

Brazil Holds First Carbon Auction. Netherlands Bank Wins It

Contributed by Newsroom
Thursday, 27 September 2007

Netherlands-based Fortis Bank has emerged as the winning bidder in an auction marking a new phase in the global "carbon market." The European bank has paid more than US\$ 18 million for the rights to emit 800,000 tons of carbon dioxide, in the first such auction to be held in a regulated exchange, the Brazilian Mercantile and Futures Exchange (BM&F).

The credits were made available through the Clean Development Mechanism of the Kyoto Protocol. The mechanism aims to attract investment for climate-friendly projects in poor countries from companies in the industrialized world with compulsory limits on their greenhouse gas emissions.

In this case, the credits were held by the city government of São Paulo, in recognition of a project to prevent methane escaping into the atmosphere from a massive rubbish tip in the city, the largest landfill site in Latin America.

The Bandeirantes landfill, at the Northern edge of the city, had grown to a 30-million-ton mountain of rubbish, over 300 feet high by the time it filled up last year. In order to prevent the emission of vast quantities of methane, a powerful greenhouse gas, a private contractor was brought in to collect it and generate electricity.

A system of more than 25 miles of pipes extracts the methane from wells dug into the rubbish mountain, using suction machines to pull it to a plant at the edge of the site where 80% is used to power electric generators, and the remainder burned at high temperature.

The plant supplies some 20 MW of electricity to the grid, enough to supply the needs of some 400,000 Brazilians.

When methane is burned it results in the emission of carbon dioxide (CO²), which is of course also a greenhouse gas. But the ability of methane to trap heat in the atmosphere and contribute to global warming is estimated at more than 20 times that of CO², so this process is deemed beneficial to the climate.

The private company which operates the methane collection system, Biogas, insists that it was only economically viable because of the cash that would become available through selling the carbon credits to European buyers.

Before these credits are issued by the official UN body managing the mechanism, developers have to prove that the project is only happening thanks to the availability of carbon finance, the so-called "additionality" requirement.

This has given rise to one of the key criticisms of the Clean Development Mechanism, from groups who claim it is creating a cheap way out for Northern countries to carry on polluting.

Larry Lohmann, of UK-based campaign group The Corner House, said: "They are supposed to show that these projects would not have happened otherwise, but nobody knows what would have happened otherwise."

At the auction held at the BM&F headquarters in the financial heart of São Paulo, the mayor and officials of the city's government were celebrating the price secured through the competitive Internet-based auction - at more than US\$ 23 a ton of CO₂, it was higher than expected.

The exchange, which is more accustomed to trading in commodities such as coffee and sugar, said it was expecting to hold around 10 similar auctions in the coming year.

São Paulo City announced it will use the proceeds from the auction for a series of environmental improvements such as parks and cycle-ways in the poor neighborhood surrounding the landfill site. The area includes some of the most extensive slums in the metropolis.

But one residents' representative from the area, Paulo Rodrigues, turned up at the auction to complain that the community was not getting anything "additional" from the huge investment being made by the Dutch bank.

"These are good and important projects, but they are things that the municipality has an obligation to do out of their normal budget. We should be seeing much more ambitious projects to generate employment in the area," Mr Rodrigues told the BBC News website.

The deputy secretary of the São Paulo municipality, Stela Goldenstein, defended the way the money was being used.

"The obligation of the state is to provide for the welfare of society, but in fact we do not have the budget for this. By selling these certificates for methane control, we are able to make new investments that we would not be able to do otherwise," the official said.

"These projects were discussed in public hearings in the neighborhoods of the landfill site, so we are happy to have the opportunity to carry out projects which should have happened before.

Mercopress