Carbon Markets at COP25, Madrid: A Threat to People, Politics, and Planet

Summary
This briefing aims to demystify carbon markets. It outlines:
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- The failure of carbon markets to deliver emissions reductions or real climate action;
- The horrific impacts that carbon markets have on Indigenous Peoples and local communities;
- How carbon markets are used to strengthen corporate power, deflect responsibility from rich historical polluters and prevent urgent and equitable action on climate change;
- What’s on the table at COP25 now in Spain, and the challenges we face as a climate justice movement.

Introduction
2019 has been a year of accelerated climate impacts, a growing climate justice movement, and surge in media coverage of the climate crisis. This year’s UN climate talks—the 25th Conference of the Parties (COP25) in Madrid, Spain—are likely to attract the attention of new audiences. COP25 could become a target for an emboldened global movement rejecting false solutions to address climate change, and demanding emissions cuts at source, climate justice, ambition and equity.

International rules for carbon markets will be a key item on the negotiating table in Madrid. If there is a resolution on carbon markets this year, it is likely to be sold, by polluting countries and corporations, as a good outcome—a building-block in the pathway to reducing global warming. Unfortunately, the opposite is true.

Analyses vary, but at our current rate of emissions globally, we are likely to exceed a 1.5 degree carbon budget before 2025. According to the science, we simply don’t have the atmospheric space for any more carbon. The Intergovernmental Panel on Climate Change (IPCC) tells us that we must drastically cut emissions at their source in order to keep temperature rise below 1.5 degrees and avoid irreversible impacts.

Carbon markets operate on the false and unscientific assumption that offsetting emissions and selling permits to pollute will reduce global warming.

The current commitments made by Parties under the Paris Agreement already put us on course for a disastrous 3-5 degrees of warming, and a problematic carbon ‘net zero’ goal in the agreement has left a trap door open, leading to risky so-called negative emissions technologies and carbon markets. A resolution on carbon markets will lock us in to even more emissions, further temperature rise, continued fossil fuel use and decades of inaction, distraction, and corporate power-grabbing.

Part One: The Basics
Carbon markets allow polluters to continue emitting greenhouse gases, for a price. Under carbon market schemes, atmospheric space is seemingly bought and sold. This means that those with the money and power to do so (who are also the most responsible for causing climate change and should be taking the most significant action to cut their emissions at source) are able to continue with business as usual. Carbon markets exist mainly in two forms: cap and trade and carbon offsetting.
**Cap and Trade**

Cap and trade is a carbon market mechanism that exists at the state, national, or regional level, allowing certain actors (such as polluting companies) to continue polluting, as long as, theoretically, the combined emissions of all the polluters in the scheme remains below a certain limit.

### The Theory Behind Cap and Trade

1. An emissions ‘cap’ is set at a national (or state, regional or sectoral) level.
2. The cap represents a limited number of carbon emissions (tradable units or permits, each representing one metric tonne of carbon dioxide equivalent) that can be used by polluters operating within the trading scheme.
3. Polluters are each entitled to an emissions quota—the amount of carbon they are allowed to emit.
4. If Polluter A has kept their emissions below their limit, they have surplus units (unused permits) that they can sell to Polluter B.
5. This allows Polluter B to continue polluting beyond their limit.
6. Examples of cap and trade schemes include: the EU Emissions Trading Scheme (EU ETS) (which has actually corresponded with an increase in emissions); South Korea’s Emissions Trading Scheme (KETS); and sub-national California Cap-and-Trade.

### Carbon Offsetting

Offsets are so-called ‘emissions reductions’ from projects that are presented as alternatives to more polluting activities. Examples include: building a hydroelectric dam instead of building a coal-fired power station; upgrading a power station to be more energy efficient; or planting trees to absorb carbon that has already been emitted. These ‘reductions’ are turned into tradable credits, to be bought by another emitter. The credits hypothetically offset the buyer’s actual emissions.

In reality, this allows the buyer’s emissions to continue, instead of requiring them to cut their emissions at source. This can be carried out in developing countries on behalf of developed countries, but increasingly also happens within developed countries.

The difference between carbon offsetting and cap and trade is that offsetting involves the trade of ‘reductions’ relative to a baseline projection (comparing the ‘reductions’ to ‘what would have happened’).

### The Clean Development Mechanism

The Clean Development Mechanism (CDM) is the biggest UN offsetting scheme and was set up under the Kyoto Protocol (2007) at the UN Framework Convention on Climate Change (UNFCCC). The scheme allows developed countries to buy emissions reductions from developing countries in the form of Certified Emissions Reductions (CERs), instead of making those emissions reductions themselves at home.

It has been riddled with problems since its conception. Under the scheme, projects that would have happened anyway were rewarded with credits. Questionable accounting led to polluters receiving credits for dubious activities. One such example was the perverse over-production of the greenhouse gas HFC-23, carried out by manufacturers who then received large numbers of credits for subsequently capturing the gas. Inadequate safeguards have led to grave human rights abuses and environmental degradation. Examples of CDM projects include: so-called ‘clean coal’; waste incinerators; and hydroelectric projects that have caused land rights conflicts, environmental devastation, and threatened Indigenous Peoples’ survival.

The CDM was accompanied by Joint Implementation (JI), which was a national-level scheme designed solely for those states with a reduction target under the Kyoto Protocol (i.e. developed countries). JI has proved to be just as problematic as the CDM, with 97% of JI’s credits...
only 2% of projects under the CDM, in 2016, the European Commission found that carbon prices have remained ridiculously low. Perhaps the most glaringly obvious reason not to pursue real climate action is the fact that carbon markets do not reduce emissions or deliver carbon markets is the fact that they simply do not work. Under these schemes, global emissions have continued to rise. Carbon prices have remained ridiculously low as governments have auctioned quotas cheaply to appeal to the fossil fuel industry. The corporate hold over the EU ETS was so strong that it was famously criticised for selling credits as cheaply as €4 each—compared to the price of a cup of coffee and a pastry. There is no evidence that corporate profiteering has been rampant when pollution is then reduced. In one case in Nigeria, companies have been awarded credits for reducing (not even eliminating) gas flaring. As gas flaring is already illegal in the country, they are effectively being rewarded for breaking the law. Besides, the decrease in gas flaring is already part of Nigeria’s national plan to switch to LNG (Liquid Natural Gas). Creative accounting might make things look good on paper, but we cannot negotiate with the science.

Furthermore, offsetting counts hypothetical emissions: ‘what would have been emitted had this activity not taken place.’ As it is almost impossible to quantify the real figures, this approach incentivises cheating—e.g. fraudulently predicting or producing more pollution initially, so that extra credits can be accrued when pollution is then reduced. In one case in Nigeria, companies have been awarded credits for reducing (not even eliminating) gas flaring. As gas flaring is already illegal in the country, they are effectively being rewarded for breaking the law. Besides, the decrease in gas flaring is already part of Nigeria’s national plan to switch to LNG (Liquid Natural Gas). Creative accounting might make things look good on paper, but we cannot negotiate with the science.

2. Carbon markets have horrific impacts on Indigenous Peoples and local communities

Indigenous Peoples and local communities have long resisted carbon offsetting schemes as forms of climate colonialism. Such schemes have led to conflict, corporate abuse, forced relocation and threats of cultural genocide, particularly for Indigenous Peoples, smallholder farmers, forest dwellers, young people, women and people of colour. These communities are leading the resistance to carbon markets.

Carbon markets are riddled with intrinsic flaws that render them unworkable. Those participating in cap and trade schemes (such as the EU ETS and the California Cap-and-Trade) have been able to use international credits from offsetting schemes (such as the CDM). This loophole effectively renders the ‘cap’ in the cap and trade system useless, as credits within the system are no longer effectively limited to a cap. Instead of reducing emissions, carbon trading increases emissions.

Monitored problems mean that it is difficult to track whether offsetting projects have actually taken place, and how much carbon has truly been offset. Offsetting also requires scientifically dubious assumptions: mixing credits from different offsetting schemes mean that carbon offsets from different sources are counted as ‘equal’. Burning carbon from fossil fuels in one part of the world cannot be ‘balanced out’ by offsetting carbon from natural land carbon cycles—that’s not how ecosystems work.

Perhaps the most infamous among these schemes is REDD (Reducing Emissions from Deforestation and Degradation). REDD is an offsetting scheme that ostensibly compensates governments, companies and forest dwellers in many of the world’s least developed countries for leaving forests intact. Unfortunately, this mechanism has led to: large scale and violent evictions in the name of ‘conservation’; corporate land-grabs making way for monoculture plantations; and even a new form of ‘carbon slavery’, where individuals and their families are contractually bound to manage forests for decades without compensation. As with all market mechanisms, REDD is fraught with loopholes, leading to manipulation, corruption, and exploitation.

**CALIFORNIA CAP-AND-TRADE**

California Cap-and-Trade is a state-level scheme that also allows for emissions to be covered by offsetting. Offsets coming from outside the system (e.g. from forests in another country) further compromise this cap-and-trade system. Of major concern is the introduction of the California Tropical Forest Standard (TFS) which aims to use a third of the world’s tropical forests—including some areas in the Amazon—for offsets in the state’s cap and trade scheme. Both the trading scheme and the TFS have faced fierce resistance for jeopardising both the rights of tropical forest dwellers and the survival of tropical forests.
3. Carbon markets are a dangerous distraction

We know that real solutions to the climate crisis exist and work at scale:
> rapid and just transition of our energy systems away from fossil fuels;
> ending industrial agriculture and encouraging agroecology;
> stopping monoculture plantations;
> protecting forests and securing land rights for rural communities and Indigenous Peoples;
> community forest management;
> dismantling the corporate control of our living systems that is stifling biodiversity; and opposing the financialisation of nature;
> and securing rules for business and rights for people.

These transformational approaches—and many more besides—will take us leaps and bounds towards a safer and more just world.

Instead of obliging rich nations to do their fair share of the climate effort, carbon markets give them political and environmental license to continue wrecking the climate under the guise of 'international cooperation', while developing countries are devastated. Rich nations also argue that money received by Southern countries through carbon markets should count as climate finance, meaning they can avoid paying their climate and ecological debt as well as their fair share of additional public finance to support adaptation and mitigation activities in developing countries.

Carbon markets are a false solution. In the same way that other false solutions, such as REDD+, Carbon Capture and Storage (CCS), Sustainable Intensification, and Climate Smart Agriculture fail to challenge the real drivers of climate change, carbon markets allow historical emitters to dodge their obligations and avoid cutting emissions, while still giving the illusion of ‘acting on climate’.

4. Carbon markets strengthen corporate power

For a long time, energy and mining companies and other energy-intensive industries have lobbied hard for the expansion of carbon markets on the world stage. Big fossil fuel companies such as Shell have included offsetting as a major part of their strategy, allowing them to continue expanding indefinitely. They want to secure carbon markets in the Paris rulebook (in the same way that they helped to shape the Paris Agreement), because this would buy them at least another decade of profit. However, it would mean game over for the climate. Rather than reducing global warming, carbon markets have acted as one of the fossil fuel industry’s most obstructive interventions in the UN climate process. Along with other false solutions, they have repeatedly stalled and rerouted ambition. The fight against carbon markets goes hand-in-hand with the fight against the corporate capture of our democratic decision-making institutions, such as our governments and the UNFCCC, where people-led solutions are constantly side-lined while corporate interests take centre stage.

When the Paris Agreement was struck in 2015, it was only a shell of a deal, outlining the goals for the international community—what needs to happen. At climate talks since 2015, the task has been to negotiate the Paris rulebook—how it will happen.

The rulebook was supposed to have been concluded at COP24 in Katowice in 2018. However, a few items remained unresolved. Perhaps the most significant item among these was Article 6, ‘international cooperation’. International cooperation means that countries are able to work together to implement their national climate plans, or NDCs (Nationally Determined Contributions). Essentially, this is where some countries are trying to force the green light to use carbon trading and offsetting as a way of pretending to fulfil their national climate emissions reduction pledges.

One sticking point in the negotiation of Article 6 is whether or not unsold Certified Emissions Reductions (CERs) (credits already existing as a result of projects set up under the CDM) can be used by countries to meet their Paris Agreement targets. If these credits were validated under Article 6, the current weak national pledges under the agreement would be further watered down.

Furthermore, there have been calls to expand international cooperation beyond trading pollution, and towards financialising and trading mitigation and adaptation activities. In addition, corporations and rich nations (such as the US) are pushing for a new airline offsetting scheme, CORSIA (to become operational in 2023), to be linked to the agreement. These measures will only further delay real emissions cuts at source, ambition and equitable action. Given the airline industry’s rapid increase in emissions, airline offsetting could significantly fuel further climate chaos.

**WHAT MIGHT HAPPEN WITH ARTICLE 6 AT COP25?**

> There are different opinions on Article 6 and there has not been agreement until now. By COP25, Parties will have spent around four years debating their positions, with little progress or movement on those positions over this time. There is a lot of pressure to wrap up Article 6 negotiations in 2019.

> We may see an agreement on Article 6. This is not good news; when there is high-level pressure to conclude an item at the UNFCCC, the item is usually rushed through, often through bullying tactics and backroom deals. Historically, this has meant that those holding the most power in the negotiations are most likely to see their demands met (namely, rich countries, the biggest historical polluters). In this instance, we may even see an increase in emissions compared to 2030 pledges put forward under the Paris Agreement.

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**ARTICLE 6**

Article 6 is a highly contested component of the Paris Agreement that introduces the concept of ‘Internationally Transferred Mitigation Outcomes’ (ITMOs). ITMOs are essentially about transferring part of one country’s Nationally Determined Contribution (NDC) to another country’s NDC. ITMOs could possibly include the transfer of technology or finance, but crucially also allude to carbon credits and carbon trading schemes. The definition of the ITMO will be under negotiation at COP25. In current Article 6 negotiations, offsetting and carbon trading are discussed in ways which can be confusing, even to those negotiating them, adding to the difficulty of reaching an informed agreement.

Article 6 comprises three items:

> **Direct Cooperation (Article 6.2):** where emissions reduced in one country can count towards another country’s mitigation targets.

> **New Sustainable Development Mechanism (SDM) (Article 6.4):** a multi-state mechanism, which some are trying to develop as similar to the failed Clean Development Mechanism (CDM), that is managed centrally by a body designated by countries. The SDM aims to be even broader than the CDM in scope, more accessible to more countries, and ostensibly fostering (as-yet undefined) ‘sustainable development’ and mitigation.

> **Non-Market-Based Approaches (Article 6.8):** an item introduced by the ALBA group (Bolivarian Alliance for the Peoples of Our America). It was devised in an effort to stall the progress of market mechanisms under the Paris Agreement, as there was agreement that all workstreams under Article 6 should be resolved in parallel. There is increasing pressure from rich country negotiators to abandon Article 6.8 to secure progress on carbon markets.
So, what are we going to do at COP25?

We will fight to block carbon markets at the UNFCCC by taking strong action at COP25 in Madrid. We urge negotiators, policy makers, civil society organisations, and the media to join us:

- Please sign our petition to say NO to carbon markets! Get your organizations, your government representatives, your negotiators, your allies to sign up! The petition is available for sign-ons here: [https://tinyurl.com/v57c9j3](https://tinyurl.com/v57c9j3)

- Join us on the streets of Madrid and in the halls of power at COP 25 where we will push back against carbon markets, and against the narrative propagated by rich countries, corporations and the corporate-controlled media. We must say: NO to false solutions and dangerous distractions; NO to climate colonialism; NO to corporate power and impunity.

- This means that we may see carbon markets becoming part of the Paris rulebook this year. Parties such as the EU try to justify this, saying that any new mechanism should only count as additional mitigation—i.e. over and above what is already counted in NDCs. However, there is a real danger that carbon markets will be allowed to become a significant part of a country’s efforts to implement their NDC. This would mean many governments handing control of much of their national climate policy to corporate-led carbon markets.

- This would further weaken the (already feeble) national plans of rich countries. Not only would it give governments the carte blanche to continue polluting, but it would open the door to further corporate influence over national climate policy. It would also place a greater burden on developing countries to implement offsetting activities and would revoke their right to a fair share of atmospheric space—to use the remaining carbon budget to meet peoples’ basic needs.

- Furthermore, Article 6.8 may be left as an empty shell, to be developed over the next years, but essentially pushed aside to make way for market mechanisms.

- We demand that countries do their fair share of the climate effort. We demand real, additional, public finance from rich countries so that poor countries can transition towards just energy systems, adapt to climate impacts and be compensated for irreparable loss and damage.

- COP25 is likely to be a crucial media moment. We will amplify and lift up the voices of frontline communities, Indigenous Peoples and rural folk who have been leading the fight against carbon offsets for decades. We urge everyone to act in solidarity with these frontline communities and reject carbon markets.

- We continue to fight against the corporate capture of the UNFCCC. Civil society will not be heard until the fossil fuel industry and other polluting industries are kicked out of the climate talks.

- We demand real solutions that deliver emissions reductions at source and lead us toward a more just and equitable world.

Carbon markets have horrific impacts for Indigenous Peoples and local communities. Image by Hands Up, 2015.
ORGANISATIONS

Asia Pacific Movement on Debt and Development (APMDD) is a regional alliance of peoples’ movements, community organizations, coalitions, NGOs and networks. APMDD believes in social transformation that is all encompassing and interrelated: it is economic, political, cultural and environmental and has class, ethnicity/race and gender dimensions. As its contribution to social transformation, it will focus on: People-Centered Development, Economic and Environmental Rights and Justice.

Friends of the Earth International (FoEI) is the world’s largest grassroots environmental network with 73 member groups and over two million members and supporters around the world. 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 realised. This will be a society built upon peoples’ sovereignty and participation, founded on social, economic, gender and environmental justice and be free from all forms of domination and exploitation, such as neoliberalism, corporate globalisation, neo-colonialism and militarism. We believe that our children’s future will be better because of what we do.

Grassroots Global Justice (GGJ) is a North American alliance of US-based grassroots organizing groups building an agenda for power for Black, Indigenous, Latinx, Asian, Pacific Islander and working class white communities inside North America and strengthening our relationships with movements across the Global South. GGJ is guided by the framework: No War, No Warming, Build a Feminist Economy, echoing Dr. Martin Luther King’s philosophy of the Triple Evils of Poverty, Racism and Militarism. We bridge together US-based grassroots organizations and global social movements working for climate justice, grassroots feminism, anti-militarism, and a building just transition to a new economy for people and the planet.

Indigenous Environmental Network (IEN) is an alliance of Indigenous Peoples whose mission it is to protect the sacredness of Earth Mother from contamination and exploitation by strengthening, maintaining and respecting Indigenous teachings and natural laws. IEN is working for the Rights of Indigenous Peoples and for environmental, energy, climate, food and economic justice. We work on international Indigenous campaigning for a Just Transition that breaks the cycle of an extraction economy. We work towards keeping fossil fuels in the ground - in Mother Earth.

La Via Campesina comprises 182 local and national organisations in 81 countries from Africa, Asia, Europe and the Americas. Altogether it represents about 200 million peasants, small and medium-size farmers, landless people, rural women and youth, Indigenous People, migrant and agricultural workers. It is an autonomous, pluralist, multicultural movement, political in its demand for social justice and dignity while being independent from any political party, economic or other type of affiliation. The movement strongly opposes corporate driven agriculture that destroys social relations and nature. Peasant agroecology is the response of La Via Campesina to cool the planet and to promote climate justice.

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