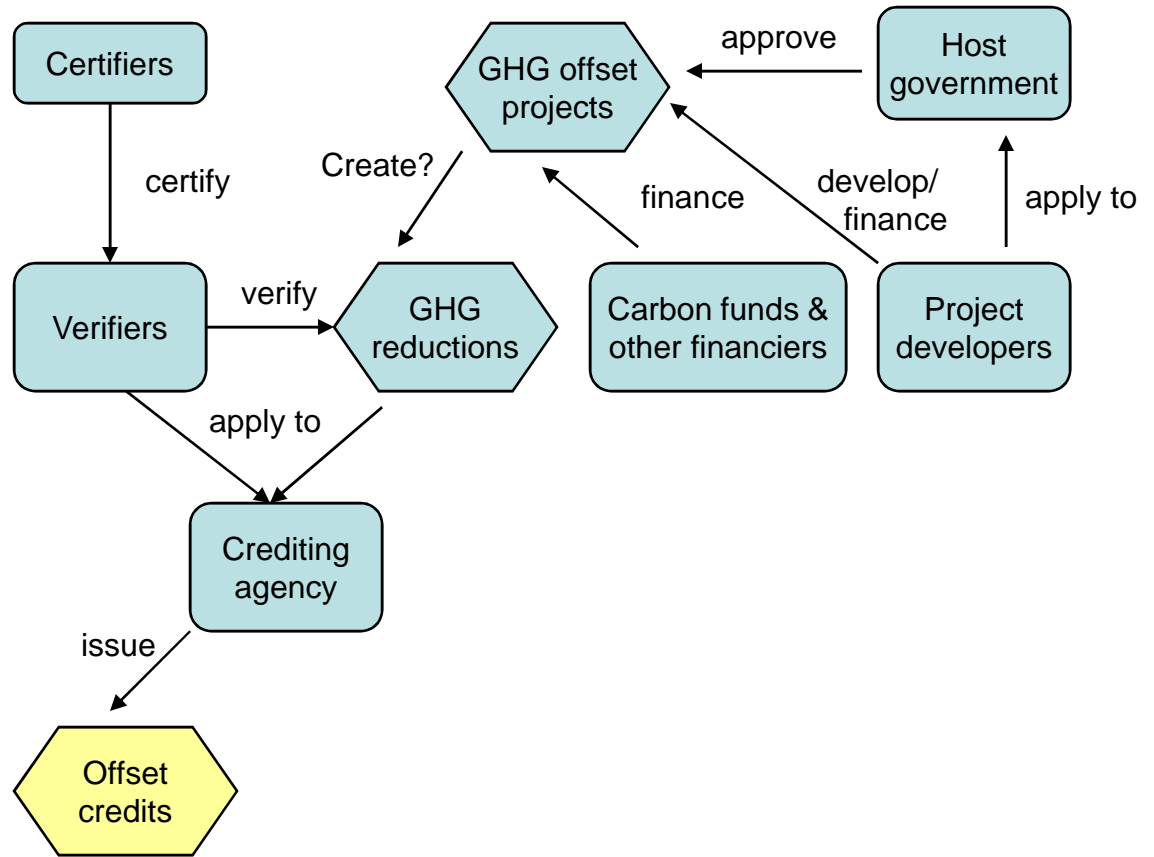


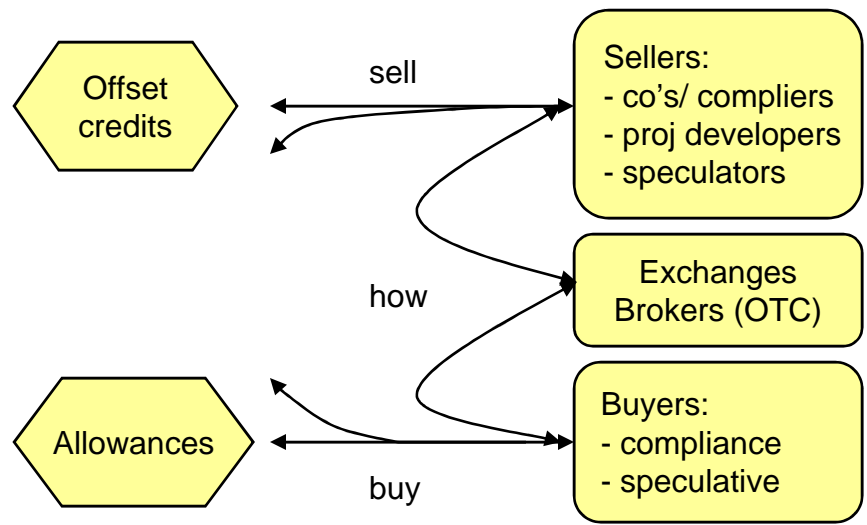
# Carbon fraud and gaming: The role of Wall Street

Pricing Carbon Conference  
Wesleyan University, November 2010  
Michelle Chan



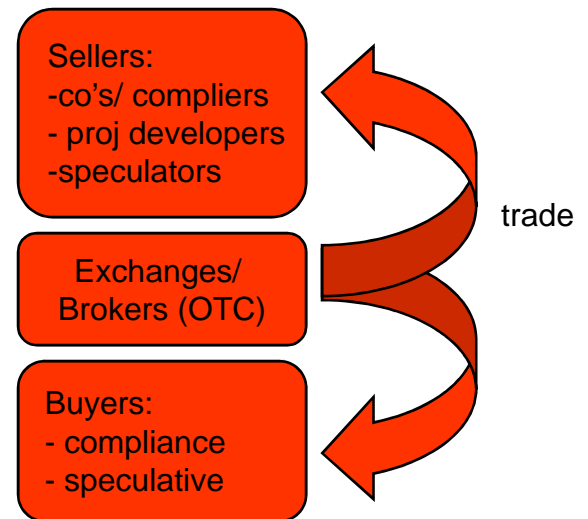
# Project offset market



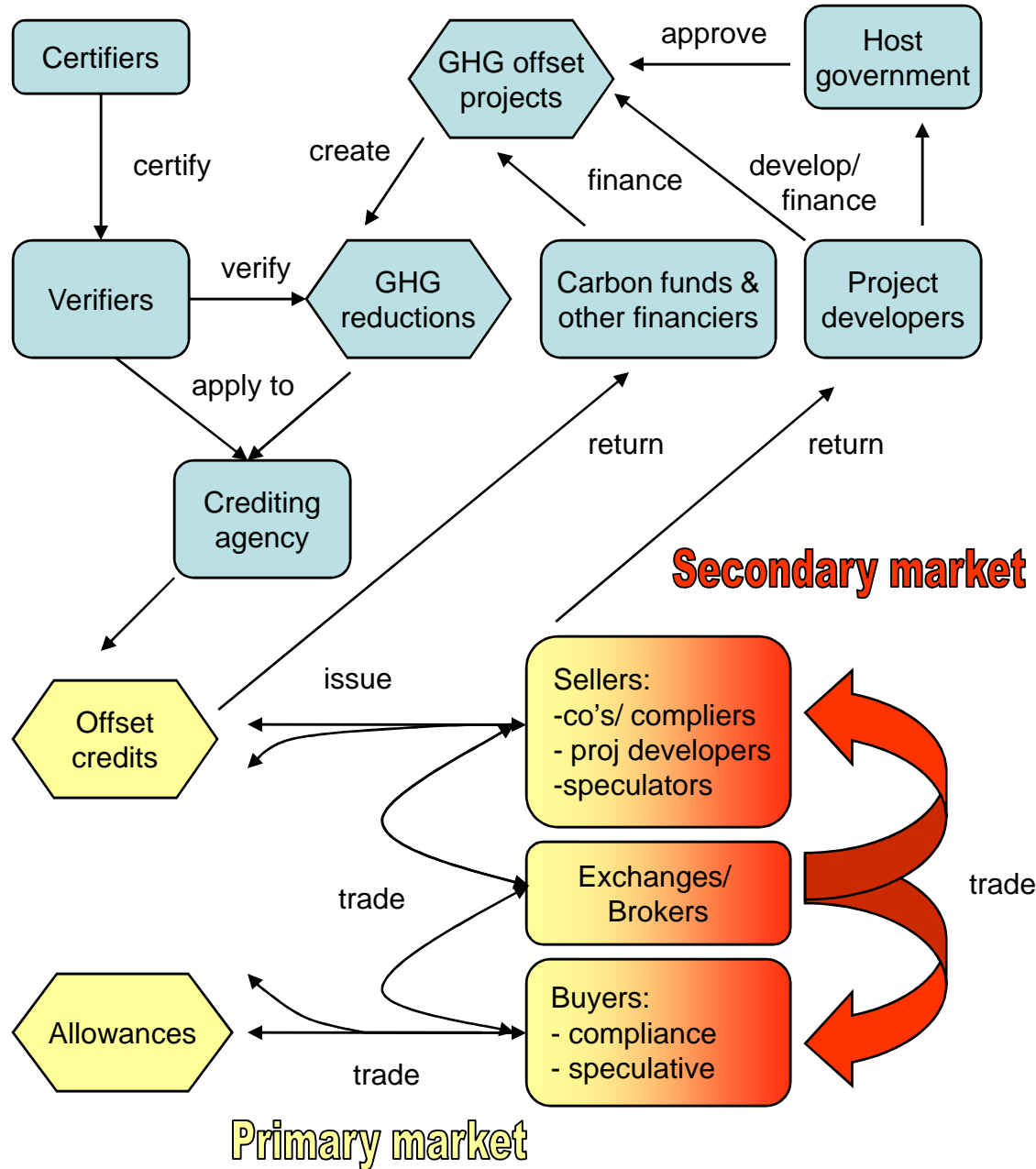


Primary market

## Secondary market



# Project offset market



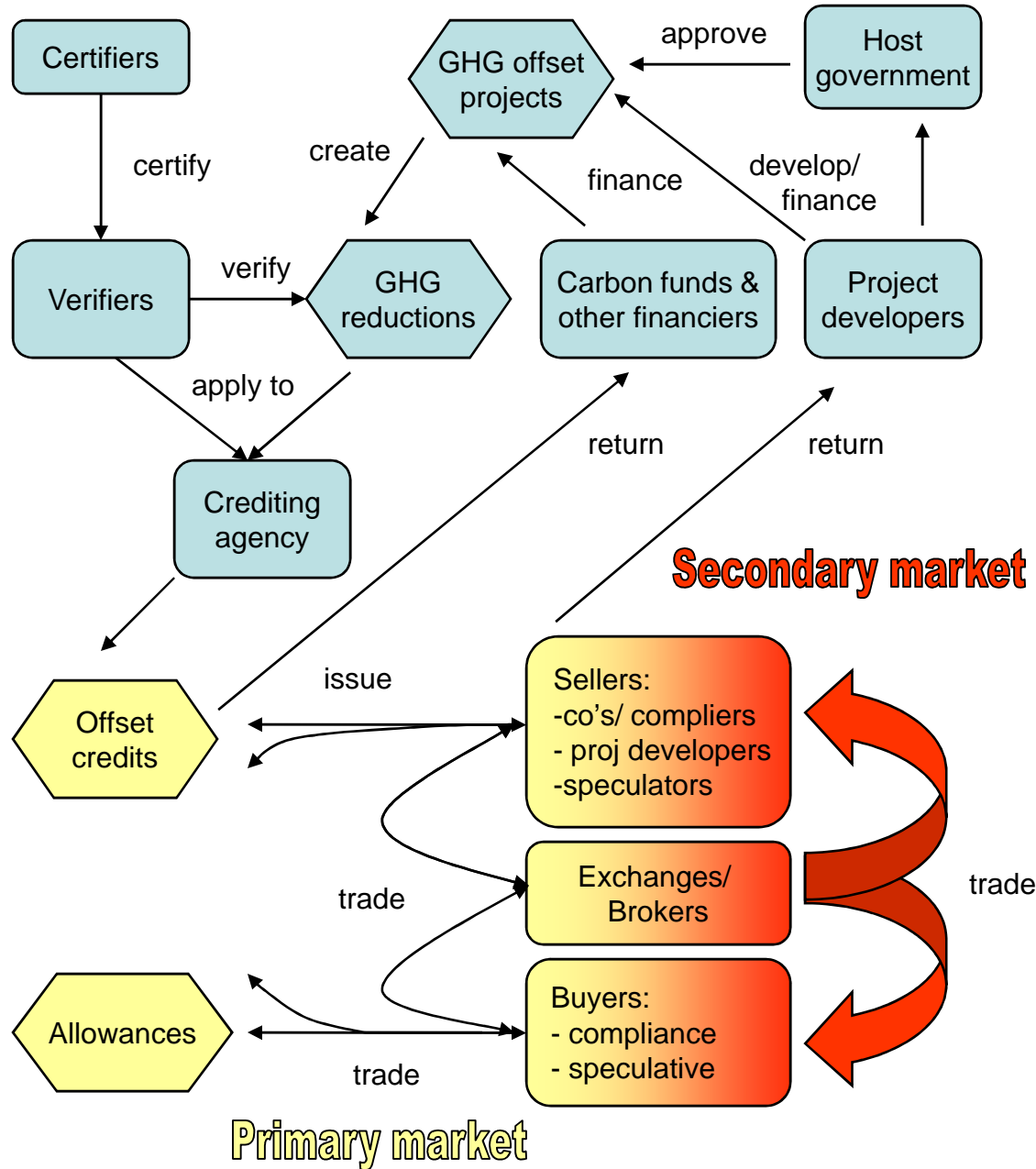
# What we know about commodities/ derivatives markets

- Dominated by financial speculators
- Derivatives trading is vastly larger than spot trading of commodities
- A lot of derivatives are traded in the relatively less-regulated over the counter markets
- Carbon will be traded and regulated as a commodity/ derivative

# What we know about Wall Street

- Lessons learned from the financial crisis
  - “Financialization” of capital markets
  - The role of the “giant pool of money” (global institutional investors) in creating the crisis
  - Securitization links the giant pool of money to origination markets
  - Too much money can create bubbles and spur the origination of bad assets
- Subprime carbon

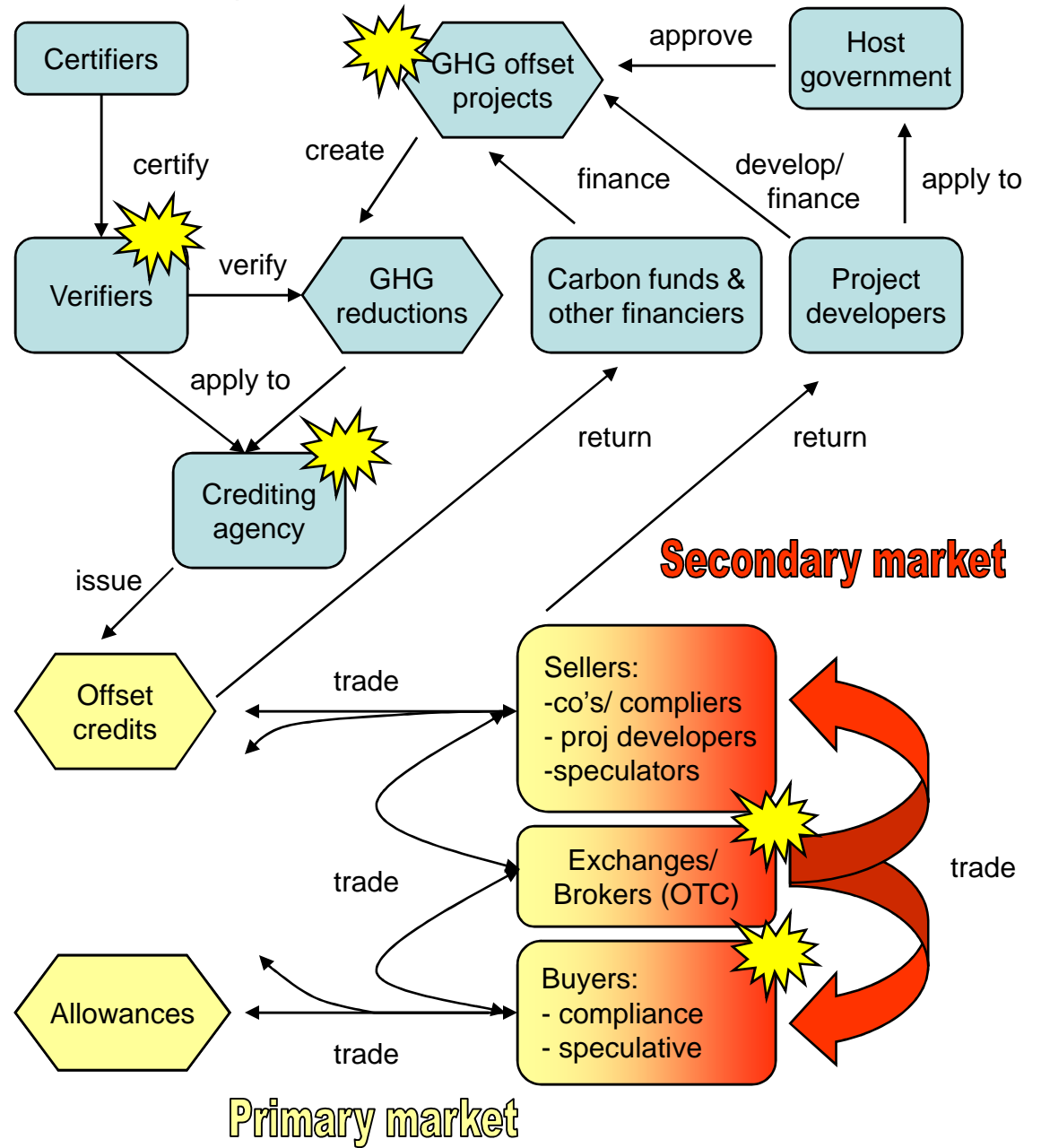
# Project offset market



# What we know about financial regulation

- Inadequate regulation
  - Historically, financial regulations become eroded over time
  - US regulation: “more lifeguards”
  - Derivatives are difficult to regulate
  - Lack of robust international framework
  - Offshore loopholes

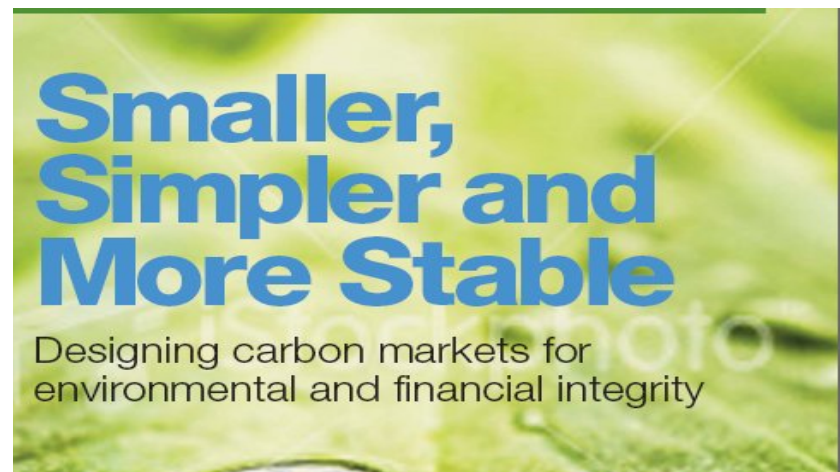
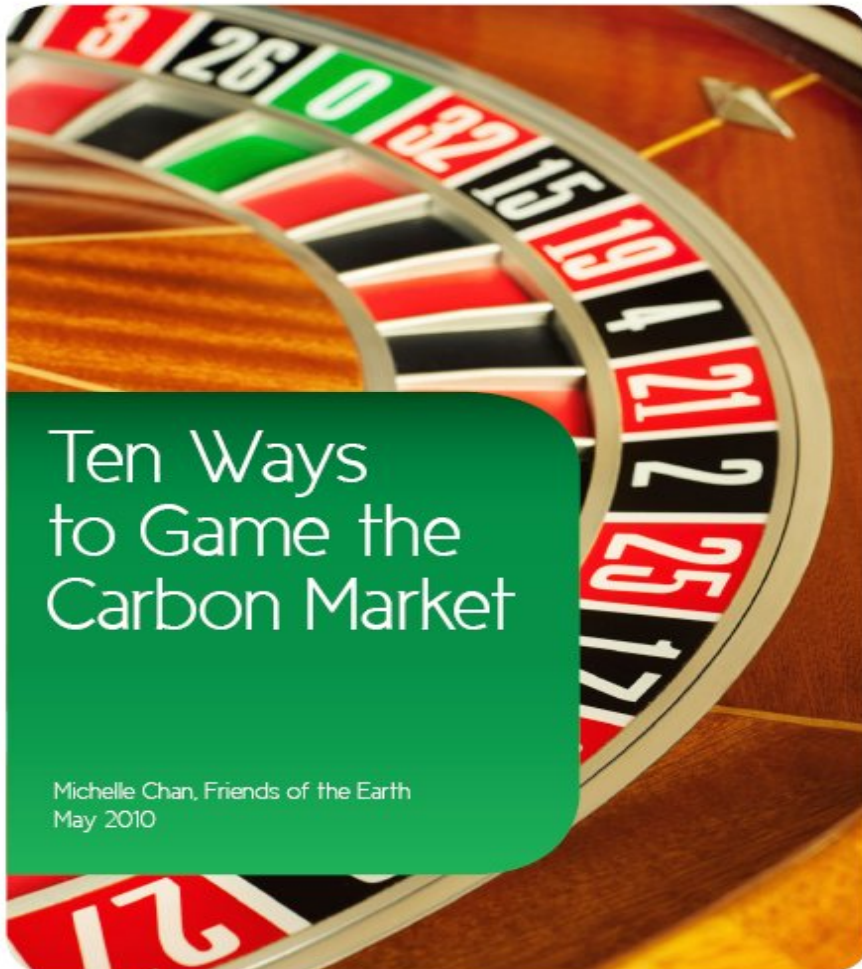
# Project offset market



# Corruption and fraud risks

- Increases depending on
  - Offset quantity
    - More offsets = more risk
  - Offset types
    - Biological carbon offsets (e.g. REDD), are more prone to gaming
  - Market size
    - Larger markets attract fraudsters and organized crime
  - Market participants
    - Markets dominated by financial speculators increase risks
  - Complexity of market rules
    - More complexity provides more gaming opportunities

# Resources





[www.foe.org](http://www.foe.org)

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