People work together to save their possessions after flooding in Indonesia.

climate justice & energy

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the abc of climate finance

the involvement of annex 1 countries, banks and companies in climate finance

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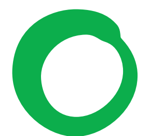

Friends of the Earth International

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friends of the earth international is the world's largest grassroots environmental network, uniting 76 diverse national member groups and some 5,000 local activist groups on every continent. With approximately 2 million members and supporters around the world, we campaign on today's most urgent social and environmental issues. We challenge the current model of economic and corporate globalization, and promote solutions that will help to create environmentally sustainable and socially just societies.

our vision is of a peaceful and sustainable world based on societies living in harmony with nature. We envision a society of interdependent people living in dignity, wholeness and fulfilment in which equity and human and peoples' rights are realized.

This will be a society built upon peoples' sovereignty and participation. It will be founded on social, economic, gender and environmental justice and free from all forms of domination and exploitation, such as neoliberalism, corporate globalization, neo-colonialism and militarism.

We believe that our children's future will be better because of what we do.

friends of the earth has groups in: Argentina, Australia, Austria, Bangladesh, Belgium, Belgium (Flanders), Bolivia, Brazil, Cameroon, Canada, Chile, Colombia, Costa Rica, Croatia, Curaçao (Antilles), Cyprus, Czech Republic, Denmark, El Salvador, England/Wales/Northern Ireland, Estonia, Finland, France, Georgia, Germany, Ghana, Grenada (West Indies), Guatemala, Haiti, Honduras, Hungary, Indonesia, Ireland, Italy, Japan, Korea, Latvia, Liberia, Lithuania, Luxembourg, Macedonia (former Yugoslav Republic of), Malaysia, Malawi, Mali, Malta, Mauritius, Mexico, Mozambique, Nepal, Netherlands, New Zealand, Nigeria, Norway, Palestine, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Scotland, Sierra Leone, Slovakia, South Africa, Spain, Sri Lanka, Swaziland, Sweden, Switzerland, Tananzia, Timor Leste, Togo, Tunisia, Uganda, Ukraine, United States, and Uruguay.
(Please contact the FoEI Secretariat or check www.foei.org for FoE groups' contact info)

available for download at www.foei.org/abc

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introduction

Though we face a global climate crisis, the signals emanating from the most powerful actors on the world's climate finance stage are not encouraging. It seems that the quest for profits and the creation of new environmental markets as sources of 'green business' are prevailing over the need to find solutions and funding sources which are just, effective and sustainable.

In the ABC of current climate finance, the central actors are industrialiszed "Annex 1"[1] countries, powerful banks and transnational companies. Annex 1 countries are anxious to minimise the cost of addressing climate change – which they are responsible for – and are designing a climate change regime that will attract private finance. As a result, climate change is rapidly developing into an excellent business opportunity for banks and business. Consequently, they are lobbying strongly for a climate change agreement that takes their concerns and priorities into account.

However, these risky tactics could result in a set of profitable but un-strategic approaches to the climate crisis. In this regime, favoured policies may be those that work best for business, not those that successfully and equitably mitigate climate change and facilitate adaptation. The needs of the many millions of people around the world who will suffer the worst consequences of climate change may well be sidelined.

Annex 1 countries are so determined to pursue this approach, they have even subverted the United Nations democratic process. They forced the acknowledgement of a new "Copenhagen Accord" originating from the US during the UNFCCC COP-15 in Copenhagen in December 2009. The Copenhagen Accord rewrites the existing intergovernmental agreement on climate change, removing Annex 1 countries' binding commitments to reduce emissions, shifting the burden onto developing countries which are not responsible for climate change, and explicitly promoting the engagement of private finance and the use of market mechanisms. The Accord also establishes a woefully inadequate goal for climate finance, of just US$100 billion per year.

In the end, the Accord was only "noted" by COP-15 because of the vociferous objection of several countries. This means it is not legally binding. However, it has since been signed by 114 countries (and another 26 have indicated they plan to sign)(UNFCCC, 2010). There is now a distinct risk that the Accord's very existence will serve to subvert the UN's climate change negotiations, and indeed the authority of the UN itself. This cannot be allowed to happen.

This report is intended to serve as an informative update on developments relating to the Copenhagen Accord, and on the activities of companies and banks involved. It also sets out Friends of the Earth International's view on climate finance, and makes numerous recommendations on an alternative approach to financing a real solution to the climate change crisis: climate justice.

1 annex 1 is the UNFCCC list of industrialised countries limiting emissions.

Shell refinery, South Africa. © groundWatch/foe south africa

one what are the annex 1 countries doing?

what are the annex 1 countries doing?

Annex 1 countries have already made a number of financial contributions and commitments. Yet they are primarily focused on using those public funds they do spend to try to engage the private sector and leverage private finance. In this way they hope to minimise the amount of money spent from the public purse. However, this approach is highly problematic and dangerously un-strategic. It means that many decisions about how climate change is addressed will in practice be made by private companies and the market, both of which are motivated by profit, not environmental concerns. This "public/private" approach to climate finance is clearly evident in the language used in the controversial Copenhagen Accord

1.1 the copenhagen accord and private finance

In terms of climate finance the Copenhagen Accord includes a commitment that developed countries will provide funds, "*approaching USD30 billion for the period 2010–2012*," and "commit to a goal of mobilizing jointly USD100 billion dollars a year by 2020" (UNFCCC, 2010). The Accord also proposes that funds be managed through a Copenhagen Green Climate Fund. Superficially, these proposals sound like a step forward, especially given the fact that the US is engaged, but in reality it is anything but. The devil is in the detail.

In fact, should the Copenhagen Accord be taken as the basis for future action on climate change, it would skew the whole process in favour of developed country concerns, even allowing them to drop their current binding emissions reduction commitments. It would also mean that governments would have reduced their ambitions to such an extent that it could become impossible to limit climate change enough to avoid catastrophic outcomes.

In the first place, the amount of money mentioned is far smaller than the North-South flows developing countries have estimated to be necessary to keep global warming within safe levels, cover the costs of climate change-related damage, and compensate for the over-consumption of atmospheric space by industrialised countries. The G77 and China have calculated the necessary amount to be at least 1.5% of Annex 1 countries' GDP by 2020. Other countries have estimated that the amount needed by developing countries might be as much as 6% of Annex 1 countries' GDP by 2020 (11.11.11 *et al*., 2010). Let us put this in perspective with the US$100 figure from the Accord mentioned above. Given that advanced economies GDP was listed as US$39,881 billion in 2009 (IMF, 2010), 1.5% of this would be a far greater US$598 billion per year. Alternatively, the World Bank has put the cost of required climate finance at around US$275 billion per year by 2030 (ODI, 2010).

In addition to this failure to commit to providing sufficient quantities of climate finance, a careful reading of the relevant part of the text reveals significant constraints on the use of some of the funds. In particular, the implications for adaptation financing, a key developing country priority, are uncertain.

The key part of text is this:

"Scaled up, new and additional, predictable and adequate funding as well as improved access shall be provided to developing countries, in accordance with the relevant provisions of the Convention, to enable and support enhanced action on mitigation, including substantial finance to reduce emissions from deforestation and forest degradation (REDD-plus), adaptation, technology development and transfer and capacity-building, for enhanced implementation of the Convention. The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation. Funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa. In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance" (UNFCCC, 2010:8).

Note, for example, that it is only the first 2010-2012 tranche of funding that explicitly refers to adaptation. Additionally this "fast start" 2010-2012 finance, which is to be split equally between adaptation and mitigation, specifies that adaptation funding will be prioritised for, "*the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa*," rather than all developing countries.

one what are the annex 1 countries doing?

continued

Furthermore the longer term figure of US$100 billion per year is indeed, "*to address the needs of developing countries*," but only in the context of, "*meaningful mitigation actions and transparency on implementation*." One wonders how this will be interpreted in practice. Who will decide what is meaningful or transparent, especially given the fact that developing countries currently have no mitigation obligations? In addition, there is no mention of an equal split between adaptation and mitigation for the $100 billion per year figure. In fact adaptation is not mentioned at all.

Note also that the Copenhagen Accord is insistent that, "*The funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance*," and that funds will be "mobilized". In plain English this means that all private funding will count towards these targets (although presumably only if those funds are directed to developing countries).

A quick glance at the sums of money already being invested in carbon trading by major banks (See: "What are the banks doing?" below) indicates that this figure could easily comprise private investment flows in the not-too-distant future. The Bank of America, for example, is already investing $2 billion per year through its Initiative on Climate Change. And although the European Trading Scheme accounted for over 85% of total carbon trading in 2009, the current value of carbon trading across the world had already reached US$144 billion, in spite of the financial crisis (World Bank, 2010:1).

It is quite easy to envisage a future scenario in which the figures mentioned in the Copenhagen Accord are achieved with only small amounts of public funding being contributed by Annex 1 countries, despite the fact that they are the ones responsible for climate change. This possibility is reinforced by the fact that before COP-15, the European Commission's "European blueprint" recommended that, of a nominal figure of €100 billion, only €22-50 billion would come from international public finance. The rest would come from carbon markets and "*domestic finance in developing countries*" (ODI, 2010).

Furthermore, this inclusion of private finance in the Copenhagen Accord may well be why there is no mention of how the funds will be divided between mitigation and adaptation: governments will not be able to control financial flows and may be hard-pressed to find funding for critical adaptation projects in developing countries.

"A substantial core of the promised funds will have to be public monies, not only because markets will not necessarily finance all that which needs to be funded (one can safely assume that many urgently needed adaptation projects, especially in community-based, social development focused settings, will not be attractive to international private investors.)" (ODI, 2010)

Annex 1 countries continue to insist on channelling most private finance through the World Bank and multilateral development banks, despite developing countries' continued opposition to this. The Copenhagen Accord explicitly allows for this.[2] Such funding may also come in the form of loans, increasing developing countries' debt obligations. And it may come with unwanted conditionalities and/or high administration fees attached (ODI, 2010).

"Then there is the suspicion that over-reliance on carbon markets and maybe some future market-based climate finance instruments would not only hollow-out the collective commitment of developed countries, but be counterproductive. As some have argued, climate change, or more precisely, the emission of greenhouse gases is a major market failure (Stern 2006: 1). Tackling climate change should therefore not be entrusted to the irrationalities and potentially speculative exuberance of an emboldened global carbon market to any large degree." (ODI, 2010)

There is also concern that governments will double- count or divert funds from existing aid flows (11.11.11 *et al*., 2010), and that the money in question will not really be "new and additional". It seems that some governments are already re-labelling other aid flows as "climate finance" other aid flows, which are destined for projects based on agriculture or water, for example, as climate finance (11.11.11 *et al*., 2010). In relation to the 2010-2012 funding, the Overseas Development Institute has also observed, "*It is significant that more definite language is not used for funding that is to be committed immediately. This money would have to be already identified in government spending plans, if it is not to be merely the recycling of existing pledges*." (ODI, 2010). This has already happened in the UK. In January, 2010 it came to light that the UK's planned contribution to the EU climate finance commitment would come from its already announced development aid budget (ODI, 2010). Furthermore, half of it was previously allocated, and a third would be in the form of loans, not grants (ODI, 2010).

2 To read more about why the World Bank should not be involved in climate change finance or negotiations, go to: http://www.foei.org/en/get-involved/take-action/call-for-world-bank-to-stay-out-of-un-climate-negotiations/ and http://www.foe.co.uk/resource/press_releases/no_role_for_world_bank_in_climate_finance_bonn_10062010.html

box 1: state of play re "fast track funds" for 2010-2012

A number of Annex 1 governments had made pledges or proposals for the fast start 2010-2012 financing period before the Copenhagen Accord was put on the table at COP-15.

The United States had announced that it would contribute a fair share, but during his speech to COP 15, Barack Obama avoided giving a concrete figure (White House, 2009). Yet the UNFCCC states that, "*The US had promised 1.2 billion USD for the year 2010*" (UNFCCC, 2010b). The situation remains unclear, however, since a previous official release from the US also mentioned a figure of US$1 billion for the period 2010-2012 (White House, 2010). According to this statement, priority areas are REDD+ and the creation of multilateral trusts to support clean energy projects.

As for Japan, it presented its Hatoyama Initiative (US15$billion by 2012) to the UN in September 2009. In line with the Copenhagen Accord, the proposal includes a tranche of private financing and World Bank involvement. In addition, more than 95% of the total is aimed at financing mitigation policies, and the remaining adaptation funds are directed to the most vulnerable countries.[3]

Turning to the European Union, in December 2009 during COP-15, the EU announced a total sum for the three years of €2.4 billion per year (EC, 2009). (However, as of September 2010 only €50 million had been transferred [Fast Start Finance, 2010]). Various EU member states had already made commitments to contributing to the total for this three-year period. Among them is Spain, with €125 million per year (Fast Start Finance, 2010a).[4] Germany has made a general contribution of €1,260 million, although it is not clear how much of this has already been effectively handed over (Fast Start Finance, 2010b). The Netherlands has committed €310 million, which according to available information, has already been made effective, principally in support for renewable energy projects and the production of "sustainable" energy through biomass (Fast Start Finance, 2010c). Finally, the UK has committed €1.7 billion (Fast Start Finance, 2010d). UK finance is very much in line with the spirit of the Copenhagen Agreement. Its funds are targeted at World Bank programmes and facilities like the Forest Carbon Partnership Facility, the Clean Technology Fund and the Forest Investment Programme, and REDD.

1.2 un high-level advisory group on climate change financing

The final report of the new UN High-level Advisory Group on Climate Change Financing (AGF) effectively endorses the Copenhagen Accord's approach to climate finance (AGF, 2010). For a start, it sets out to determine whether exactly the same amount of money – US$100 billion – can be raised annually. It concludes that this goal is, "*challenging but feasible*," implying that any higher figure would not be feasible (AGF, 2010).

The AGF has been described by a panel member as providing a menu of options rather than a blueprint. It takes the approach that raising such a sum will require a mix of revenue streams from carbon markets through to public funding. It focuses particularly on carbon pricing, arguing that a carbon price of US$20-25 per ton of carbon dioxide equivalent (CO_2e) will be needed to raise the necessary revenues. Other revenue streams included in its calculations include a carbon levy or emissions trading schemes for transport, redirecting fossil fuel subsidies, and financing by multilateral development banks. It recommends using public finance to leverage private investment. It also mentions but is less enthusiastic about the feasibility of a Financial Transaction Tax due to "divergent views" (AGF, 2010).

3 For more information see: www.climatefundsupdate.org/listing/hatoyama-Initiative
4 Also in May 2010, Germany announced during the Petersburg Dialogue on Climate, (2-4 May, Königswinter, Germany), that it would put forth 10 million Euros to the "Adaptation Fund" of the CMNUCC.

1.3 promoting dangerous technologies

Annex 1 governments are also focused on directing investment into low carbon-technologies both domestically and elsewhere. However, there is a worrying tendency to prioritise dangerous and potentially ineffective or even counterproductive sectors. These include the nuclear and biofuel sectors and experimental (and therefore unproven) "carbon capture and sequestration technologies".[5]

For example, the Obama administration has already given the green light to financing for the construction and operation of new nuclear reactors at a plant in Burke, Georgia, to cost in excess of US$8 billion (White House, 2010a). This will be the first nuclear energy plant that has been constructed in the US in almost three decades.

In February 2010, the Obama administration also announced domestic measures to drive the production of biofuels (White House, 2010b) and the creation of an "Interagency Task Force on Carbon Capture and Storage" (White House, 2010c). In the case of biofuels, its focus is specifically to accelerate the commercial production of advanced biofuels (White House, 2010d). These are presumably the so-called "second generation biofuels" like ethanol, and cellulosic technologies which could open the door to farming transgenic trees on a vast scale.[6]

5 For more information on these topics go to: www.foei.org/en/what-we-do/agrofuels, www.biofuelwatch.org.uk, and www.etcgroup.org
6 For more information on transgenic trees go to: www.globaljusticeecology.org

two what are the banks doing?

what are the banks doing?

Banks and other investors are very much involved in climate finance, which is being developed specifically to bring private finance to bear on climate change. This is notwithstanding the fact that activity levels on carbon markets were tempered somewhat in 2009 by the global financial crisis (World Bank, 2010:5).

A recent study from Reuters describes how investment banks are moving in to take maximum advantage of carbon markets:

"Investment banks have three main strategies in the carbon market: buying and selling emissions rights on behalf of corporate clients to profit from bid-offer spreads; proprietary trading with their own money; and investment in carbon offset development under the Kyoto Protocol's clean development mechanism (CDM)." (Reuters, 2010)

2.1 barclays capital: most active trader in global carbon emissions market

According to Reuters, Barclays Capital, the investment arm of Barclays, "*is already the most active trader in the $144 billion global carbon emissions market*" (Reuters, 2010a). But Barclays is still working to consolidate its dominant position. In June 2010, the financial group Barclays announced plans to buy Swedish firm Tircorona, which sources and trades carbon offsets, for £98 million (US$142 million). It stated that, "*Tricorona is a Stockholm-listed carbon developer which specialises in the sourcing, development and trading of Certified Emission Reductions from greenhouse gas reduction projects in developing countries. The acquisition of Tricorona would build on Barclays Capital's strong reputation in the carbon markets and would position it as a leading global origination and trading house*" (Barclays, 2010).

2.2 banco santander: minimising the economic impact of carbon trading

A further example is Banco Santander, a private group of Spanish origin ranked as the fifteenth-largest bank in 2010 (Global Finance, 2010). Three of its subsidiaries are amongst the twelve biggest banks in Latin America: Santander Brazil, Santander Mexico and Santander Santiago (AmericaEconomia, 2010). Santander managed to traverse the turbulence of the global financial banking crisis without receiving any state aid, and in a recent European Parliament hearing on this topic, observed that it was time for state aid to be re-paid in order to prevent "competitive distortions" (European Parliament, 2010).

In July 2009 Santander, seeing a potential European market for Latin America carbon credits, announced the launch of its own line of finance specifically for purchasing carbon credits in Brazil, Mexico and Chile. €50 million were allocated.

> *"We have a lot of demand for carbon credits in the world and as the demand is very, very high, we decided to give an aggregate value to the intermediary service that we had previously in the market of carbon credits ..."*
>
> **Maurik Jehee, Superintendent of Carbon Credit of the Santander Group, (Latercera.com, 2010)**

In other words, Santander buys the Certified Emissions Reductions (CERs) generated by projects within the Clean Development Mechanism (or from other comparable carbon credit projects). And then it sells them to buyers, principally in Europe. The financing period lasts until 2012, when the first phase of the Kyoto Protocol expires.

The Santander Group and the Government of Spain's Official Institute of Credit (ICO) also have a "Carbon Fund for Spanish companies" (known as the FC2E), launched in 2006. The fund focuses on Latin America, Eastern Europe and Northern Africa, and is managed by FC2E Gestion SL. The fund is expected to total €100 million, with 50% provided by Santander (private funds) and ICO (public funds), and the remaining 50% coming from other large transnational corporations and small businesses (FC2E, 2010).

The objective of the FC2E is to facilitate the purchase of carbon credits for Spanish companies, so that they can then meet their obligations with respect to Europe's Emissions Trading Scheme (FC2E, 2010). Similar to Santander's own fund, the point is to buy CERs from "clean" projects in developing countries and emerging economies through the Clean Development Mechanism (CDM) and Joint Implementation (JI) mechanism. These are then re-sold amongst the participating companies of the fund. The point of the FC2E is to minimise "*the economic impact of trading in emission rights*" (FC2E, 2010). The FC2E does this by building experience and understanding of the process which can be utilised by Spanish companies, and providing the expertise necessary to find suitable investment opportunities, particularly through Santander's international links.

2.3 bank of america's initiative on climate change

In September 2010, the Bank of America released its "2010 Environmental Progress Report" which announced that its Initiative on Climate Change launched in 2007 is ahead of schedule (EnvironmentalLeader.com, 2010). The initiative aims to invest $US20 billion in climate change-related businesses such as solar energy, wind power, biomass and biofuels, focusing on the United States, Canada, Asia and Europe. The bank has also provided carbon trading services and advises on low carbon energy mergers and acquisitions.

A solar panel on the island of El Porvenir, in the indigenous Kuna Yala Comarca in Panama.

© ronnie hall

three what are companies doing?

what are companies doing?

Annex 1 country governments have been keen to bring private finance on board to alleviate the cost of addressing climate change. They have endeavoured to create profitable opportunities for the business sector, which is now clearly positioning itself as a key player in the move to mitigate and adapt to climate change. However, this overly-cosy relationship means that governments are likely to be most reluctant to take on board any measures that would be seen as business-unfriendly, no matter how effective they might be in terms of mitigating or adapting to climate change.

Just eight weeks before the start of the UNFCCC COP-16 in Cancun, the Mexican government co-hosted a summit on "Business for the Environment" (B4E) in order to facilitate dialogue and business-driven action for the environment (B4E, 2010). Additional sponsors included the United Nations Environment Programme (UNEP), WWF, and the UN Global Compact.[7] Some 300 private businesses from 25 countries participated in the summit held 4-5 October 2010. Amongst them were AP Moeller Maersk, Bimbo, Cemex, Coca-Cola, Deloitte, Hewlett Packard, Nestlé, Siemens and Walmart.

The Secretary of Environment and Natural Resources of Mexico, Juan Elvira affirmed at the start of the summit that it was the most important gathering of the business sector so far (El Universal, 2010). Specifically it allowed business to position itself as part of the solution, and provided an opportunity to influence the negotiations at the next COP (Bionero, 2010).

"This is possibly the first business summit to recognize the role of companies as providers of solutions. We are all aware of the enormous challenges that climate change is presenting in our countries. We must give a step forward, lead and be part of the tide of companies that provide the solutions that our society needs."

Barbara Kux, Siemens AG's Chief of Sustainability (Bionero, 2010).

The centrepiece of the summit was to compare business's capacity to generate supposedly effective solutions to climate change, given the slow progress being made in intergovernmental negotiations within the framework of the UNFCCC.

James Leape, Director General of WWF International, pointed out that, "*We should all recognise that international negotiations on climate are not moving at the pace needed. This business summit, held immediately before Cancun, should stimulate all governments to act in order to unleash business potential to transform our economies*" (UNEP, 2010). Similarly the Regional Director for the United Nations Environment Programme (UNEP) in Latin America, Margarita Astragala, spoke up for abandoning business as usual and the importance of developing a, "*green economy [that] can stimulate investment, economic growth and create jobs*." Former US Vice President Al Gore furthermore championed "sustainable capitalism". (EPA, 2010)

The business summit closed by approving a "call to governments" to fix ambitious, clear and measurable emissions reduction targets for the year 2020 during the Cancun gathering. For their part, businesses volunteered to reduce emissions in the energy, construction, and information and communication technology sectors. The energy sector mentioned that it should be possible to move to 100% renewable energy by 2050. Those engaged in information and communication agreed on reducing carbon dioxide (CO_2) emissions by 7.6 gigatons by 2020; and representatives of the construction industry arranged to reduce emissions from construction by 40% and to improve energy efficiency in existing buildings by 40%, also by 2020.

7 The United Nations Global Compact describes itself as a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally- accepted principles in the areas of human rights, labour, environment and anti-corruption. See: http://www.unglobalcompact.org

3.1 climate finance a win-win option for big oil

Aware of the many conflicts that oil extraction generates, companies are keen to demonstrate their willingness to compensate for the damage they have caused. The REDD strategy comes in very handy in this regard: it facilitates this "greenwashing" and even allows profit to be made from it. It also allows these companies to continue expanding their oil exploration and exploitation frontiers.

Oil giant Shell, infamous for its association with the murder of Ogoni People and environmental destruction in Nigeria's Niger Delta, is already rushing into REDD.[8] Shell, Russian gas company Gazprom and the Clinton Foundation are investing in the landmark REDD Rimba Raya project, on 100,000 hectares of tropical peat swamp forest in Central Kalimantan, Indonesia. The Rimba Raya carbon offset project is likely to be quite a money-maker (FoE Nigeria & IEN, 2010). The project is expected to prevent 75 million tonnes of CO_2 from being emitted over 30 years. At US$10 per tonne of CO_2 this would generate US$750 million (Reuters, 2010b).

Generally, it is uncertain whether Indigenous Peoples and local communities will receive a share of any of the profits made by REDD projects. Rimba Raya is an example of this: it is explicitly promoted as a "*for profit*" REDD project. Whilst it does focus on providing health, education and livelihoods benefits to the local communities, it is not clear whether any of the finance generated will actually accrue directly to the communities themselves. The project documentation states that a US$25 million dollar endowment will be established to promote a range of community benefits on a permanent basis (Rimba Raya PDD, 2010). But this seems to leave a potential profit of something in the region of US$725 million for the project's investors.

This a clear-cut case of the worst kind of greenwash. At the same time as purporting to protect forests and provide livelihoods for local people through the Rimba Raya project, Shell continues to ravage both the climate and the local environment in Nigeria, with continued gas-flaring and extensive oil spillages from poorly maintained oil installations (FoEI, 2010). Shell is currently being taken to court in The Hague by Friends of the Earth groups in the Netherlands and Nigeria, and by four Nigerian fishermen and farmers because of the damage they have suffered from Shell's oil pollution (FoEI, 2010a).

3.2 lafarge: saint or sinner?

According to the Carbon Disclosure Project (CDP)[9] the Lafarge Group from France is now one of the top ten companies in the world, in terms of being, "*most active in the fight against climate change*". Within its own sector, cement and building materials, it has been ranked top (Europa Press, 2010).

Lafarge reports that by 2009, it reduced its global CO_2 emissions from cement production by 20.7% per ton of cement produced, and that it completed its target for the period 1990-2010 one year ahead of the schedule included in an agreement signed with WWF International in 2000 (WWF, 2010). The company currently operates in 78 countries with 78,000 employees (Lafarge, 2010).

Yet Lafarge's overall social and environmental motivations are questionable. Lafarge was also one of the companies included in the Central American Hearing of the People's Permanent Tribunal on European Transnationals and their impact on Latin America and the Caribbean, in March 2009 in Honduras. The case focused on Lafarge's subsidiary in Honduras, INCEHSA (Lafarge controls 53% of the shares), which is responsible for more than half of the cement produced in Honduras.

A complaint against the French cement company relating to its performance in Honduras has been collectively filed by the Union of Cement Industry Workers of Honduras (SITRAINCEHSA), the United Federation of Workers of Honduras (FUTH), the International Wood Construction Forum, the United Federation of Danish Workers (3F), the People's Block, and the National Coordinator of Popular Resistance from Honduras (the case is currently pending).

Workers protested that they were arbitrarily dismissed by the company, and that they suffered coercion, threats and harassment from private, heavily-armed security forces, with the connivance of state security forces. The layoffs were made in spite of having a collective work contract, violating trade union rights. It was also reported that cement production is polluting the environment surrounding production plants, due to the emission of dust by cement crushers, and the emission of persistent organic pollutants from incinerators.

Besides the ethical and moral condemnation expressed by the Permanent Peoples' Tribunal in relation to this case and the others presented at the Central American Hearing, the suit against Lafarge was also processed in the Inter-American Commission on Human Rights, under file No. 925 - 07.

8 For more information see www.foei.org/en/what-we-do/corporate-power/global/archive/2009/shell-forced-to-settle-out-of-court.

9 The ranking is issued by the Carbon Disclosure Project (CDP), which is partnered by a range of transnational corporations, banks, research institutions and NGOs. The CDP ranking evaluates companies on the basis of criteria relating to business leadership on climate change, and company performance in terms of greenhouse gas emissions. It analyzes the responses of over 500 corporations. www.cdproject.net/en-US/WhatWeDo/Pages/alliances.aspx

four conclusions and recommendations

conclusions and recommendations

Rich countries are still refusing to meet their obligations to reduce greenhouse gas emissions and provide funds that would help developing countries to grapple with climate change. Now, rather than honour their existing legal commitments, they are trying to shift the burden to developing countries and extract further concessions from them. This cannot continue: it is immoral, and ultimately it means we may fail to resolve the current climate change crisis.

Friends of the Earth International recognises that tackling climate change will involve dismantling the current corporate-driven political and economic model that drives climate change, global competition for energy resources, and the degradation of the environment (which reduces human and ecological resilience to climate change). We cannot continue to favour a few rich elites over the impoverished majority, which brings with it the unsustainable exploitation of natural heritage, the commodification of life, the privatization of public services, and the increasing control of production and trade by a few powerful transnational corporations.

Measures to address climate change, including climate finance, must be based on a fundamental transition to new, equitable and sustainable societies if they are to succeed. Climate finance should be used to create climate justice and foster people's sovereignty – communities' ability to manage their local resources sustainably, including energy, forests and water. It should also prioritise local technologies and knowledge, and empower Indigenous Peoples, women and other vulnerable populations.

Climate finance transfers are part of the global North's ecological debt to the global South, which includes climate debt. Repayment of this debt must include financial transfers, but it should also incorporate the unconditional annulment of all illegitimate foreign debts; immediate and rapid emissions reductions in Annex 1 countries; and the global sharing of appropriate technology and knowledge, to enable developing countries to adopt low-carbon societies and increase communities' resilience to climate change.

In short, governments must fundamentally change their approach, including with respect to climate finance. To this end they must:

- ***dump the copenhagen accord*** *The Copenhagen Accord – weak, flawed and unjust – is part of the trend to shift the burden of dealing with climate change onto developing countries. Rich countries led by the United States have been putting pressure on poorer nations to ditch the UN process and sign onto the Accord: they have even threatened poor nations that refuse to sign with the loss of their share of the $100 billion that rich countries have pledged to mobilise. Countries seeking a just and effective solution to climate change should refuse to sign the illegitimate and distracting Copenhagen Accord. Instead, governments should ensure a rapid return to the formal UN process to achieve a fair, strong and legally binding agreement as soon as possible. A second period of pollution reduction commitments under the Kyoto Protocol is essential and needs to be agreed to immediately since the first period expires in 2012.*

- ***ensure big business and banks do not determine solutions to climate change*** *It is unacceptable and inadvisable to rely on powerful and self-interested transnational banks and other companies to solve climate change. Big companies, such as Barclays, Bank of America, Banco Santander and Shell already have enormous economic and political power, while ordinary people and parliaments have decreasing influence. The financial crisis has proven once again that corporations are incapable of regulating themselves.*

  Rather than allowing big business to call the shots on climate change, there should be binding legal frameworks that allow people to protect themselves against corporate power. Banks and other financial institutions' activities should be subject to a financial transaction tax (FTT) which favours the poor: a "Robin Hood Tax" on banks which would generate millions of dollars to fight poverty and climate change.

- ***reject false solutions to climate change*** *Technical, financial and institutional "false solutions" must also be rejected; and climate finance should not be channelled through or support offsetting mechanisms, sectoral or otherwise, or institutions and private entities that finance and/or profit from the promotion of false solutions. These include the World Bank, regional financial institutions, and other public and private agencies with poor environmental and social track records and undemocratic governance structures.*

Current proposals for a global carbon market also risk a speculative trading bubble and a double whammy of financial and climatic disaster. Friends of the Earth International rejects carbon trading in all its forms. Carbon trading is not delivering the urgent cuts in emissions needed to prevent catastrophic climate change. It is also failing to realise promised incentives for investment in new low-carbon technology. And it is a dangerously un-strategic approach for making the transition to a low-carbon economy. Carbon trading schemes rely on offsetting, a controversial, ineffective and increasingly discredited mechanism. They also risk a repetition of the subprime mortgage crisis. Furthermore, carbon trading schemes provide a smokescreen for rich developed countries' failure to provide developing countries with adequate support to tackle climate change. Relying on carbon trading to tackle climate change is gambling with the future of billions of people.

- ***replace redd with un-wide negotiations to stop deforestation*** *REDD as it is currently being negotiated is designed to reward those who deforest, not those who already protect their forests. If it permits the replacement of natural tropical forest with plantations and is funded through carbon markets, it will undermine the environmental credibility of the global agreement to reduce greenhouse gas emissions to the atmosphere.*

  The current REDD debate should be replaced by UN-wide negotiations focused on stopping unsustainable deforestation and forest degradation once and for all. In so far as funding is required to stop deforestation, financing should be invested in national programs and infrastructure that directly support alternative, rights-based forms of forest conservation, sustainable management, natural regeneration, and ecosystem restoration – such as community-based forest governance.

  In addition, it is critical that implementation measures are developed with and take into account the rights and role of Indigenous Peoples, as expressed in the United Nations Declaration on the Rights of Indigenous Peoples. Efforts should be founded on the ecosystems approach and climate justice, as well as the rights and role of Indigenous Peoples and local communities. Governments should challenge the underlying causes of deforestation directly, addressing demand-side drivers in importing countries and resolving governance, poverty and land tenure issues in forested countries.

- ***switch to simple, direct and proven policy tools and new sources of climate finance*** *A completely different, faster and more strategic approach to climate change is urgently needed – one that relies on simple, direct and proven policy tools such as taxation, regulation and public investment. At the same time, governments must promote poverty reduction and sustainable development, and address the underlying drivers of uneven development, which prevent developing countries from tackling climate change themselves.*

  There are a range of options already on the table which can generate, fairly and effectively, the US$200 billion which is the minimum required annually for developing countries to tackle climate change. These should include a Robin Hood tax on international financial transactions, a levy on international flights, and an end to fossil fuel subsidies.

- ***ensure climate finance is mandatory, public and free of conditionalities*** *The provision of climate finance should be mandatory, and derive from stable and predictable public sources in climate debtor (global North) countries.*

  The global North cannot use the fulfilment of its climate finance obligations to pre-determine the appropriate use of funds. These are debates that must be concluded in the UNFCCC with full participation of civil society. Climate finance must also be free of any conditionalities that might restrict Indigenous Peoples' or local communities' involvement in decision-making and the design and implementation of related activities, both nationally and internationally. At all stages the meaningful involvement of local communities, Indigenous Peoples, and women will be vital to the success of measures to mitigate and adapt to climate change.

  Financial transfers from the rich to the developing world must be in the form of grants, not loans. They must also be new and in addition to existing Overseas Development Assistance (ODA) obligations. And they must be sufficient in scale to repay the climate debt and meet the mitigation, technology and adaptation needs of the global South. But they should not be raised through border tax adjustments on goods imported from the global South, or violate existing agreements under the UNFCCC. Domestic tax revenues and policies designed to raise climate finance in debtor countries must not burden poorer households unfairly.

four conclusions and recommendations

continued

- ***ensure climate finance is under the control of the un*** *Climate finance should be channelled through a Global Climate Fund under the control of the UN, which would provide money for developing countries in a transparent and democratic way. Governments have already agreed that the UNFCCC, which is guided by multilaterally negotiated principles based on historical responsibility, is the main international framework for addressing climate change. It is also governed democratically. Any executive board established to manage climate finance must be based on equitable representation consistent with the balance of representation of parties to the UNFCCC. Transparency and accountability mechanisms at the local, national and international levels will also be essential to effective public scrutiny. A penalty system should be established to ensure fulfilment of all climate finance obligations.*

  Effective governance structures also need to allocate flows of climate finance in ways that protect Indigenous Peoples' and local communities' rights, cultures, lands, traditional practices and natural resources. These structures must ensure the Free Prior and Informed Consent of affected Indigenous Peoples and local communities, and they must establish the right to redress. Support must also be provided for workers and sectors of society involved in carbon-dependent industries, to ensure a just transition.

  Furthermore, there should be no role for the World Bank in managing climate finance. The Bank has invested more money in dirty coal this year than ever before and is heavily influenced by major corporations and polluters. Its involvement could seriously undermine efforts to halt climate change.

- ***ensure climate finance is not used to privatise climate technologies and know-how*** *Climate finance should not be used to support the private acquisition of intellectual property rights for climate technologies and know-how. Any provisions in free trade and investment agreements that interfere with the establishment of adequate governance structures, or support corporations engaged in false solutions, should also be dismantled.*

- ***ensure climate finance is consistent with existing international treaties and conventions*** *Finally, climate finance must also be consistent with existing international treaties and conventions, including those that ensure compliance with appropriate safeguards for Indigenous Peoples, women, displaced and other vulnerable communities; and those that mandate strategic environmental assessments. Particular care must be taken to ensure that climate finance is not used to fund mechanisms that could restrict Indigenous Peoples' and local communities' access to resources (as could happen under REDD for example).*

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Climate debt activists protesting at Bangkok climate change negotiations September 2009.

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