

BRIEFING PAPER

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on	ADB

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Over the years, it has proven that greenhouse gases have contributed to climate change. And yet, the Asian Development Bank still supports fossil fuel-dependent projects, such as coal and gas, which are known sources of greenhouse gases. The Bank's measure that intends to offset carbon emissions by its funded gas and coal projects has only destroyed natural forests and grasslands as in the case of its oil palm and industrial timber plantation projects. Said promotion of monoculture has only harmed biodiversity rather than its intended purpose – reduction of greenhouse gases.

Meanwhile, ADB's Board Chair, Japanese Finance Minister Koji Omi, foresees nuclear power as a solution to the present crisis on climate change. This was strongly criticized by environmental groups during the 40th AGM that was held in May 2007 in Kyoto, Japan

- From 1969 to 2006, the ADB has provided US\$24.2 billion for energy-related projects in Asia and the Pacific region. Of this total amount, US\$21.9 billion are project loans targeting additional power generation, and improvement of transmission and distribution lines. Power generation projects include large hydro and thermal power such as coal. In ADB history, the Mae Moh Coal Power Plant is one of the Bank's dirtiest coal projects that has claimed over 200 lives and has caused respiratory-related illness to 42,000 people.

ADB's Energy Policy was first drawn in 1995 and was reviewed in 2000. However, this policy does not include the latest global issues and approaches. The 2000 Review recommended four operational priorities: (i) reduction of poverty; (ii) promotion of private sector involvement, i.e. restructuring and promotion of private sector investment; (iii) addressing regional and environmental impacts which includes adoption of Clean Development Mechanisms (CDM) and renewable energy; and (iv) promotion of regional cooperation which means exporting hydropower and natural gas through cross-border transmission. The ADB launched the Energy Efficiency Initiative (EEI) in July 2005 with the core objective of expanding ADB's investments in energy efficiency projects to US\$1 billion a year.

The 2000 Energy Review of the ADB emphasizes the development of independently regulated and privatized energy markets. The Bank believes that this will lead to more efficient uses of energy, lower costs, and more private investments. But in reality, this is not the case.

Present challenges in Asia include sustainable solution to increasing demand for energy and global warming. Meanwhile, civil society has also been concerned about ADB's role on energy privatization. Inequitable energy consumption pattern is a major concern as well. Many local experiences show that while the rich get the benefits of energy, the poor mostly suffers the negative impacts.

According to the ADB, the ongoing Energy Policy review will develop a strategy, which will guide ADB's future operations in the energy sector. This review is expected to address key issues, including: energy security; global warming/climate change; sector policy reform and governance; and energy efficiency. The strategy is expected to place greater focus on energy security and climate change through the promotion of cleaner, more efficient and less polluting energy sources and technologies, and greater use of indigenous forms of renewable energy. The Bank further said that the strategy will also address the emerging needs of ADB's developing member countries.

ADB's Carbon Market Initiative

Carbon Trading is one of the latest businesses in the world. "Carbon trading is a form of emissions trading that allows a country to meet its carbon dioxide emissions reduction commitments, often to meet Kyoto Treaty requirements, in as low cost as possible by utilizing the free market. It is a means of privatizing the public cost or societal cost of pollution by carbon dioxide."¹

Currently, there are a number of public and private carbon procurement programs in the market. However, they were criticized for not delivering expected results. The ADB also sees Carbon Market Initiative (CMI) as a new business towards delivering funds for offsetting carbon emission. The Bank believes that the carbon market is an effective tool to address energy security and climate change.

ADB's "Carbon Market Initiative (CMI) was established to support sustainable development goals of its developing member countries, address global climate change concerns, and assist developed countries to meet their emissions reduction commitments." In addition, the Bank said that "CMI will provide a project co-financing facility, carbon credit marketing program, and technical support for project preparation and implementation of CDM-eligible projects and their developers."

The ADB envisions that "the global carbon market is expected to become a US\$100 billion business over the next few years." Industrial groups in the European Union and Japan, among others, continue to require carbon credits in order to balance out financial risks and penalties resulting from their greenhouse gas emission levels. According to the ADB, these penalties will amount to •100 per ton of carbon dioxide-equivalent during 2008-2012, in the EU alone. Under the mechanism, they can buy carbon offsets from other sources – often in developing countries, which reduce emissions by more than the necessary amount.

"ADB believes that the financing gaps in the carbon market can be met through the establishment and management of a dedicated carbon co-financing fund."² The fund would provide developing countries with access to additional financing and technical support for promoting energy efficiency and renewable energy projects that are eligible under the CDM of the Kyoto Protocol.

ADB's CMI would support projects in the areas of methane capture and utilization, energy efficiency, and renewable energy such as small hydropower projects, landfill gas utilization and biomass energy. The ADB has a portfolio of projects in such areas with a capacity to generate more than 50 million tons of carbon dioxide-equivalent emissions until 2012.

(Footnotes)

¹ en.wikipedia.org/wiki/Carbon_trading

² <http://www.adb.org/media/Articles/2006/10120-regional-carbon-market/>

Problems of unregulated Carbon Market initiatives

In 1999, the World Bank was promising investors a US\$5 a ton bargain price under its Carbon Credit Fund. This has influenced all succeeding price setting. In 2005, CDM carbon credits were trading at an average of around •6.7 per ton of CO₂. Joint Implementation (JI) carbon credits were set at around •5.1, two to four times less than the EU emission trading scheme (ETS) allowances. Some planners had originally hoped that absorbing CO₂ by planting trees in poorer countries could be “between 20 and 200 times cheaper” than reducing it at source.¹

According to the World Bank, “The global market in carbon trading tripled last year to US\$30bn (£15bn) but its role in the battle against climate change could be hit by worries about the effectiveness of unregulated carbon offset projects.” Further, the World Bank said that the bulk of carbon trading, which is US\$25 billion, was carried out through the sale of allowances under the EU ETS. This covers industries pumping out large amounts of carbon dioxide.

Mark Milner, industrial editor of Guardian Unlimited, said that “carbon trading is seen as a market-based alternative to either direct taxation or a ‘command and control’ approach which would directly impose emission limits. However, the EU’s emission trading scheme has come in for criticism because allowances under the initial phase proved too generous, causing a fall in the carbon price, offering little incentive to cut emissions. Allocations have been toughened for the second phase, which runs from 2008 to 2012. Supporters believe the new levels will make the system more effective and that the European model could provide the hub of a global carbon trading mechanism in coming years.”²

According to Gar Lipow, “the problem is that credits are based not on proven reductions.” He cited the highly toxic landfill in Durban, South Africa which seeks credits for keeping the dump open and burning methane from the landfill to generate electricity onsite.

Carbon sequestration is another popular project under CDM. Instead of reducing sources, CDM projects create new sinks to absorb carbon, for example conversion of local grasslands into Eucalyptus plantations or oil palm plantation. But this, as mentioned earlier, has proven not only successful in reducing CO₂ emissions, but has destroyed biodiversity.

Lipow said that credit firms in rich nations concentrate on various ways of gaming the carbon market rather than focusing on reducing emissions. In Europe, huge amounts of money are spent lobbying for grants for free carbon credits.

On the other hand, in poor nations, carbon credits absorb money that people are spending to help solve global warming. Ideally, that money might be invested in real renewable energy projects rather than paper credits. However, it was found that most players have been involved in “creative accounting” rather than in actual reductions in carbon emissions which is much more expensive.

Lipow argues that “a true tradable permits system reduces incentives for innovation in other way. We are not going to get major greenhouse gas reductions if everybody is busy looking for low hanging fruit thousands of miles away, and no one is implementing well-known processes to reduce their own emissions.”³

(Footnotes)

¹ Larry Lohmann, Carbon Trading- Development Dialogue, no. 48, published by Corner House in September 2006.

² <http://business.guardian.co.uk/story/0,,2070920,00.html>.

³ Posted by Gar Lipow at October 9, 2006 06:18 PM at www.maxspeak.org.

According to David Morris,⁴ the link between the purchase of carbon offsets and the actual reduction of carbon emissions is highly controversial and almost impossible to verify. He said that “the process is easily manipulated. Measurement tools are remarkably primitive. Even the most basic calculations are subject to wide variations.”

Dan Esty, Director of the Yale Center for Environmental Law and Policy believes that “carbon trading is a promising strategy for reducing greenhouse gas emissions but the current structures have serious flaws.”

But according to David Morris, carbon trading is not a promising strategy. Its costs outweigh its benefits. He said, “We don’t need carbon trading to reduce carbon emissions. Indeed, it is likely that we will reduce carbon emissions much more without carbon trading.” He suggested that following: impose an immediate moratorium on carbon trading while imposing ever-more rigorous carbon caps, stop the use of long-distance offsets, and all offsets should be local or regional.

As Morris wrote, using US\$10 per ton of CO₂ as the average offset price (current prices are as low as US\$3 per ton), the United States, which generates about 20 percent of the world’s greenhouse gases, could buy complete absolution for about US\$50 billion a year. For that price it would announce to the world, as the Oscars did, that we are not responsible for *any* net new greenhouse gases. The cost is less than half the annual spending on the war in Iraq, a little over 5 percent of the Pentagon’s annual budget.

Morris argues that carbon trading encourages cheating and rewards low-cost cosmetic changes while undermining higher cost innovation. He said, “the greater the “baseline” emissions, the greater the payoff that can be derived from selling emission-reducing projects. Thus, there is a perverse incentive to emit as much greenhouse gas as possible today in order to make projects appear to be saving as much carbon as possible tomorrow.”

Morris also cited the Dag Hammarskjöld Foundation’s analysis on carbon trading appeared in the September 2006 Development Dialogue magazine. The report said, “With a bit of judicious accounting, a company investing in foreign ‘carbon-saving’ projects can increase fossil emissions both at home and abroad while claiming to make reductions in both locations.”

According to Morris, carbon traders seek the lowest cost carbon offset. It means that tree planting in some far-off country has no regard, at times, to either its long-term effects on the community or the environment, or even to a modest reduction in the emissions of a highly polluting factory in a developing nation. He said that in such a situation, a company needing, or wanting, offsets may have to choose between investing a significant amount of capital that has long-term and very substantial savings, or buying much lower cost and short-term offsets. He said that usually, the latter will always be the preferred choice from a short-term economic perspective. Further, Morris cited a study reported in *Nature*, a scientific journal, which supported his proposition. “It found that only 2 percent of the United Nations’ trading projects involving either renewable energy or communities that follow eco-friendly practices with regard to tree cultivation and harvesting.”

(Footnotes)

⁴ David Morris is co-founder and vice president of the Institute for Local Self Reliance

A case study done by the Hammar skjold Foundation shows how unsuccessful one of the first international carbon offsets project, started two decades ago. In the late 1980s, Applied Energy Service, Inc. (AES), a U.S.-based independent power producer, decided to “mitigate” the carbon emissions of 183-megawatt coal fired power plant in Connecticut by offering \$2 million to finance 10 years’ worth of “land-use activities and multiple-use forestry projects” in Guatemala. Some 40,000 small farms would plant 50 million pine and eucalyptus trees in the course of establishing 30,000 acres of community woodlots and 150,000 acres of agro-forestry.

An analysis done 10 years later found that the offsets had fallen very far short of the level promised. More importantly, the project took access to the trees out of the hands of ordinary people. One result was that conflict grew between municipal and village authorities and individual landowners. The Guatemala-based organization that was supposed to manage and monitor the project found that the project was hard to manage.

SOURCE: David Morris, “Cap and Tax, Don’t Cap and Trade,” <http://www.ilsr.org/columns/2007/031207.html>.

by
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A Call to Reduce CO₂ Emissions

Each year we burn fossil fuels produced from plant matter that took 400 years to grow. Burning of fossil fuels is more harmful since we release carbon that was fixed by the plants millions of years ago. Carbon dioxide emissions from burning of fossil fuels are almost “new carbon” that cannot be fixed by the existing natural system.

The best way to reduce carbon emission is to produce less coal, oil and natural gas. Investing in the reduction of local carbon emissions will be the best solution that encourages innovation, and is a long-term, durable strategy. Investing in renewables, sustainable energy consumption and discouraging carbon heavy life style are vital for social justice.



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