

# Carbon Trading

## Briefing Note

January 2012 | Page 1 of 7

## Banking on Carbon Markets

### Why the European Investment Bank got it wrong in the fight against climate change

The evidence for global warming is now widely accepted, and the arguments for urgent action to reduce greenhouse gas emissions have been extensively and convincingly made. The favoured policy approach of *cap and trade* (or *carbon trading*) has proved worse than ineffectual. And yet the European Investment Bank (EIB) continues to fund a counter-productive and highly damaging policy of support for carbon trading through carbon funds totalling over half a billion euros.

This briefing provides an overview of the publicly documented involvement of the EIB in support of failing carbon markets. It is based on a report by the organisations Counter Balance and *Campagna per la riforma della banca mondiale (CRBM)*<sup>1</sup>.

#### 1. A Brief Explanation of Carbon Trading<sup>2</sup>

Put simply, carbon trading is the process of setting a legislative cap on greenhouse gas emissions, then allowing the buying and selling of permissions to pollute within (and beyond) that cap. In current schemes, these permissions take two forms: *permits* and *offset credits*.

*Permits* allow existing industries a quantified amount of greenhouse gas emissions. They are ideally paid for at auction by the capped industries, but are often awarded free. *Offset credits* are awarded to projects that supposedly reduce additional — or prevent extra new — emissions. Key to the generation of offset

*credits* is a controversial and much-discredited calculation of how many credits an offset project produces. The calculation is based on establishing *additionality*: because the *offset credit* justifies extra emissions that exceed the cap, the *offset project* must not only reduce emissions but must reduce emissions that otherwise would have been released into the atmosphere. Only the difference between the carbon emitted under an *offset project*, and the carbon that is *presumed would have been* emitted without the offset project should generate *offset credits*. These credits are then sold on to polluters: a process called *offsetting*. Both permits and offset credits can be traded on the carbon market, often by price speculators.

Carbon trading theory stipulates that the price discovery function of the market will deliver maximum carbon reductions for the minimum cost and disruption. Those enterprises that can most cost-effectively innovate to reduce emissions are incentivised to

1 Available for download at <http://www.counterbalance-eib.org/wp-content/uploads/2011/12/BANKING-ON-CARBON-MARKETS.pdf>

2 For more information on carbon markets and a debunking of carbon trade myths see FERN, Trading Carbon, 2010. [www.fern.org/tradingcarbon](http://www.fern.org/tradingcarbon)

do so, because they can sell their extra permits. Those industries that cannot cost-effectively change their production practices can continue operating by purchasing permits or credits, at lower end-cost to their customers. Meanwhile, a structural shift to a low-carbon economy is supposedly eventually delivered by an accumulation of private enterprise carbon-reduction innovations.

The largest carbon market is the European Union Emissions Trading Scheme (EU ETS). It recognises two offset systems (established by the Kyoto Protocol, the UN climate treaty): the Clean Development Mechanism (CDM), designed to support low-carbon projects in the global South, and the (much smaller) Joint Implementation (JI) mechanism, awarding credits to carbon reduction projects in countries that also have emission-reduction targets. Most JI offset projects take place in Russia and Central and Eastern Europe. A tiny market also exists for voluntary carbon offsetting, outside of any legislative caps.

Carbon markets now appear to be enormous — with carbon derivatives valued at \$142 billion (bn)<sup>3</sup> changing hands amongst buyers and speculators every year (of which, trade linked to the EU ETS accounts for around \$120bn a year).<sup>4</sup> It is important to note though that only a tiny proportion of this represents end payments to offset-credit producers.

The present cap-and-trade approach has been thoroughly discredited by environmental and development organisations.<sup>5</sup> All existing carbon trading schemes accept offset credits. The evidence is that carbon trading rewards those already polluting; passes a tiny fraction of its value to projects in the global South; and leads to a volatile carbon price which destabilises developing industries and communities encouraged to rely on carbon finance. At best it is a zero-sum game (no net reductions in emissions are achieved), and at worse it increases concentrations of greenhouse gases in the atmosphere, when offset credits are awarded although no extra carbon reduction has been achieved. It discourages development of effective interventionist policies and systemic, transformational changes in energy production that are required to avoid runaway climate change; and has demonstrably failed to slow, let alone halt or reduce, the growth of global carbon emissions.

Despite this, carbon trading remains the central policy plank of the major institutions; governments, the World Bank (WB) and

the European Union (EU). There is now a push to bring the world's forests into the carbon market, by quantifying and trading the carbon stored and captured by natural forests and forestry schemes — a move condemned by FERN and other informed commentators as unworkable and ultimately disastrous for the forests themselves, the economies that rely upon them and the communities that live in them.<sup>6 7</sup>

Playing an increasingly central, if seldom examined, role in all this is the European Investment Bank (EIB).

## 2. The EIB Mandate and Carbon Markets

In 2010, reflecting EU policy, the EIB pledged €21bn, compromising 29 per cent of its annual budget, to financing climate change mitigation activities. Of this, €2bn was earmarked to projects outside the EU. This €2bn is expected to continue growing until 2013 as more EU funds for climate change mitigation become available.<sup>8</sup> The EIB positions itself as a catalyst for other government and private investment in climate-related technology, through a mixture of grants and loans. Key amongst its objectives is the development of carbon markets.

In line with the EU's commitment to carbon trading, the EIB runs six carbon funds totalling €589million (m), and several other finance vehicles. They exist to 'extend market capacity and complement rather than replace private sector participants in the carbon market.'<sup>9</sup>

### Main functions of EIB carbon funds:

- linking the sellers and buyers of CDM and JI credits while minimising their risks from the transactions;
- providing financial liquidity to the carbon market;
- providing finance for investment in offset projects;
- enabling the participation of compliance companies (that must meet EU ETS targets) in the carbon market;
- supporting EU Member States to meet their emission reduction obligations through offsetting;

<sup>6</sup> Friends of the Earth, State of the forest carbon market: A critical perspective, [http://libcloud.s3.amazonaws.com/93/a1/9/872/State\\_of\\_the\\_forest\\_carbon\\_market\\_a\\_critical\\_perspective\\_2011.pdf](http://libcloud.s3.amazonaws.com/93/a1/9/872/State_of_the_forest_carbon_market_a_critical_perspective_2011.pdf)

<sup>7</sup> The Munden Project, REDD AND FOREST CARBON: Market-Based Critique and Recommendations, 2011, [www.mundenproject.com/forestcarbonreport2.pdf](http://www.mundenproject.com/forestcarbonreport2.pdf)

<sup>8</sup> EU, 2011, Commission Staff Working document: scaling up international climate finance after 2012, European Commission, Brussels, 8 April 2011 40-44. [http://ec.europa.eu/economy\\_finance/articles/financial\\_operations/pdf/sec\\_2011\\_487\\_final\\_en.pdf](http://ec.europa.eu/economy_finance/articles/financial_operations/pdf/sec_2011_487_final_en.pdf)

<sup>9</sup> EIB, 2009, The European Investment Bank and Carbon Finance, [http://www.eib.org/about/news/the-european-investment-bank-and-carbon-finance.htm](http://www.eib.org/eib.org/about/news/the-european-investment-bank-and-carbon-finance.htm)

<sup>3</sup> World Bank, 2011, State and Trends of the Carbon Market 2011.

<sup>4</sup> Point Carbon, 8 Dec 2011, ANALYSIS: Market could withstand EIB selling pressure

<sup>5</sup> FERN, Trading Carbon, 2010; Carbon Trade Watch, 2009; Focus on the Global South, 2010.

- shoring up collapsing supply-side confidence in post-2012 market demand (see section three).

**The benefit for offset-credit producers:** Support in accessing the carbon market; help in finding finance and expertise; a guaranteed purchaser; and an income stream beyond 2012.

**The benefit for compliance buyers:** Institutional resources allow the development of new projects and markets that risk-averse private finance would not usually touch; smaller companies are not equipped to operate on the carbon markets directly; the projects are EIB financed and so generate the supposedly 'highest quality' (i.e. most trustworthy) carbon credits; and the EIB advertises its 'organisational capacity and expertise' and 'project appraisal experience and due diligence'.<sup>10</sup>

**Fund Management:** All carbon funds sponsored by the EIB are managed by a team (either public or private), consisting of a carbon adviser and a portfolio manager. This combination allows complementarities between a carbon finance specialist and specialist(s) on administrative, compliance, monitoring, and reporting aspects. These roles are filled by external consultancies. For instance, the Multilateral Carbon Credit Fund (MCCF) was developed using an intermediate structure involving three independent, private sector companies acting as 'carbon managers'. While the MCCF Secretariat carries out supervision; the negotiation, contracting and monitoring of carbon offset transactions are outsourced to these independent consultants, each of them covering a specific region. Furthermore, although the carbon managers negotiate the Emission Reduction Purchase Agreements (ERPAs) with the selling project companies, the actual contracting is carried out through the company Stichting CPI.<sup>11</sup>

**Funding sources:** 65 per cent of the total €589m has been committed by EU compliance buyers (governments, companies with emissions targets under the EU ETS and intermediaries investing on behalf of such compliance buyers) while 20 per cent came from European Development Financial Institutions. The rest of the commitments are born by EIB's own balance sheet.<sup>12</sup>

#### Other carbon-financing instruments:

**I. New Entrants' Reserve (NER) auction fund (NER300).** A financing instrument managed jointly by the EIB, the European Commission (EC) and Member States. It exists to sell 300m permits-to-pollute within the EU ETS and use the returns to subsidise innovative renewable energy technology and carbon capture and storage (CCS).<sup>13</sup> But the revenue stream expected from this initiative has been severely reduced because of a collapse in carbon prices in 2011, from the height of €30 in 2008 to little more than €7 per tonne<sup>14</sup> — a collapse due to an oversupply that ironically is exacerbated by the 300m permits this scheme brings to the market, at a time where carbon prices have lost as much as 60 per cent<sup>15</sup> of their value within six months.

EIB's role is dependent upon external consultants, in this case due to the lack of in-house expertise to evaluate the proposals for CCS and renewable energy projects.<sup>16</sup>

**II. The Althelia Climate Fund.** Despite the many critical problems created by forest-carbon-trading schemes (see section six), the EIB is considering a €20m investment in the €200m Althelia Climate Fund.<sup>17</sup> The fund will support offset-credit-issuing initiatives in land use, ecosystem services and forest carbon (REDD+), based in Africa and Latin America, through forward purchase agreements of offsets. The EU ETS will not accept forest carbon credits until at least 2020, so potential buyers are sought in the voluntary offset market.

**III. Rainforest bonds.** A joint development by the EIB with Asia Development Bank and the World Bank, rainforest bonds promise investors a yield by monetising the value of standing forest, including potential payments for forest-carbon credits.<sup>18</sup> Who would be the issuer of the bonds and whether communities involved in such bond-financed forest offset projects would end up bearing the risks arising from reliance on volatile, uncertain forest carbon markets, remains unclear but highly likely.

13 <http://www.ner300.com>

14 Point Carbon EU ETS carbon permit price data: <http://www.pointcarbon.com/news/marketdata/euets/forward/eua/>

15 Point Carbon, 6 Dec 2011, EUAs claw back from record low of 6.77 eur/t, <http://www.pointcarbon.com/news/1.1697741>

16 NER300, 2010, Commission launches call for NER300 evaluators, 26 August 2010, <http://www.ner300.com/?p=90>

17 <http://www.eib.org/projects/pipeline/2010/20100720.htm>

18 Carbon Finance, 2011, Rainforest bond aiming to monetise REDD+ credits, 4 May 2011, [www.carbon-financeonline.com](http://www.carbon-financeonline.com)

10 EIB, The EIB and Carbon Finance Frequently Asked Questions (FAQs) [http://www.eib.org/attachments/eib\\_and\\_carbon\\_finance\\_faq.pdf](http://www.eib.org/attachments/eib_and_carbon_finance_faq.pdf)

11 [http://www.gab-ibn.com/IMG/pdf/Ar6\\_MCCF\\_Signs\\_First\\_Project\\_In\\_Armenia.pdf](http://www.gab-ibn.com/IMG/pdf/Ar6_MCCF_Signs_First_Project_In_Armenia.pdf).

12 Cusworth, 2011, CRBM correspondence with Oliver Cusworth, Communications Officer, The European Investment Bank, 2 August 2011

**Table A**

Fund name	Multilateral Carbon Credit Fund (MCCF)	Carbon Fund for Europe	Post-2012 Carbon Fund	EIB-KfW Carbon Programme I	EIB-KfW Carbon Programme II	Fonds Capital Carbone Maroc (FCCM)
Held by	EIB/EBRD	EIB/World Bank	EIB	EIB & KfW (Kreditanstalt für Wiederaufbau)	EIB & KfW (Kreditanstalt für Wiederaufbau)	
Capital	€208.5 million	€50 million	€125 million	€100 million	€100 million	€26 million
Sovereign investors	Finland, Belgium (Flanders), Ireland, Luxembourg, Spain	Fondo Portugues de Carbono, Portugal, Ireland, Luxembourg, Belgium (Flemish)				
Corporate investors	Zeroemissions (ESP); CEZ (CZE) Endesa (ESP), Gas Natural (ESP) and PPC (GRC)	Stakraft (energy company) (NOR)	Caisse des Dépôts, Instituto de Crédito Oficial, KfW Bankengruppe, Nordic Investment Bank			Groupe Caisse de Dépôt et de Gestion, Caisse des Dépôts et Consignations
Remit and geographic focus	Specifically aimed at countries from Central Europe to Central Asia	Any project within the CDM or JI mechanisms. Host countries include Czech Republic, Egypt, Jordan, Malaysia, Nigeria, Russia, Thailand	Any project under the CDM or JI, post 2012.	Any project under the CDM or JI	Focus on Least Developed Countries within the CDM and JI, and under their successor(s), 2013-20	To help Moroccan projects proposed under the CDM by acquiring their credits over the period 2008-2017
Carbon managers	Royal Haskoning, Greenstream Network, ICF Consulting	World Bank	Conning Asset Management (Europe) Limited (Investment Manager) and First Climate (Investment Adviser)	KfW	KfW	Accès Capital Atlantique S.A.(ACASA)
Project types	<ul style="list-style-type: none"> <li>• Energy efficiency in industry and larger projects in the residential sector (double glazing, insulation)</li> <li>• Renewable energy such as wind, hydro, biogas (from landfills/wastewater) and biomass</li> <li>• Avoidance of venting/flaring from gas exploration, transport and distribution and petro-chemical plants</li> <li>• Fuel-switching from carbon intensive (coal, mazut, oil shale) to less carbon intensive fuels such as natural gas</li> <li>• Sequestration of greenhouse gases (forestry)</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable energy such as wind, hydro, solar, fuel switch from fossil to biofuel</li> <li>• Energy Efficiency in buildings and industries Methane recovery from landfill or wastewater treatment</li> <li>• Recovery of natural gas otherwise flared</li> </ul>		<ul style="list-style-type: none"> <li>• Renewable Energy</li> <li>• Landfill gas</li> <li>• Coal mine methane, coal bed methane</li> <li>• Fuel switch</li> <li>• Energy Efficiency</li> <li>• Carbon Capture and Storage</li> <li>• Land use, land use change and forestry*</li> </ul>	<ul style="list-style-type: none"> <li>• Small energy efficiency</li> <li>• Renewables (landfill gas and coal mine methane)</li> <li>• Fuel switching in LDCs Project examples:</li> <li>• Hunan Taoyuan Huireni Hydropower Project, China: <ul style="list-style-type: none"> <li>- Swiss Atmoguard credit buyer (KfW, 2008)</li> </ul> </li> <li>• Chiller Energy Efficiency Programme, India</li> <li>• Biogas Support programme, Nepal</li> <li>• Chiller Energy Efficiency Programme, Philippines</li> <li>• Solar Water Heating, South Africa</li> <li>• Boiler Modernisation, Poland**</li> </ul>	<p>Areas covered by FCCM:</p> <ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Waste management</li> <li>• Afforestation and reafforestation</li> </ul> <p>Project examples:</p> <ul style="list-style-type: none"> <li>• Essouria wind power project (60 MW) in Cap Sim, Morocco. France and Switzerland are involved parties</li> </ul>

\* <http://www.KfW.de>\*\* <http://www.KfW.de>

### 3. A Crisis of Supply/Demand and Carbon price

Under the Kyoto Protocol, 37 industrialised countries, including EU Member States agreed to reduce their emissions on average to 5.2 per cent below 1990 levels, by 2012. Subsequently, legislation created the EU ETS, which while requiring industries to make reductions, allowed them to include a percentage of offset credits.<sup>19</sup> In the UK, this was eight per cent; in Spain and Germany, 21 and 22 per cent respectively. For installations in specific industry sectors, up to 50 per cent of emission reductions can be achieved through offset credits.<sup>20</sup>

However, the functioning, such as it is, of these carbon markets depends on a predictable and sufficiently high carbon price. If the price falls too low, it ceases to be either a disincentive to polluters, or an incentive to investors and speculators. In 2011 carbon prices have taken hammer blows from two directions:

First, prices have been driven down by an over-allocation of permits to existing industry, exacerbated by post-2008 economic shrinkage, and a political decision to allow industries covered by the EU ETS to accumulate and roll over their permits year on year. Polluting industries in the EU have amassed 970m surplus permits: enough to meet all their reduction targets until 2017, and perhaps as far as 2020 and beyond,<sup>21</sup> without any need for further real reductions in output, or indeed for further purchases of offset credits via the CDM.

Second, the market for carbon allowances is created almost entirely by legislation, but no decision has yet been taken for a second commitment period with legally binding reduction targets to follow when the Kyoto Protocol's first commitment period ends in December 2012. There is therefore a huge degree of uncertainty amongst offset credit producers about what, if any, demand there will be outside of the EU ETS beyond 2012. This huge potential risk creates a disincentive to investment in carbon-offset initiatives.

It is in this context that the EIB seeks to stabilise the carbon markets and ensure their continuation into the next decade, by making commitments to purchase carbon credits beyond 2012.

### 4. The Role of Consultants

The EIB claims that its 'principal contribution' to the funds is 'through the catalytic effect it has achieved by taking the initiative with other parties to establish new organisational capacity and expertise to meet the needs of the carbon finance market' and makes mention of the importance of its 'project appraisal experience and due diligence capacity'.<sup>22</sup> However, the outsourcing of fund management to external consultants tells a different story. Internal expertise would appear to be lacking, and organisational capacity is not being developed. The bank will not disclose what fund management fees for these consultancies amount to, but it is clear that they constitute another layer of developed-world industry making a significant profit from carbon trading.

**Table B Fund management**

Fund	Fund managers
Multilateral Carbon Credit Fund (MCCF)	Royal Haskoning, Greenstream Network, ICF Consulting
Carbon Fund for Europe	World Bank
Post-2012 Carbon Fund	Conning Asset Management (Europe) Limited (Investment Manager) and First Climate (Investment Adviser)
EIB-KfW Carbon Programme I	KfW
EIB-KfW Carbon Programme II	KfW
Fonds Capital Carbone Maroc (FCCM)	Accès Capital Atlantique S.A.(ACASA)

### 5. What kind of projects are being funded through the EIB?

Citing confidentiality, the bank does not disclose a full list of supported projects; the volumes of finance involved; or the fees it and the consultants involved charge for managing these funds. But from occasional references, some examples can be identified.

a. **Gas flaring reduction** in the oil industry in Siberia.<sup>23</sup> A classic example of a dirty, polluting industry (that ruins the livelihoods of indigenous peoples and local ecosystems and economies) receiving carbon credits for marginal reductions in its unacceptable practices. Similar payments have been made to companies

19 See European Commission website about the EU ETS, [http://ec.europa.eu/clima/policies/ets/index\\_en.htm](http://ec.europa.eu/clima/policies/ets/index_en.htm)

20 Reyes, 2010, Carbon market 'growth' is mainly fraudulent, World Bank report shows, <http://www.carbontradewatch.org/articles/carbonmarket-growth-is-mainly-fraudulent-world-bank-report.html>

21 Carbon Market Europe, Vol 10 Issue 47, 2 Dec 2011

22 EIB, The EIB and Carbon Finance Frequently Asked Questions (FAQs) [http://www.eib.org/attachments/eib\\_and\\_carbon\\_finance\\_faq.pdf](http://www.eib.org/attachments/eib_and_carbon_finance_faq.pdf)

23 World Bank, 2011, Russian Federation: Rosneft Associated Gas Recovery Project for the Komsomolskoye Oil Field (CFE), accessed 25 July 2011, <http://wbcarbonfinance.org/Router.cfm?Page=CFE&FID=30444&ItemID=30444&ft=Projects&ProjID=47068>

operating highly controversial oil-extraction operations in Nigeria.<sup>24</sup>

**b. Fossil-fuel switching** from shale oil, mazut and coal to natural gas. Switching from one fossil fuel to an (arguably) marginally less dirty one is a contentious use of climate-change funding.

**c. Landfill gas.** Funding for landfill gas — that is, waste-to-energy projects — accounts for 12 per cent of the EIB's carbon fund portfolio.<sup>25</sup>

**d. Dams.** The EIB has bought offsets from large hydropower projects such as the Ruzizi project in Rwanda, the Bujagali dam in Uganda and Hunan Taoyuan Huirenxi Hydropower Project in China.

**e. Land grabs.** Increasingly, offset credits may be sourced from broader ecosystem functions (biodiversity, soil, water etc). Under the CDM, land is being used and communities are being forcefully removed in order to make way for monoculture tree plantations. There is a risk of widespread land grabbing through the CDM and similar offset mechanisms for projects that require large, preferably unpopulated areas of land such as industrial tree plantations and biofuels in Africa. There are proposals on the table at the UN climate talks to widen the range of projects that are eligible for CDM funding and this includes GM crops, biochar, and soils, as greenhouse gas sequestration projects.<sup>26</sup>

### Project example

**In Uganda, communities have been displaced from the Namwasa forest by the police and military to make way for large-scale tree planting by the UK-based New Forests Company (NFC).**<sup>27</sup> In 2008, the EIB proposed a €4.65m loan to finance a NFC Forestry Project to plant fast-growing eucalyptus and pine trees in order to generate CDM offset

credits.<sup>28</sup> Namwasa plantations in Uganda are spotlighted in an EIB annual report that boasts of its green credentials.<sup>29</sup> Meanwhile, NFC is taking over more land in Uganda and elsewhere in Africa for plantations and wood products industries.<sup>30</sup> Conflicts between local population and the company have escalated over violent evictions from the land to be covered with tree plantations.

## 6. Forest Carbon Trading

Of great concern to the authors of this briefing are moves by the EIB to extend its activities into forest carbon trading. Forest carbon offsetting suffers from all the weaknesses and illogicalities of other carbon trades, and in addition has some particular issues of its own:<sup>31 32</sup>

- Carbon trading presumes, falsely, an equivalence between fossil carbon released from permanent storage underground, and biosphere carbon stored temporarily in standing timber;
- The use of forest offsets is yet another demand by the global North on the productive lands of the South;
- They tend to fund mega-plantations that have well-documented negative impacts on forests and forest peoples;
- Halting forest loss requires action against the underlying causes of deforestation. Linking forest protection and reforestation with increased fossil-fuel-emitting activities and with more monoculture tree plantations is a dead end for the climate, for forests and forest peoples;
- Measuring the carbon flows in forests is fraught with uncertainties. Levels of accuracy required for a carbon trading scheme, where forest offsets are treated as equal to fossil carbon emissions, are virtually impossible to achieve. It is also important to realise that without drastic cuts in emissions (as opposed to just moving them around, as offsets do) forests will be lost in the long-term as a result of climate change.

24 Heinrich Böll Foundation, 2009, Energy Futures? ENI's investments in tar sands and palm oil in the Congo Basin, November 2009, [http://www.foeeurope.org/corporates/Extractives/Energy\\_Futures\\_eng.pdf](http://www.foeeurope.org/corporates/Extractives/Energy_Futures_eng.pdf)

25 Cusworth, 2011, CRBM correspondence with Oliver Cusworth, Communications Officer, The European Investment Bank, 2 August 2011

26 African Biodiversity Network et al, 2011, The CDM and Africa: Marketing a new land grab, [http://www.africanbiodiversity.org/system/files/PDFs/CDM%20Report\\_Feb2011\\_lowres.pdf](http://www.africanbiodiversity.org/system/files/PDFs/CDM%20Report_Feb2011_lowres.pdf)

27 allAfrica, 2010, Encroachers leave Namwasa Forest, The New Vision, <http://allafrica.com/stories/201001130470.html>

28 EIB, 2008. NFC Forestry Project, <http://eib.org/projects/pipeline/2006/20060582.htm>

29 EIB, 2010, African, Caribbean and Pacific Countries (ACPs) Overseas Countries and Territories (OCTs), Annual Report 2010, [http://www.eib.org/attachments/country\\_if\\_annual\\_report\\_2010\\_en.pdf](http://www.eib.org/attachments/country_if_annual_report_2010_en.pdf)

30 RDB 2011, GOR signs agreement with the New Forests Company, Rwanda Development Board, <http://www.rdb.rw/news-pages/news-details/article/press-release-gor-signs-agreement-with-the-new-forests-company-nfc.html>

31 FERN, 2010, Trading carbon.

32 The Munden Project, 2011, REDD AND FOREST CARBON: Market-Based Critique and Recommendations, [www.mundenproject.com/forestcarbonreport2.pdf](http://www.mundenproject.com/forestcarbonreport2.pdf)

Despite mounting evidence about the unsuitability of carbon trading as a financing instrument for reducing forest loss, the architects behind global REDD discussions continue to strongly favour a forest-carbon trading scheme.<sup>33</sup> Meanwhile a parallel forest-carbon market has emerged through voluntary offsetting, bilateral intergovernmental contracts and other interim agreements.<sup>34</sup>

UN climate decisions also suggest that REDD+ finance will be used to finance monoculture tree plantations (storing as little as 20 per cent of the carbon stored in natural forests, per acre, that they replace)<sup>35</sup>; to finance tree plantations on agricultural lands; and will reward dirty-energy and logging companies for marginal improvements in their damaging practices.

The EIB is not waiting for UN negotiations on crucial financing decisions pertaining to REDD to conclude, but is already laying the ground for forest carbon offset projects. In May 2011, Christopher Knowles, Head of Climate Change and Environment at the EIB stated that he hoped its support for a €250m climate fund will spur European investments in REDD+. He added that the bank was willing to make a significant investment in forest-carbon offsets, despite the fact that the EU has excluded forest-carbon credits from use in the EU ETS until at least 2020.<sup>36</sup>

## 7. Winners and Losers in the EIB Carbon-Funding Game

The **losers** are: local and forest-dependent communities pushed aside for CDM-sponsored land grabs; low-carbon initiatives tied to a volatile and depressed carbon price and (post 2012) uncertain income streams; and finally the climate itself — as none of this trading activity engenders the structural change to a low-carbon economy that must be an immediate priority if global warming is to be limited to an increase of 2°C.

The **winners** are high-carbon sunset industries in the industrialised world that can continue to pollute with impunity using free permits and ultra-cheap offset credits; and large dirty industries in countries with developing and transition economies that have the resources to work the funding system, claiming credits for marginal improvements to their existing high-carbon processes. Other winners are consultants managing the EIB funds; and carbon traders.

It is clear that this project-based, piecemeal approach, coupled with an immense self-serving carbon-trading superstructure, is simply not capable of triggering the systemic transformations required. The EIB, along with other institutional players, must develop a different policy: pushing for stringent legislation to force the industrialised world to rapidly reduce (not offset) its emissions, phase out fossil industrial fuel use and make significant investments in transformative technologies, starting now.

To read the original report on which this briefing is based please visit: <http://www.counterbalance-eib.org/wp-content/uploads/2011/12/BANKING-ON-CARBON-MARKETS.pdf>

<sup>33</sup> <http://www.fern.org/carbonmarketswillnotdeliver>  
FoE, State of the forest carbon market: A critical perspective, [http://libcloud.s3.amazonaws.com/93/a19/872/State\\_of\\_the\\_forest\\_carbon\\_market\\_a\\_critical\\_perspective\\_2011.pdf](http://libcloud.s3.amazonaws.com/93/a19/872/State_of_the_forest_carbon_market_a_critical_perspective_2011.pdf)

<sup>34</sup> FoEI, 2010, REDD: the realities in black and white, Friends of the Earth International, <http://www.foei.org/en/resources/publications/pdfs/2010/reddthe-realities-in-black-and-white>

<sup>35</sup> Palin et al. (1999). Carbon Sequestration and trace gas emissions in slash-and-burn and alternative land uses in the humid tropics, Palin et al., ASB Climate Change Working Group, CGIAR, Final Report, Phase II, [www.asb.cgiar.org/pdfwebdocs/Climate%20Change%20WG%20reports/Climate%20Change%20WG%20report.pdf](http://www.asb.cgiar.org/pdfwebdocs/Climate%20Change%20WG%20reports/Climate%20Change%20WG%20report.pdf)

<sup>36</sup> Point Carbon, Interview: EIB injects green in REDD carbon fund, 24 May 2011, [www.pointcarbon.com](http://www.pointcarbon.com)

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