FPIF Special Report

A Carbon Rush at the World Bank

By Daphne Wysham | February 22, 2005

As the Kyoto Protocol comes into force this month, a carbon rush is gaining steam in the financial industry. Investors predict that the carbon trade could become one of the largest markets in the world with a trading volume of $60 - $250 billion by 2008 and some unlikely actors are gearing up to profit from this new, invisible market. Foremost among them is the World Bank.

The Kyoto Protocol requires industrialized country signatories to reduce their emissions by 5.2% below 1990 levels during the 2008-12 commitment period. However, the scientific community has determined that, to avoid dangerous climate change, greenhouse gas emissions reductions of over 60% below 1990 levels were necessary by 2000, rendering the commitments made at Kyoto insufficient. Moreover, some of the largest emitters—the United States and Australia—are not even participating in the protocol. And the Kyoto agreement is weakened further by the fact that virtually all of the emissions reductions required of industrialized nations can be achieved by trading carbon credits between nations, thus avoiding real reductions. For example, since Russia has already met and exceeded the Kyoto targets due to its economic collapse following the fall of the Berlin Wall, Soviet-era ghost emissions are now for sale to the highest bidder, creating the illusion of reductions where none have occurred.

Why is there so much support for carbon trading? Well, there is plenty of money to be made. The average citizen won't make any; instead, the very same corporations who fuel the problem—the large oil, gas, and coal companies—are among those who will profit from this trade in invisible gases. For instance, just last month, Danish power utility Energi E2 sold hundreds of thousands of dollars of the rights it had been granted free by its government to Shell Oil Company after mild temperatures kept the utility's carbon emissions below expected levels. No such free rights have been granted to ordinary Danish citizens, however.

One institution that is well versed in this complicated market is the World Bank. It was eight years ago that confidential documents[1] were leaked to the Institute for Policy Studies from within the bank revealing the early internal debates and plans regarding the World Bank's involvement in carbon trading.

That year, Washington was forging Kyoto's Joint Implementation trading scheme (JI), whereby carbon emission credits could be traded exclusively among industrial Northern (Annex B) countries. Brazil and other developing countries countered with the much more intuitive Clean Development Fund (CDF). The CDF, based upon the polluter-pays principle, would have financed projects in developing countries with levies against industrialized Northern countries that failed to comply with Kyoto's emissions reduction goals. Northern negotiators, wary of any fines, transformed the CDF into the Clean Development Mechanism (CDM), a market-based emissions trading scheme, similar to JI.[2]

Here, the World Bank saw opportunity. One leaked document exposed World Bank plans to profit handsomely by charging a 5% commission on carbon transactions in a self-appointed role as a broker between Northern and Southern governments and industries. (The commission—which the bank now claims is merely to cover costs—will be closer to 8-10%.) With a potential market in CO_2 that could reach $2 billion by 2005, the World Bank noted in the leaked memo, it could quickly earn $100 million in one year—and that was just for starters.

WBG's Share of the Market in 2005

Leaked 1997 World Bank Group document.

Echoes of Apartheid

Perhaps the most putrid of low-hanging fruit currently on the PCF's books is the Bisasar Road Landfill methane capture project. During apartheid-era South Africa, white rulers created the landfill at Bisasar Road in a brown and black community. The site became a repository of waste, much of it toxic, coming mostly from the more affluent white communities. What was once unspoiled land with a vibrant community of monkeys and birds quickly became a foul-smelling, toxic waste dump—made more foul by "perfume rods" that are placed strategically around the dump to try to mask the smell. Cancer clusters have also emerged in the vicinity of the landfill.

The leaked documents make clear that "low hanging fruit"—the easy pickings in the world of carbon emissions reductions—would be the first to be capitalized in a global market. Renewable energy would not come online via the CDM until carbon reached a price of $50/ton or more, the bank predicted.

The World Bank worked its way into the carbon trading business initially with the Prototype Carbon Fund (PCF), established in July 1999, portraying the PCF as an opportunity to work out the glitches in the CDM before it was launched globally. PCF director Ken Newcombe assured concerned nongovernmental organizations that the PCF would be "entirely renewable." Solar, wind, micro-hydro, and geothermal power projects would make up its portfolio. With time however, it became clear that the PCF was far from "entirely renewable." Following the more forthright trajectory laid out in the leaked 1997 World Bank document, the PCF was pursuing the low-hanging fruit in the global carbon market.

As apartheid was dismantled, local community activists raised their hopes and concerns with the ruling African National Congress (ANC). In campaign pledges in 1994, ANC leaders promised to close down this symbol of the apartheid era and to clean up the site.

Then along came the World Bank's Ken Newcombe in 2002. He proposed to the mayor of Durban that the city profit from methane captured at the landfill, turning waste gas into electricity. The municipality could sell the electricity locally, and the project could qualify for funding from the World Bank's Prototype Carbon Fund. The methane gas that this and other landfills produced could be siphoned off to a power plant, and the city government would be rewarded with 60 million rends over 21 years from industries in the Northern Hemisphere reluctant to reduce their own emissions and eager to buy their way out of the problem.

Sajida Khan lives right next to the Bisasar Road dump. She has suffered two bouts of cancer and lost a nephew to the disease. To Sajida Khan, the PCF represents an undemocratic institution, overruling the will of the local people and the stated intent of their

leaders, the ANC, by effectively bribing the government with sorely needed revenue. Although the methane project may have climate benefits, Khan argues that to local communities it means noisy generators disturbing nearby school children and, worse, other toxic gases—such as benzene and formaldehyde—being spewed into the air from the power plants. Her solution: decommission the dump, create a buffer zone around it, and pay for the resettlement of local homeowners. She began organizing her fellow community members and has launched legal challenges and an international campaign to overturn the PCF proposal, but thus far her efforts have been met with bureaucratic intransigence.[3]

The Bisasar Road dump is emblematic of the sort of global apartheid that carbon trading encourages, allowing Northern governments and corporations to profit from carbon profligacy in the North while the poorest and darkest skinned in the South pay with their health and their lives. Worse, because there are no limits on greenhouse gas emissions in the developing world, the sort of emissions trading being proposed by various CDM actors could create perverse incentives for greater inefficiencies—such as encouraging more dumps to be built without methane capture as part of their design in order to lure potential carbon traders—and higher overall greenhouse gas emission as a result.

The Bisasar Road project is certainly distasteful, but it is not an aberration. Another equally disturbing model for the CDM proposed by the World Bank is emerging in Brazil.

The Plantar Project

Plantar, a company located in the state of Minas Gerais, Brazil, owns a monoculture eucalyptus grove covering 23,100 hectares. The total area owned by Plantar, acquired by pushing local communities off their land under previous dictatorial regimes, is extensive—some 700,000 hectares. The fast-growing eucalyptus trees will eventually be harvested and used as charcoal for the production of pig iron—a low grade of iron—by the company. For small farmers living nearby, the consequences of this tree plantation are devastating: streams and swamps have dried up, chemicals contaminate the air and water, and the diverse plant and animal species that once inhabited the land have all but vanished.

> The Prototype Carbon Fund was far from "entirely renewable." Following the more forthright trajectory laid out in the leaked 1997 World Bank document, the PCF was pursuing the low-hanging fruit in the global carbon market.

These plantations are allegedly avoiding the production of 4.3 million tons of carbon dioxide that would have been emitted had coal been used for smelting the pig iron rather than charcoal from Plantar's plantations. That's 4.3 million carbon credits that can be sold to a Northern industry that is unwilling to reduce its emissions domestically by the same amount. Is there truly a net benefit? Unless these eucalyptus trees are destroyed by fire or other natural causes, within 7-21 years, they will be cut down for use in pig iron production. The CO_2 produced by Northern industries that have bought the PCF's carbon credits, however, will remain in the atmosphere, for 50 to 200 years.[4]

New World Bank Schemes

While the PCF is venturing down a dangerous path, the World Bank Group is diversifying into other carbon trading schemes. In June 2004, it launched the Bio-Carbon Fund to demonstrate how land use, land-use change, and forestry activities can generate carbon credits.[5]

The bank also plans a Community Development Carbon Fund. This fund, which has already developed two prototypes, "will link small-scale projects seeking carbon finance with companies, governments, foundations, and NGOs seeking to improve the livelihoods of local communities and obtain verified emission reductions."[6] Additionally, the World Bank administers some funds for individual countries,

including the Netherlands Clean Development Facility, launched in 2002, the Italian Carbon Fund, initiated in 2003, and the Spanish Carbon Fund, established in 2004.

Perhaps these bank carbon finance projects will die quiet deaths, as financing fails to materialize. However, if they continue to grow, the bank will have secured for itself a lucrative self-appointed role, creating a new market that undercuts its mission by threatening to expand profiteering at the expense of the world's poorest people.

Sadly, the irony of the World Bank involving itself as a moneymaking broker in the growing international trade in carbon does not end here. Currently, the World Bank is also one of the largest public sources of funds for the fossil fuel industry. In fact, research conducted by Sustainable Energy and Economy Network (SEEN) shows that in an average year of financing, the World Bank supported fossil fuel projects that have lifetime emissions of 1,457 megatons of carbon. This figure is "4-29 times the amount of emissions reductions anticipated under the CDM per year."[7]

From the 1992 Rio Earth Summit through late 2004, the World Bank Group approved $11 billion in financing for 128 fossil fuel extraction projects in 45 countries. Of these, 52 projects extract and export oil, coal, and gas for the global marketplace—mainly, the Northern countries.

Much of the carbon dioxide generated by World Bank projects will be released in the global North. In the oil sector, for example, over 82% of the World Bank's approved financing goes to projects that export to the North. Energy projects approved for financing by the bank since the Rio Summit will lead to over 43 billion tons of carbon dioxide emissions, of which over half (23.8 billion) are export-oriented projects.[8]

Over the past decade, many have tried to convince the World Bank to change from within, to redirect its energy portfolio to make it more consistent with the goals of the Rio Earth Summit. Concerned global residents—from the world's most disenfranchised peoples to Nobel laureates to internal whistleblowers challenging mission betrayal—have raised their voices urging change. These efforts converged around a number of exercises including, in 2004, the Extractive Industries Review. Remarkably, this exhaustive World Bank-commissioned study, chaired by the former Indonesian environment minister, Emil Salim, called upon the bank to divest its portfolio of the most egregious fossil fuel projects, particularly oil and coal extraction, on human rights, sustainable development, and environmental grounds.

The World Bank's management and executive board disregarded the fundamental critique of the review—namely, that these extractive projects did nothing to promote the bank's stated mission of alleviating global poverty. Bank managers feigned agreement on many of the review's other critiques, but the "action plan" they adopted in September 2004 represented more business as usual.

The World Bank's management and executive board disregarded the fundamental critique of the 2004 Extractive Industries Review—namely, that these extractive projects did nothing to promote the bank's stated mission of alleviating global poverty.

Such inertia in response to external and even internal critiques is commonplace at the World Bank. It is in part due to the fact that the powerful Group of 8 countries dominate the Board of the bank, with the United States leading the pack and holding exclusive veto power. And, not coincidentally, Northern corporations, particularly those based in the United States, are the primary direct beneficiaries of the fossil fuel projects that the World Bank board has approved since the Rio Summit. These corporations benefit both by direct loans and through the privatization process enforced by bank loans. Halliburton and Enron, to name two primary beneficiaries, enjoyed global expansion in the 1990s hand-in-glove with World Bank Group project financiers.

And the World Bank's impact reaches far beyond the specific projects it finances. It sets a standard for all other fossil fuel financiers: regional development

banks, export credit agencies, and private banks. So getting the World Bank to take meaningful action on global warming is not a mere academic exercise; it potentially affects other private banks that arrange 80% of the world projects' financing. These so-called Equator Principle banks base their standards upon those of the World Bank—as do all of the public banks that also look to the World Bank for guidance on their investments and guidelines.

Conclusion

For over a dozen years now, the World Bank Group has had the opportunity to prove that it could fulfill the promise of the Rio Earth Summit by leading the global energy sector into a more sustainable, renewable, and equitable future. Instead, it has become an enforcer of the status quo, on behalf of the world's most powerful countries and corporations. Its energy programs have utterly failed to curb climate change and alleviate poverty. Those who embrace the World Bank as an impartial and honest carbon broker ought to be aware that this institution's investments are driven in large part by the thirstiest oil-consuming country in the world—the United States—and other oil-hungry nations. Until the bank's power structure is rewired, it will remain an institution beholden to the world's most powerful polluters.

It is time to end the monopoly of an institution that is pushing the planet toward disastrous climate change. There is no longer anything to lose by exploring the creation of new institutions that are truly up to the task—such as a clean energy bank independent of the World Bank and IMF—while ensuring that world leaders recognize the World Bank as a rogue institution and begin to rein it in appropriately. The bank could be curbed with regard to global warming by: 1) following the recommendations contained in the Extractive Industries Review report prepared for the World Bank by Dr. Emil Salim; 2) disallowing World Bank financing of oil, gas, or coal extraction for export to wealthy industrialized countries; and 3) ending the World Bank's role in carbon trading.

The United States—the world's number one CO_2 emitter—has played a shameful role: first by proposing the carbon trading idea as a way to ensure its involvement in the Kyoto Protocol, and then by backing out of the agreement once carbon trading was accepted by the international community. Although it is important for the United States to rejoin the global climate regime, it is perhaps a blessing in disguise that U.S. industries are unable to trade their CO_2 emissions on the global market, adding to the overall problem of carbon trading.

At some future time when the United States has rejoined the international community in tackling the problem of global warming, one could hope that there would be enough pressure on Washington to promote—both domestically and via the Kyoto Protocol or other multilateral mechanisms—serious emissions reductions at home as a genuine solution to global warming. Happily, this movement is already under way in states such as California, where vehicle emissions restrictions are being proposed that would far surpass those currently required of the automobile industry. Elsewhere, in Texas and other states, renewable energy portfolio standards have created a favorable business climate for the wind industry to take root. In the absence of cooperative multilateral action by Washington regarding global warming, state and local initiatives should be encouraged as the only true and meaningful road to climate equilibrium.

Daphne Wysham is the founder of Sustainable Energy and Economy network (SEEN) and a fellow at the Institute for Policy Studies in Washington, DC. This modified excerpt is derived from a forthcoming article to be published by Grist Magazine *(www.grist.org) and is based on the longer report, "Wrong Turn from Rio: The World Bank's Road to Climate Catastrophe", co-authored by Jim Vallette, Daphne Wysham, and Nadia Martinez and available at www.seen.org.*

ENDNOTES

[1] See http://www.seen.org/pages/ifis/wbstill/wbgrafx.shtml

[2] The Institute for Environmental Studies provides an overview of the relationship between the CDF and the CDM in its primer, *"On Behalf of My Delegation,...": A Survival Guide for Developing Country Climate Negotiators*, by Joyetta Gupta, 2000.

[3] Personal interview, October 5, 2004

[4] *How Plantar Sinks the World Bank's Rhetoric: Tree Plantations and the World Bank's Sinks Agenda*, June 2004, CDM Watch and Sinks

Watch. For further critiques of this project, visit: http://www.climnet.org/pubs/CANEuropePlantar.pdf and http://www.cdmwatch.org/controversy.php

[5] World Bank Carbon Finance website, http://carbonfinance.org/biocarbon/home.cfm

[6] World Bank Carbon Finance website, http://carbonfinance.org/cdcf/router.cfm?Page=About

[7] Source: *Banking on Climate Change: How Public Finance for Fossil Fuel Projects is Short-Changing Clean Development*, Kate Hampton, SEEN/IPS, November 17, 2000.

[8] World Bank-financed export-oriented oil projects alone will release 18.5 billion tons of CO_2. By comparison, global consumption of fossil fuels generated 24 billion tons of CO_2 in the year 2004 "World Carbon Dioxide Emissions From Energy Consumption, 1992-2001," spreadsheet, U.S. Energy Information Agency. SEEN's methodology for estimating lifetime emissions for fossil fuel extraction projects is available on the Web at: http://www.seen.org/pages/db/method.shtml

Published by Foreign Policy In Focus (FPIF), a joint project of the International Relations Center (IRC, formerly Interhemispheric Resource Center, online at www.irc-online.org) and the Institute for Policy Studies (IPS, online at www.ips-dc.org). ©2005. All rights reserved.

Foreign Policy In Focus

"A Think Tank Without Walls"

Established in 1996, Foreign Policy In Focus is a network of policy analysts, advocates, and activists committed to "making the United States a more responsible global leader and global partner." For more information, visit www.fpif.org.

Recommended citation:

Daphne Wysham, "A Carbon Rush at the World Bank," (Silver City, NM & Washington, DC: Foreign Policy In Focus, February 2005).

Web location:

http://www.fpif.org/papers/0502wbank.html

Production Information:

Authors: Daphne Wysham
Editor: Emira Woods, IPS
Layout: Tonya Cannariato, IRC