

ENVIRONMENT UTILITIES MARKETS



This article seeks to give a brief overview of the development of environment utilities markets worldwide.

In the late 1980's, the carbon trading market was established in an attempt to tackle global warming. This came into its own after the Kyoto protocol was signed in 1997 and came into force in 2005.

The Kyoto protocol is a protocol to the United Nations Framework Convention on Climate Change, which has as its objective the prevention of climate change caused or induced by human beings by way of a reduction of greenhouse gases. Carbon is the main element in the greenhouse gas emissions and therefore there is a concentration in a reduction in carbon emissions.

The concept behind the protocol is that to avoid the damaging effects of global warming, the total amount of greenhouse gases in the earth's atmosphere needs to be reduced. Each developing country that ratifies the convention has the obligation to monitor and report greenhouse gas emissions, the developed countries that have ratified the treaty have an obligation to reduce their greenhouse gas emissions to levels specified in the treaty. Overall the average reduction required is 5.2% below 1990 levels by the year 2012.

In order to meet this target countries have implemented a number of methods which include the following:

1. Cap and trade schemes (mandatory in European Union Countries) which cover heavy industry and power generation. This places a limit or cap on the emission of these greenhouse gases that a company can discharge per year. If a company releases emissions that are below this cap, they can sell the balance to companies with emissions above the cap. Since the principal component underlying the Kyoto Protocol is the protection of the atmosphere the emphasis is not necessarily on the location of the source of the emissions but the total amount of emissions in the atmosphere. Rather than rigidly forcing the reduction of emissions country-by-country, (or company-by-company), the market creates a choice: either spend the money to cover the costs of cutting pollution (emissions), or else continue polluting (emitting), and pay someone else to cut their pollution.
2. Obtaining credits from projects that offset or compensate for emissions. By obtaining credits from projects that compensate for or offset emissions. The Kyoto protocol's Clean Development Mechanism, for example, allows developed countries to gain emissions credits for financing projects based in developing countries. The best example is perhaps planting trees or creating forests which are specifically designed to offset carbon emissions. New Zealand claims to be the leading country in utilizing 'forest regeneration'. They claim that they can calculate the carbon removed from the air with these forests which are long term commitment schemes. The idea

behind carbon credits therefore is there is a financial incentive to remove carbon from the atmosphere

The reduction of one metric tonne of carbon dioxide (or carbon dioxide equivalent in other greenhouse gases) is the equivalent of one 'carbon credit'. These carbon credits can then be sold on behalf of the landowners of the regeneration sites. The 'cap and trade scheme' and the Clean Development Mechanism has created a financial incentive to remove carbon from the atmosphere and have caused carbon credits to be bought and sold on the world market, accordingly they have now become a tradable commodity.

In 2005, the World Bank, one of the main players in carbon financing, estimated the value of carbon traded that year to be approximately ten billion United States Dollars, further they have indicated that they believe that the carbon market has the potential to bring more than twenty five billion Unites States Dollars in new financing for sustainable development in developing countries.

Trading firms, brokers and banks can profit by earning commissions on the trading of carbon credits.

In recent years the concept of trading carbon credits has been expanding to include not only carbon credits but other environmental utilities provided by rainforests. Examples of ecosystem services that rainforests provide include providing shelter to animals and persons, acting as a pump drawing water inland from the oceans and delivering moisture over vast distances, and the reduction of carbon dioxide in the atmosphere.

In March of this year, London based financiers entered into an agreement with Guyana to pay an annual fee in exchange for ecosystem services provided by a rainforest in Guyana known as Iwokrama.

The annual fee has not been disclosed but it is an amount that is said to be the primary source of funds for the Iwokrama International Centre for Rain Forest Conservation and Development. This centre is an autonomous non-profit institution that exists to promote the conservation and the sustainable and equitable use of tropical rain forests in a manner that leads to lasting ecological, economic, and social benefits to the people of Guyana and to the world in general, by undertaking research, training, and the development and dissemination of technologies. It is estimated that the annual budget of the Iwokrama International Centre for Rain Forest Conservation is in excess of One Million United States Dollars.

In exchange for annual payments, the financiers do not have the right to log, to farm or even to develop medical patents or conduct experiments on the forests' animals and plants. They do not own the land, nor do they have the right to any resource produced by the land. The only right they have is to the environmental utilities of the rainforest and the right to trade those utilities if and when a market, similar to carbon credit trading, is ever established. The financiers in question have therefore taken the chance that markets, similar to the carbon credit market will be created during the course of their agreement, and that they will be able to make a profit from their investment into Iwokrama.

The development of these concepts has exciting implications for Jamaica.

Some Jamaican businesses can take part in the carbon credit market by applying for accreditation as producers of carbon credits and then selling those carbon credits. It is also possible that the Iwokrama model of earning revenue could be utilized by the Cockpit Country for example, allowing it to earn revenue from its particular and unique set of environmental services.

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