Money for Nothing
Carbon cartels and the rise of a phantom industry
By John Charles

Imagine you owned a few hundred acres of timberland that you had no intention of cutting any time soon, but you get paid for leaving the trees standing anyway because you sell "carbon sequestration" as a new commodity.

Or imagine that you build a bunch of windmills. First you get subsidized with federal tax credits, then you sell the electricity to a utility, and finally you sell the "environmental amenities" of the windmills (avoidance of carbon dioxide emissions) to a different buyer as a completely separate revenue stream from the electrical output.

At first blush, it seems too good to be true. People can literally make money out of thin air? Someone will actually pay you for a commodity called "carbon offsets" that can't be seen or measured and gives the buyer nothing to show for in the way of ownership after making the purchase? Who would do that, and why?

Carbon trading is now a $60 billion global industry, brought on by a bizarre fear of a relatively harmless gas known as carbon dioxide (CO_2). Oregon has been a leader in the development of this esoteric concept, and if Gov. Ted Kulongoski gets his way, virtually every Oregonian will be part of the carbon market within a few years, whether they like it or not.

At the moment, the carbon offsets market is mostly a voluntary one in Oregon, with the exception of the electric utility industry. But the governor wants to impose strict limits on CO_2 emissions statewide, thus creating market value for carbon offsets that would otherwise not exist. Whether these offsets actually have any intrinsic value is a question every state legislator should ask before voting to extend Oregon's current carbon rationing program.

Oregon's 1997 Carbon Standard

In 1997 Oregon passed the nation's first law regulating CO_2 emissions from new electrical generating facilities. The allowable emission rate for CO_2 from such facilities is 17 percent below the cleanest known plant in the country. And the rate will be periodically adjusted to remain 17 percent below state-of-the-art. Therefore a power plant developer cannot actually comply with the standard.

In order to get a permit from the Oregon Energy Facility Siting Council (EFSC), the facility owner may choose to meet part or all of the reduction target by making a one-time, lump sum payment of funds to the Oregon Climate Trust, a nonprofit organization incorporated in 1997, to offset the carbon emissions over the life of the power plant. In turn, the Trust must use the funds to carry out projects that avoid, sequester or displace the carbon dioxide that the plant will emit in excess of the required standard.

As an extortion scheme, this program has been tremendously effective; all fossil-fueled Oregon power plants built since 1997 have made payments to the Climate Trust. But once power plant developers hand over the protection money, what do they get in return?

In its first 10 years of operation the Trust has spent more than $8.8 million on projects claimed to offset nearly 2.6 million metric tons of carbon dioxide. One of the earliest projects it sponsored was an Internet-based carpool program run by the city of Portland, called CarpoolMatchNW.org. It was created in 2001 with $120,000 in seed money from the Climate Trust. Portland's Office of Transportation (POT) took the lead in implementing the program, and other bureaucratic entities including Tri-Met, C-Tran in

Vancouver, and the city of Salem also signed on. The program was based on the belief that if people could log on to an Internet site to find compatible carpoolers, significant numbers of people would leave their cars behind and begin ride-sharing, thereby avoiding the generation of CO_2, offsetting the emissions from the power plant that was forced to pay the original $120,000 (as part of a much larger tab of $1.2 million for other carbon emissions).

Project sponsors were very excited about the potential of CarpoolMatchNW.org. Kris Nelson, then a program manager for the Climate Trust, told Michelle Cole of the *Oregonian* in May 2001 that the Trust was enthused about the program "not only for its potential to demonstrate real CO_2 reduction. But also because this starts to crack the transportation nut."

It's not clear what the transportation "nut" was, but presumably it had something to do with the annoying tendency of motorists to prefer private auto use over having to schedule car-sharing with others ahead of time.

However, the project's backers should have seen some large warning signs right at the get-go. First, carpooling has been steadily dropping over the past 20 years. To the extent that there is any carpooling at all, it is dominated by so-called "fam-pools," that is, family members sharing rides, such as parents driving a few kids to school while on the way to work. As Louise Tippens, the first manager of CarpoolMatchNW.org noted at the time, "The interesting thing about Portland-area carpools is that most are comprised of family members."

Nonetheless, in a case of hope triumphing over experience, bureaucrats charged forward into the Internet carpooling world. After one year of promotion, the results were underwhelming. Portland had promised the Climate Trust that carpooling would generate 2,000 tons of carbon offsets. The estimated actual number was only 95 tons, or roughly 5 percent of the goal. So few people signed up in the first year that a *Portland Tribune* feature story on the program estimated each new carpool formed had cost electricity ratepayers a whopping $29,000.

The program's administrators were understandably upset with this publicity and claimed it was too early to pass judgment. But the program's verification data showed motorists were not responding well to the campaign. For the next three years, the targets jumped to 4,500, 7,500 and 8,000 tons respectively, but the cumulative offsets for the four-year period only totaled 14 percent of the goal.

Local news media provided no coverage of this story, perhaps in part because the project's backers went out of their way to bury the results. Each year, the Portland Office of Transportation is required to submit a verification report to the Climate Trust. One would think those reports would be available on the website of either the City of Portland or the Oregon Climate Trust, or both. That assumption would be wrong. Those reports are only available if specifically requested, and apparently local news media never asked.

A breach of trust?

The Climate Trust now admits that the project failed. The Trust's website notes that the goal for the project was 70,000 tons of CO_2 offsets over 10 years, but it only achieved 3,075 after five years — and those were *estimated*, not measured. Therefore, the Trust terminated its contract with Portland in 2006.

A clause in the contract allowed Portland to fulfill its CO_2 offsets obligation by substituting offsets from other activities. After negotiations, the city provided replacement offsets from two transportation projects: the Eastside Hub project (20,614 metric tons) and the TravelSmart Interstate project (4,268 metric tons).

Both projects utilized “individualized marketing strategies to reduce trips and promote alternative methods of transportation.”

Oddly enough, despite five years of consistently disappointing results from a project aimed at changing individual travel behaviors, the Climate Trust accepted substitute offsets from two other projects designed, once again, to change individual travel behaviors, without any attempt at verification. According to Jed Jorgenson, who until recently was the marketing and communications manager at the Trust, “While both are excellent projects, The Climate Trust did not attempt to quantify their results. These replacement offsets are not included in the Climate Trust’s offset portfolio.”

This is a clear violation of the Trust’s operating principles. On its website, the Trust claims, “There are two key principles the Climate Trust considers essential to the assurance of an offset’s ability to deliver on its promise of an actual reduction in greenhouse gas emissions: *Additionality* and *Ongoing Monitoring and Verification.”*

“Additionality?” The term means that the claimed offsets result from activities or investments that would have not been made otherwise. A commitment to “monitoring and verification” implies that those forced to pay for offsets through the 1997 law actually get them. The Trust states: “Each project must have a monitoring plan that defines how, when and by whom the quantification will be done. All emissions reductions must be verified by an independent third party.”

None of this was done for the CarpoolMatchNW.org project. The annual reports to the Trust were submitted by the POT, not an independent third party. The estimated emissions reductions were calculated based on surveys of dubious quality, not actual observations of individual behavior. And when the city finally admitted that the Internet carpooling program had failed, the Climate Trust allowed them to backfill with a huge number of offsets from two similar programs that *the Trust admits it made no effort to verify*.

Even a cursory examination of the data related to the Eastside Hub project and the TravelSmart Interstate project indicate that these projects suffered from many of the same flaws as the Internet carpool program. The final report published by POT shows that the Hub project was a labor-intensive hand-holding exercise conducted from November 2004 to December 2005, in which a small army of city bureaucrats attempted to persuade people in certain Southeast Portland neighborhoods to get out of their cars. The campaign included mass mailers, “Smart Living Classes,” and a “Women on Bikes” campaign. They also gave away 390 bike helmets to kids and parents. They spent more than $170,000 in materials, required the use of 4.25 full-time equivalent staff positions for the duration, and also received the support of three 32-hour-per-week staff assistants for 12-14 weeks.

The combination of staff time and materials cost taxpayers at least $500,000. Yet the report admits that compared with travel habits before the project began, “carpooling remained the same” in Southeast Portland at the end of the campaign.

The TravelSmart Interstate campaign was a similar marketing program done in conjunction with the opening of the North Interstate light rail line. Bureaucrats were hired, money was spent, brochures were distributed, and in the end, little changed regarding travel patterns.

In fact, the Portland City Auditor publishes a “Services and Accomplishments” report every year, which includes responses to telephone surveys. According to the auditor, changes in Portland commuting patterns have actually gone in the opposite direction of what local planners hoped for, despite *billions* of dollars spent trying to get people to reduce their driving:

Changes in Portland Commuting Habits
2000-2007

	2000	2002	2004	2007	% gain/loss
Drive alone	69%	71%	72%	70%	+1.4%
Carpool	9%	8%	8%	7%	-22%
Bus/MAX	12%	10%	11%	10%	-17%
Walk	5%	4%	3%	4%	-20%
Bike	3%	4%	4%	6%	+100%

Source: Portland City Auditor

Solo driving has gone up, while transit use and carpooling have gone down. This is especially remarkable given that three new light rail lines have opened since 2001: the Red line to the airport, the Yellow line to North Portland, and the extension of Red line service to Beaverton Transit Center.

Accountability lapses

There appears to be little accountability in this process to ensure that those who are forced to pay for carbon offsets get anything in return. The City of Portland had a contractual obligation with the Climate Trust, but the Trust allowed Portland to escape with non-verified replacement offsets. The Climate Trust itself is obligated to submit a five-year report to the EFSC, which it did in September 2004. But on page 10 of that report it dedicates two short paragraphs of happy talk about the CarpoolMatchNW.org project, claiming that it will offset 70,000 tons of CO_2. Nowhere does the report state that just three months earlier, POT had filed its annual report with the Trust admitting that in the first two years of the project, it had only secured 13 percent of its required carbon offsets. Clearly, the carpooling project was not going to meet its goals, but that information was withheld by the Climate Trust when it submitted its five-year report to the EFSC.

When contacted in March 2008, EFSC Manager Tom Stoops professed to know little about the carpooling program and its waste of Climate Trust funds, even though the Siting Council holds three of the seven positions on the Climate Trust’s board.

Meanwhile, the entity that was actually required to pay for the carpool program — the Klamath Cogeneration Project, a 484-megawatt gas-fired, combined-cycle power plant — did not receive any refund of the $120,000 paid to the Climate Trust.

According to Jeff Ball, city manager for Klamath Falls, the cogeneration project (jointly developed by the city of Klamath Falls, Pacific Klamath Energy and PPM Energy) was required to pay $1.2 million to the Climate Trust, which the Trust then allocated to five offset projects. Once the energy project developers cut the check, they had no voice in subsequent decisions about where the money went. If the offsets never come to fruition, they have no legal recourse, despite the fact that the state of Oregon forced them to pay.

It’s also noteworthy that the 24,882 tons of offsets claimed by Portland through the substitution process, *if they actually exist*, violate the Trust’s “additionality” principle, because they were undertaken for other reasons and with other funding. In other words, they would have been achieved even if the Climate Trust had never been incorporated. That may be why they are not included in the Trust’s offset portfolio. But if that’s the case, then they aren’t worth paying for, at least not by the Klamath Cogeneration Project.

On a final note, even with the replacement offsets, the total offsets provided by the POT to the Climate Trust were 27,957. The contract called for 30,000 in the first five years, but the Climate Trust signed off on the lower number, apparently deciding that 93.19 percent of a contract requirement was close enough for government work.

As for the CarpoolMatchNW.org program? Well, as is so often the case, it was kicked upstairs where it can waste money on an even grander scale. Effective July 2006, the program was transferred to Metro so it could be implemented on a regional basis.

Mysterious offset money at Portland Audubon Society

The difficulty in trying to achieve real offsets through carpooling is not an isolated case; virtually every carbon offset transaction poses verification challenges. In 2005, one of the nation's leading environmental advocacy organizations, the Environmental Defense Fund (EDF), claimed in its federal tax filing to have purchased carbon offsets from the Portland Audubon Society to "neutralize ED's carbon emissions." This is supposedly important to EDF because the organization seeks to stabilize global emissions of so-called "greenhouse gases" and believes that this aim "can only be achieved with a worldwide system that sets a limit on pollution, and employs emissions-trading to meet that limit cost-effectively."

Any group calling for mandatory carbon rationing has to "walk the talk" by offsetting all its own carbon emissions voluntarily. According to the organization's federal tax filings, EDF claims to have done this by paying Portland Audubon $16,500 for the offsets. This would not be particularly noteworthy, except that EDF is headquartered in New York City, and Audubon does not advertise itself as a seller of carbon offsets.

When asked about this, Meryl Redisch, the director of Portland Audubon Society, was surprised that EDF listed the gift as an offset transaction. According to Redisch, EDF contacted Audubon and gave them an unrestricted gift of $16,500 for use by the Ocean Alliance. Audubon was sponsoring the group at the time by serving as a fiscal agent for contributions. The Ocean Alliance did not promote itself as a carbon offsets group, no terms were agreed to with EDF, and no contract was signed. There were no deliverables, and no efforts were made to provide EDF with carbon offsets. The $16,500 was used by the Ocean Alliance for salaries of contract employees and other general operating expenses.

The mission of the Ocean Alliance was to "advance ocean health for biodiversity, thriving communities and our children's future." This may be an admirable mission, but it has nothing to do with carbon offsets.

As for EDF members who sent their annual donations to the organization's Park Avenue office in New York, only to have the money shipped out to Portland Audubon Society on behalf of the Ocean Alliance for carbon offsets never received? They'll have to learn that when it comes to claims of environmental advocacy, it is buyer beware.

Hot air in Europe

These are just a few small previews of coming attractions in the carbon offsets world if Kulongoski persuades the legislature to adopt an Oregon carbon limit in the 2009 legislative session. We already know that the mandatory carbon market, which has been in existence in Europe since 2005 due to implementation of the Kyoto Protocol, has been rife with scams. Russia in particular has gamed the system by successfully negotiating carbon limits far above their actual emissions in 1990, the base year for Kyoto compliance.

The *New York Times* wrote a feature story about the Russian energy giant Gazprom in April 2007, noting that the company made a killing in carbon credits for technology investments that it would probably have made anyway. But those profits are purely an artifact of regulatory design. As the *Times* put it, “At current prices, the total value for Russian carbon credits could be between $40 billion to $60 billion. But if negotiations to extend the Kyoto Protocols collapse, carbon credits could be worth nothing.”

How could $60 billion of corporate assets become potentially worthless? Because there is no underlying value to the carbon credits. Gazprom did not actually create wealth for the world economy by developing new technologies or improving labor productivity. They simply gamed a carbon cartel established and enforced by the United Nations.

A lesson for Oregon legislators

The whole point of demonizing carbon, and then mandating limits, is to create monetary value for carbon offset activities that otherwise would not exist. That’s the lesson for Oregon legislators. *If* elected officials accept the premise of climate alarmists that CO2 must be reduced, the policy goal will be to create a massive run-up in the price of carbon offsets by steadily ratcheting down the carbon limits. As the “bubble” in carbon offset value rises, political pressure will grow to maintain those high prices by limiting carbon-based energy even more, making it impossible to undo the government-enforced energy rationing. This will confer windfall profits on those firms who successfully manipulate the system.

But consumers at large will have to pick up the tab – *with almost no offsetting benefits in terms of improved public health or a better environment.*

The reason there will be few measurable benefits is that CO2 is not actually a pollutant. In roughly 38 years, the Environmental Protection Agency (EPA) has never regulated CO2 because exposure to it is not a health hazard, and it does not harm plants or corrode buildings like other pollutants, such as ground-level ozone. In fact, CO2 is an essential part of the globe’s climate control system, without which Earth would be uninhabitable. Even under eight years of leadership by the world’s most famous climate alarmist, former Vice President Al Gore, EPA never regulated CO2.

The political campaign to demonize CO2 is based almost entirely on computer animations of the future, usually in forecasts going out 100 years. Such forecasts, trying to simulate the interactions of millions of poorly-understood variables, have no policy value in the real world.

Despite his enthusiasm to begin rationing energy as a means of confronting “global warming,” Gov. Kulongoski cannot even give a meaningful definition of the term. Moreover, Kulongoski cannot show any evidence that human activity in Oregon is affecting global climate, he doesn’t know how much it will cost to reduce CO2 emissions, and he has no idea if the social benefits (if there are any) will exceed the cost.

Neither the governor nor his top advisors have any idea if Oregon is even a net emitter of CO2 or a net consumer, because no one has yet calculated how much CO2 is taken up by the vast tracts of forest and farmland in Oregon. Seeking CO2 regulation without knowing the amount of carbon sequestered by plants is like an accounting firm declaring that a client has a financial problem because they have expenses — without bothering to ask what the revenues are.

Nonetheless, Kulongoski is determined to punish us for our energy use by creating a carbon cartel, then offering a “market-based” way of lowering the tariff by purchasing carbon offsets. This will be a bonanza for the Oregon Climate Trust and the numerous other groups that have already sprung up to take advantage of the regulatory feeding frenzy. But for the average Oregonian, it will just be a hidden tax.

There is nothing market-based about it, because markets rely on voluntary transactions where prices reflect perceptions of mutual gain.

The lesson here is an old one: Once money is taken from taxpayers through regulation, there is no guarantee it will be spent wisely. In fact, most of the revenue will likely be wasted on pork-barrel projects such as subsidies to wind, solar and wave energy developers.

Squandered wealth

To the extent that this money, either tax incentives or regulated offsets, is squandered on activities that the market would have voluntarily supported, it is utterly wasted. To the extent that this money is squandered on activities that the market would otherwise not support, carbon regulations will simply destroy wealth while having no effect on the climate. Yet wealth creation is the key to mitigating any impacts from global warming. Richer societies are better able to anticipate change and invest in modern infrastructure.

Global warming alarmists in Oregon are already committed to mandatory energy rationing as a statewide policy. It's unlikely that mere facts and evidence will dissuade them from the disastrous cap-and-trade program they seek. The only way this will be halted is if average Oregonians see it as the energy tax it is and demand that it be stopped.

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