

Copenhagen's Hidden Agenda: The Multibillion Trade in Carbon Derivatives

Architect of Credit Default Swaps behind the Development of "Carbon Derivatives"

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As I have previously shown, speculative derivatives (especially [credit default swaps](#)) are a [primary cause of the economic crisis](#).

And I have [pointed out](#) that (1) the giant banks will make a killing on carbon trading, (2) while the leading scientist crusading against global warming says it won't work, and (3) there is a very high probability of massive fraud and insider trading in the carbon trading markets.

Now, Bloomberg [notes](#) that the carbon trading scheme will be centered around derivatives:

The banks are preparing to do with carbon what they've done before: design and market derivatives contracts that will help client companies hedge their price risk over the long term. They're also ready to sell carbon-related financial products to outside investors.

[Blythe] Masters says banks must be allowed to lead the way if a mandatory carbon-trading system is going to help save the planet at the lowest possible cost. And derivatives related to carbon must be part of the mix, she says. Derivatives are securities whose value is derived from the value of an underlying commodity — in this case, CO2 and other greenhouse gases...

Who is Blythe Masters?

She is the JP Morgan employee who [invented](#) credit default swaps, and is now heading JPM's carbon trading efforts. As Bloomberg notes (this and all remaining quotes are from the above-linked Bloomberg article):

Masters, 40, oversees the New York bank's environmental businesses as the firm's global head of commodities...

As a young London banker in the early 1990s, Masters was part of JPMorgan's team developing ideas for transferring risk to third parties. She went on to manage credit risk for JPMorgan's investment bank.

Among the credit derivatives that grew from the bank's early efforts was the credit-default swap.

Some in congress are fighting against carbon derivatives:

“People are going to be cutting up carbon futures, and we’ll be in trouble,” says Maria Cantwell, a Democratic senator from Washington state. “You can’t stay ahead of the next tool they’re going to create.”

Cantwell, 51, proposed in November that U.S. state governments be given the right to ban unregulated financial products. “The derivatives market has done so much damage to our economy and is nothing more than a very-high-stakes casino — except that casinos have to abide by regulations,” she wrote in a press release...

However, Congress may cave in to industry pressure to let carbon derivatives trade over-the-counter:

The House cap-and-trade bill bans OTC derivatives, requiring that all carbon trading be done on exchanges...The bankers say such a ban would be a mistake...The banks and companies may get their way on carbon derivatives in separate legislation now being worked out in Congress...

Financial experts are also opposed to cap and trade:

Even George Soros, the billionaire hedge fund operator, says money managers would find ways to manipulate cap-and-trade markets. “The system can be gamed,” Soros, 79, remarked at a London School of Economics seminar in July. “That’s why financial types like me like it — because there are financial opportunities”...

Hedge fund manager Michael Masters, founder of Masters Capital Management LLC, based in St. Croix, U.S. Virgin Islands [and unrelated to Blythe Masters] says speculators will end up controlling U.S. carbon prices, and their participation could trigger the same type of boom-and-bust cycles that have buffeted other commodities...

The hedge fund manager says that banks will attempt to inflate the carbon market by recruiting investors from hedge funds and pension funds.

“Wall Street is going to sell it as an investment product to people that have nothing to do with carbon,” he says. “Then suddenly investment managers are dominating the asset class, and nothing is related to actual supply and demand. We have seen this movie before.”

Indeed, as I have previously pointed out, many environmentalists are opposed to cap and trade as well. For example:

Michelle Chan, a senior policy analyst in San Francisco for Friends of the Earth, isn’t convinced.

“Should we really create a new \$2 trillion market when we haven’t yet finished the job of revamping and testing new financial regulation?” she asks. Chan says that, given their recent history, the banks’ ability to turn climate change into a new commodities market should be curbed...

“What we have just been woken up to in the credit crisis — to a jarring and shocking degree — is what happens in the real world,” she says...

Friends of the Earth’s Chan is working hard to prevent the banks from adding carbon to their repertoire. She titled a March FOE report “Subprime Carbon?” In testimony on Capitol Hill, she warned, “Wall Street won’t just be brokering in plain carbon derivatives — they’ll get creative.”

Yes, they’ll get “creative”, and we have seen this movie before ...an inadequately-regulated carbon derivatives boom will destabilize the economy and lead to another crash.

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