker **CarbonDesk** have been suspended - difficulties in raising new funds from investors.
- **Mercuria**, a Switzerland-based commodities trading house, is laying off staff at its carbon trading desk.
- **Tricor**, a company that aims to sell REDD credits, posted a loss of £2.6 million in 2010.



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Leaked World Bank report confirms carbon market collapse

By Chris Lang, 29th September 2011



In a recent draft report, the World Bank writes that "The value of transactions in the primary CDM market declined sharply in 2009 and further in 2010 ... amid chronic uncertainties about future mitigation targets and market mechanisms after 2012."

The report, titled, "Mobilizing Climate Finance", was prepared for the G20 meetings in November 2011. According to John Vidal, [writing](#) in *The Guardian*, the draft "is likely to provide a template for action in the UN climate talks that resume in Panama next week, in preparation for a major meeting of 194 countries in Durban in November." The report can be [downloaded here](#) (pdf file 1.1 MB).

The report is not only about trading carbon, but it does demonstrate two things very clearly. First, the mess that carbon markets are currently in, and second, the World Bank's obsession with carbon markets.

In his speech at CIFOR's [Forests Indonesia](#) Conference this week, Andrew Steer, the World Bank's special envoy for climate change, mentioned the report in passing:

reddisms:

"The President still needs to learn the [moratorium] concept better."

— [Kuntoro Mangkusubroto](#), head of the Indonesian REDD+ Task Force, February 2011 (one month after the moratorium should have started)

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“[C]arbon offset markets – and carbon markets as a whole – now face major challenges.”

Table 2: Carbon Market Evolution

Carbon Market Evolution, values (\$ billion), 2004–10						
	EU ETS Allowances	Other Allowances	Primary CDM	Secondary CDM	Other Offsets	Total
2005	7.9	0.1	2.6	0.2	0.3	11.0
2006	24.4	0.3	5.8	0.4	0.3	31.2
2007	49.1	0.3	7.4	5.5	0.8	63.0
2008	100.5	1.0	6.5	26.3	0.8	135.1
2009	118.5	4.3	2.7	17.5	0.7	143.7
2010	119.8	1.1	1.5	18.3	1.2	141.9

Sources: World Bank, Thomson Reuters Point Carbon, Bloomberg New Energy Finance and Ecosystem Marketplace
Note: Numbers may not add up due to rounding.

Source: World Bank (2011a).

The background of the slide is a blurred image of a financial market data screen. It features various columns of numbers, some in green and some in red, indicating price changes. There are also small line charts visible, showing fluctuations in data over time. The overall theme is financial markets and trading.

“The value of transactions in the primary CDM market – the largest offset market by far – totalled around \$27 billion in 2002-10... Since the bulk of transactions are forward purchase agreements with payment on delivery, actual financial flows through the CDM have actually been lower, about \$5.4 billion through 2010.”

World Bank

<http://bit.ly/qQJumo>

However...

- The World Bank employs **200 staff** who are working full time on **carbon markets**.
- The Bank hopes to turn “Carbon into Finance”:
“**Risk**-mitigation tools addressing delivery **risks**”,
IFC’s “Carbon Delivery **Guarantee**”,
“Frontloading mechanisms”, “**Guaranteed**
Carbon Sales Contract”, “Carbon **Mezzanine**
Debt Facility” (which would “address the need to
limit senior debt and achieve greater equity
participation in **risky** projects”).

<http://bit.ly/pi873n> <http://bit.ly/qQJumo>

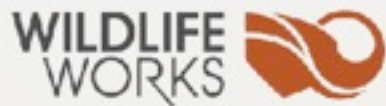
So far, neither CDM nor ETS includes trading in forest carbon

- >90% of the volume of forest carbon trade takes place in the voluntary over-the-counter markets. (OTC trades are traded directly between two parties – not via an exchange.)
- “REDD has followed a dramatic growth trajectory, buoyed by strong international policy signals, emerging compliance markets, and several newly minted methodologies enabling verification.”

State of the Forest Carbon Market 2011 <http://bit.ly/qEAOlc>

Supporters, donors and authors of the report are all carbon trading proponents or carbon traders...

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“Low hanging fruit” - bundling RT commodities and carbon trading



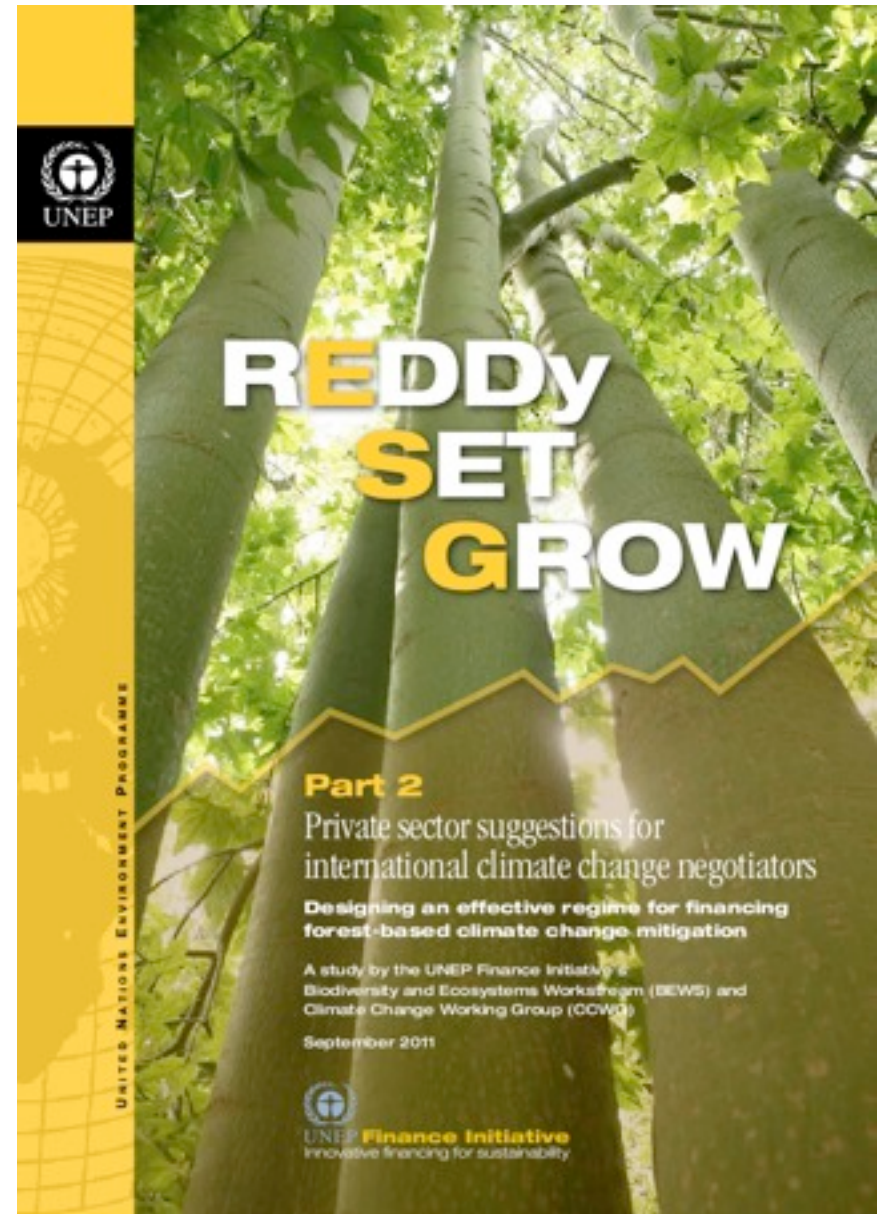
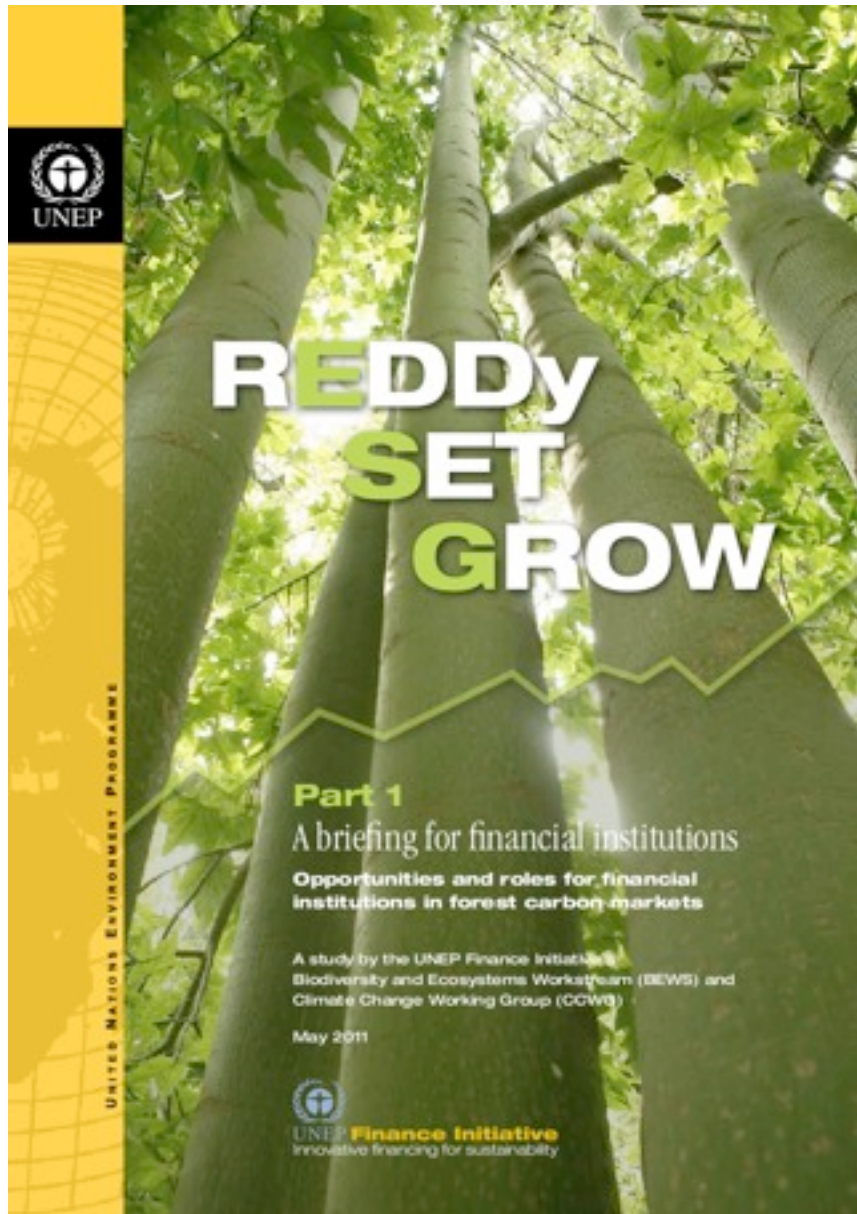
- Roundtable on Sustainable **Biofuels**
- Roundtable on Sustainable **Palm Oil**
- Roundtable on Responsible **Soy**
- Better **Sugar Cane** Initiative
- Global Roundtable for Sustainable **Beef**

Governors' Climate and Forests Task Force workshop September 2011:

National Wildlife Federation, WWF, Conservation International, Rainforest Alliance

<http://bit.ly/nTZOTk>

Welcome to planet UN:




<http://bit.ly/ohgErn>

Prepared by



- “Given the investment volumes, **USD 17 – 33 billion** per year, required to only half emissions from the forest sector by 2030, there is a clear, yet unaddressed, need to mobilise **private sector financing at scale**, in addition to government investment.”

- “[F]uture investment opportunities in forest-carbon promise to be of great interest to the private sector in general, in particular investors and other financial intermediaries.”
 - Financial institutions could “invest their own equity directly into forestry projects, or into forestry project development companies or forest funds”.
- e.g. Bank of America Merrill Lynch investing in the **Ulu Masen** REDD project - “possibly a model”.

- 
- Merrill Lynch promised **US\$9 million** in 2008.
 - No carbon credits have been generated.
 - Carbon Conservation is **50% owned** by a mining company called East Asia Minerals.
 - Carbon Conservation was paid in shares in East Asia Minerals. On 5 Oct 2011, shares worth US \$0.56 each (down from US\$4.88 at time of sale).
 - Ownership of **carbon** in Ulu Masen forests not agreed.
 - Merrill Lynch: “**highly speculative**” to get involved.



- No analysis of the **problems with REDD.**
- No mention of **indigenous peoples.**
- No analysis of addressing **drivers of deforestation.**
- No mention of the **global economic crisis.**
- No mention of any **problems in the carbon markets.**



"What you're seeing right now are the major Wall Street houses, for example, **Lehmans, Merrill Lynch, Goldman Sachs, Bank of America, Barclays**, names like this who at the very top of the organisations have suddenly realised, wait a minute, **climate change isn't just a risk, we can make money out of this**. And that's the **hard reality** of the market."

Paul Clements Hunt, Head, UNEP FI, 2008

(shortly before Lehman Brothers went bankrupt and Merrill Lynch was taken over by Bank of America)

<http://bit.ly/ntjAzG>

