

Making Carbon Markets: Brits abroad

How is business actually done in carbon markets? How do buyers and sellers of CDM projects and their associated CERs (Certified Emissions Reductions) come together to agree terms? What are the politics of this and what is the role of governments in enabling and overseeing these exchanges?

As part of my ESRC Climate Change Leadership fellowship on *The Governance of Clean Development* www.clean-development.com I am interested in the political and institutional aspects of how clean development is governed in practice. This is what brought me to Argentina for a second round of field work as one of the case study countries for the research conducted under this programme. While there, I received an invitation to attend from both the people I know at the Buenos Aires commodities exchange (*Bolsa de Comercio de Buenos Aires*) (<http://www.bcba.sba.com.ar/home/index.php>) and the British Embassy who co-hosted the event. This short report shares my reflections based on attendance as well as insights gained from interviews and meetings with many of the people that attended it.

The UK trade mission of which this event was a part was one of many organised by the UK Climate Change Projects Office ([www.berr.gov.uk/what we do/sectors/ccpo](http://www.berr.gov.uk/what-we-do/sectors/ccpo)) which seeks to identify and facilitate business opportunities for UK business in overseas carbon markets. The Buenos Aires commodities exchange was the host and has been active in promoting Argentina as an attractive location for CDM investments, having organised two previous such events with the UK embassy.

The event was split into two; a morning session of presentations and an afternoon session of face to face business meetings previously arranged to explore opportunities for new investments in carbon markets. The Lord Mayor of the City of London opened the meeting underscoring why the UK, and London in particular, is interested in carbon markets as the hub of the global carbon economy, while the head of the Argentine climate change unit explained the decision-making process for approval of CDM projects in the country. Then came the turn of presenters from JPMorgan/Climate Care, Eco-securities and SGS spelling out the technical detail of what is involved in setting up projects and seeing them all the way through the verification process to the release of CERs. This was followed by presentations on the legal aspects of emissions purchase agreements by representatives from Gazprom and IT power and the different ways in which sensitive issues of the division of the spoils from CDM projects are worked out between project hosts and buyers. The final session then looked at project financing with presentations from BNP Paribas, Trading Emissions Plc and Ice Cap, one of the largest buyers of CERs from CDM projects, which provided fascinating insights into how risk is identified and managed in carbon markets.

Those attending included many of those you would expect: the brokers, project developers and consultants who make their living from a buoyant carbon market, government officials from the Designated National Authority which screens and decides whether to accept projects and Argentine firms looking to add value to their existing operations through CDM money and UK firms looking to buy up CERs to offset their own emissions or profit from selling on CERs. What I found fascinating, however, having interviewed many of the key players and seeing how they interact in an event like this, was the revolving door that operates and the overlapping roles between those in the worlds of government CDM authorities on the one hand and project developers and verification firms and industry buyers on the other, where in theory these roles are clearly distinct and demarcated. In many ways this is not surprising given the demand for expertise by all parties and the more attractive salaries available in the private sector (given the flow of personnel tends to be in that direction), but the blurring of public and private power and authority is significant and renders problematic many conventional assumptions about how (clean development) governance works in theory and practice.

The importance of trust and social capital which serves as the glue for these market interactions also becomes apparent at events like this. The verifiers and project developers seek to set themselves apart in the market by virtue of their credibility and success rates in getting projects through the complex UN CDM project approval system. Some consultants gained a bad reputation for themselves in the early days of CDM in Argentina by promising high financial returns for low investments in projects they claimed would pass from development to approval and release of CERs very quickly. Several project rejections later and a business community both more sceptical about the easy money to be made from CDM and showing a greater appreciation of the financial barriers and legal and political barriers to successful projects, and the market has a different look to it. The financial crisis and the uncertainty about the future form of the CDM post 2012 (as well as the closing window to get projects through the process in time to receive CERs before that date) have also engendered a more sober assessment of what the CDM has to offer.

Having recently visited particular CDM project sites, followed the climate change negotiations which gave rise to them since the early 1990s and now studied the intermediary role of governments and market makers, I have an nuanced sense of how power and value flow through these networks of decision-making and how and why global priorities and intentions, once refracted through national and sub-national political processes, look very different 'on the ground'. From a development perspective trying to imagine ways in which the pressing needs of poorer groups for access to clean and reliable energy sources can be met through global market mechanisms such as the CDM (as opposed to or alongside the many other sources of public and private finance that are meant to perform this role), remains an enormous challenge and frankly seems a world away from the plush surroundings of commodity exchanges which is where the business of carbon markets currently takes place.

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