Putting the Fox in Charge of the Henhouse: How BP'S Emissions Trading Scheme was Sold to the EU

A Case Study

In January 2008 the European Petroleum Industry Association (EUROPIA) sounded a warning to the European Commission. In a press release, the industry body said: "It is vital that measures taken to address GHG [greenhouse gas] emissions do not undermine the competitiveness of European industry,"[1]. Oil companies were unhappy with proposals to force refineries to pay for emissions permits under phase three of the Emissions Trading Scheme (ETS), permits which had been allocated for free under phase two.

Flaws in the EU's ETS have been apparent from the start. According to Transnational Institute (TNI), "The first phase has been a disaster. One of the main problems of the scheme is that every stage of its design and implementation has been subjected to intensive industry lobbying,"[2]. This case study shows that BP lobbying on the EU ETS dates back at least to the Commission's first proposal for a scheme. The company has intentionally helped shape a scheme which fails to deliver cuts in greenhouse gas emissions while diverting attention from meaningful action on climate change.

Historical Context

From the late 1970s onwards climate scientists have raised concerns that burning oil, gas and coal is largely responsible for rising global temperatures[3]. By the 1990s the political climate had shifted towards action, with the publication of the first report by the UN's Intergovernmental Panel on Climate Change (IPCC) and the UN Earth Summit in Rio de Janeiro[4].

The oil industry's response was stark: In 1989 BP with Exxon, Shell and others formed the Global Climate Coalition (GCC), a lobby group which aimed to cast doubt on the scientific consensus and undermine political action on climate change[5].

BP left the GCC in 1997 and became the first major oil company to openly acknowledge the link between its core business and a major global problem. John Browne, then head of BP, announced

[1] European Petroleum Industry Association (2008) The European Commission's Climate Change and Renewable Energy package - Uncertainties about European competitiveness still to be resolved, Press Release, 29 January 2008, http://www.europia.com/content/default.asp?PageID=400
[2] Smith, K. (2007) Pollute and Profit, Parliamentary Brief, May 2007, p30, http://www.thecornerhouse.org.uk/pdf/document/ParlBrief.pdf
[3] The Times (1976) World's Temperature Likely to Rise, 22 June 1976, p9,
[4] Rekacewicz, P. (2005) Kyoto Protocol Timeline and History, UNEP and GRID-Arendal - Maps and Graphics Library, http://maps.grida.no/go/graphic/kyoto-protocol-timeline-and-history
[5] Sourcewatch (2008) Global Climate Coalition, http://www.sourcewatch.org/index.php?title=Global_Climate_Coalition

in a speech at Stanford University in May 1997, that it was "time to consider the policy dimensions of climate change" [6]. But BP continued to lobby against substantive action to curb greenhouse gas emissions, as this case study illustrates.

Momentum Gathers

International climate talks, hosted by the UN, led to the Kyoto Protocol in 1997 a global agreement to reduce greenhouse gas emissions to five percent below 1990 levels by 2012. The agreement was ratified in 2004[7].

The principle of emissions trading was enshrined in the Kyoto Protocol, based on the idea that governments would set limits on greenhouse gas emissions, but the market would then find the cheapest ways to make those cuts[8].

Carbon Taxes Gain Support

Following Kyoto, the EU was legally bound to reduce emissions and needed “to establish instruments which ensure that the overall reduction is effectively achieved”. There was fierce debate about what sort of measures should be adopted, with several member states favouring a carbon tax[9]. Finland had enacted a carbon tax in 1990, the first country to have done so[10], and the Netherlands followed shortly after. Sweden, Norway and then Denmark later took similar steps[11].

Weight Moves Behind Trading

Despite the enthusiasm for carbon taxes among so many member states, the European Commission seemed reluctant to introduce such a tax across the EU. Policy momentum seemed to be gathering instead behind the idea of an emissions trading scheme[12].

An earlier proposal for an EU wide carbon tax in 1991 had led to some of the most ferocious lobbying ever seen in Brussels and a year later the idea was dropped[13]. Some of the strongest objections came from the UK government, and the British remained sceptical when similar proposals again surfaced in 1997[14]. Political weight in Britain was gathering behind the idea for a national emissions trading scheme, which was eventually launched by the UK Department for the

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[6] Browne, J. (1997) Addressing Global Climate Change, Speech at Stanford University California - Part 1, BP Press Office, 19 May 1997, http://www.bp.com/genericarticle.do?categoryId=98&contentId=2000427

[7] UNEP and GRID-Arendal (2005) Kyoto Protocol Timeline and History, Maps and Graphics Library, http://maps.grida.no/go/graphic/kyoto-protocol-timeline-and-history

[8] DG Environment (1998) Climate Change - Towards an EU Post-Kyoto Strategy, European Commission, COM-98-353, p17, http://ec.europa.eu/environment/docum/pdf/98353_en.pdf

[9] Barrett, S. (1994) European Union Carbon Tax, London Business School, http://archive.wri.org/item_detail.cfm?id=2531&section=markets&page=pubs_description

[10] Carbon Tax Centre (2008) Where Carbon is Taxed, http://www.carbontax.org/progress/where-carbon-is-taxed

[11] National Centre for Environmental Economics (2008) Energy and Carbon Taxes, US Environmental Protection Agency - Economic Incentives for Pollution Control, 11-1-5-2, http://yosemite.epa.gov/EE/Epalib/incent.nsf/c484aff385a753cd85256c2c0057ce35/0483a144da8fa434852564f7004f3e68

[12] DG Environment (1998) Climate Change - Towards an EU Post-Kyoto Strategy, European Commission, COM-98-353, p19, http://ec.europa.eu/environment/docum/pdf/98353_en.pdf

[13] Birger-Skjaerseth, J. and Wettestad, J. (2008) EU Emissions Trading, Ashgate, Fridtjof Nansen Institute Norway, p4, http://www.ashgate.com/pdf/SamplePages/EU_Emissions_Trading_Intro.pdf

[14] Whitford, L. (1997) EC Carbon Tax, Case Study No. 226, Trade and Environment Database, Information sub-programme - UN Climate Change Secretariat, http://www.american.edu/ted/eccarbon.htm

Environment (Defra) in early 2002[15] and Britain actively pushed for a similar scheme to be adopted by the EU[16].

BP's Role in the Scheme

Britain's emissions trading scheme was not developed by the UK government but by BP. In 1999 the company had launched an internal emissions trading scheme[17], overseen by BP's Climate Steering Group[18] which was headed by John Mogford the company's Vice President for Health, Safety and Environment[19]. Mogford was part of the 600 or so strong Group Leadership team at the most senior level within BP.

BP opted for an internal emissions trading scheme because it thought it was likely that the company along with many of its customers and competitors would be compelled to participate in wider national, European or international trading schemes in the future. BP's Alternative Energy business unit - which sells electricity to industrial consumers - now uses the company's early experience to market its services to potential customers on the back of their "long track record in emissions management and trading"[20].

From the beginning BP hoped to influence government policy. In 1998, Chairman Peter Sutherland gave a speech detailing the interface between polity and the oil and gas industry. He referred to BP's internal emissions trading scheme saying: "We are hopeful that the experience which we gain within our own company will be of assistance to governments in framing their practical response to what was agreed at Kyoto"[21].

The Mogfords

Other European companies watched BP's internal scheme with interest. Margaret Mogford, Head of Environment at BG Group (formerly British Gas)[22] was able to learn from the scheme more directly than most, as she is married to John Mogford of BP. In 2000 Ms Mogford was seconded by BG to the UK Department for the Environment to become head of the Emissions Trading Group (ETG) secretariat. The group had been established as a joint project involving the Department for the Environment and the Confederation of British Industry (CBI), the self-proclaimed "voice of business" in the UK and was chaired by BP's deputy chief executive Rodney Chase[23].

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[15] Department for Environment Food and Rural Affairs (2008) Emissions Trading Schemes, Climate Change and Energy, UK Government, http://www.defra.gov.uk/Environment/climatechange/trading

[16] Leigh, E. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q12, p20, http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[17] BP America (2008) Gas Power and NGL - Wholesale Power, Emissions Trading, http://www.bp.com/sectiongenericarticle.do?categoryId=3050070&contentId=3050082

[18] Victor, D. G. and House, J. C. (2005) BPs emissions trading system, Elsevier, Program on Energy and Sustainable Development Stanford University California, Energy Policy No. 34 (2006) 2100-2112, 20 April 2005, p6, http://law-stage.stanford.edu/program/centers/enrlp/pdf/victor_and_house_bp_trading_2006.pdf

[19] BP (2008) John Mogford Executive Vice President Safety and Operations, About BP - Who we are - Board and executive management, http://www.bp.com/sectiongenericarticle.do?categoryId=9021819&contentId=7040638

[20] BP America (2008) BP Gas Power and NGL - Wholesale Power, Emissions Trading, http://www.bp.com/sectiongenericarticle.do?categoryId=3050070&contentId=3050082

[21] Sutherland, P. (1998) Oil and Gas in the Global Economy, BP Chairman, Speech, Institute of Petroleum Conference on Oil and Gas after 2000, 16 February 1998, http://www.bp.com/genericarticle.do?categoryId=98&contentId=2000387

[22] United Nations Conference on Trade and Development (2001) Participants, 5th UNCTAD/Earth Council Policy Forum on Trade and Climate Change, Rio de Janeiro Brazil, 29-31 August 2001, p6, http://r0.unctad.org/ghg/events/forario2001/participants.pdf

[23] The Engineer (2000) Clearing The Air, Centaur Media, 22 August 2000, http://www.theengineer.co.uk/Articles/282728/Clearing+the+air.htm

Mogford, under Chase's chairmanship, spent two years devising the national scheme, effectively scaling up BP's model. In January 2002, BP suspended internal emissions trading, just before the UK national scheme went live, stating that it wanted to "make space for the transition we could see happening to external GHG trading"[24].

The UK-wide scheme recruited 34 voluntary participants, mainly large industrial emitters, although the scheme was open to firms of any size and to all sectors of the economy[25]. The 34 were paid to reduce their emissions under what was the first multi-industry carbon trading system in the world[26]. BP was the fourth largest participant in the scheme and received £18.9 million in incentive payments[27].

Under the scheme, participants agreed to hold sufficient allowances to cover actual emissions in each year, with each company allocated an emissions baseline based on a business as usual scenario. In the bidding process that followed companies committed to reduce emissions from that baseline in exchange for incentive payments. Each participant could then cut emissions to exactly meet the target, or buy allowances from other participants to cover any excess. Participants, such as BP, that reduced actual emissions below the target, could sell allowances at the market price[28].

British Scheme Criticised by Committee

Two years into the UK scheme, it was examined by the House of Commons Select Committee on Public Accounts. Labour MP Gerry Steinberg described the scheme as a "mockery" and an "outrageous waste of [public] money"[29]. BP was one of a number of UK companies which had lobbied so successfully for a generous emissions allowance that it massively over-complied in the first year of the scheme, leaving the company free to profit from the sale of its surplus allowances. The fact that emissions were already limited by the government's Climate Change agreements led Edward Leigh, the Conservative chair of the Public Accounts Committee, to observe that the scheme seemed to be "paying these companies 111 million pounds for keeping emissions down to levels they had already achieved before they joined". Leigh also observed that "half the point of this was to try and encourage Europe to do a similar scheme"[30].

The committee's enquiry revealed that the scheme's success was not in reducing greenhouse gas emissions but in turning the atmosphere into "a commodity market like any other" and that far from being a side effect, this had been the intention of the scheme. "The most important thing we wanted to do was establish a market," explained Henry Derwent of the Department for

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[24] Nicholson, C. C. (2003) Emissions Trading - A Market Instrument for our Times, BP Group Senior Advisor, Speech, Royal Society of Arts London, 28 October 2003 http://www.bp.com/genericarticle.do?categoryId=98&contentId=2015103

[25] Derwent, H. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence p29 http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[26] Thomas, J. (2004) The Role of the CDM in the UK - An Active Market, Presentation - Djerba - Tunisia, September 2004 http://www.cd4cdm.org/North%20Africa%20and%20Middle%20East/Region/Jerba%20Investment%20Forum/21-UKroleCDM_Thomas.ppt

[27] National Audit Office (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, UK Parliament House of Commons, Appendix 1, p35 http://nao.gov.uk/publications/nao_reports/03-04/0304517.pdf

[28] House of Commons Committee of Public Accounts (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, Figure 1, p3 http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[29] Steinberg, G. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q26 and Q33, p22 http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[30] Leigh, E. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q2, p19 and Q12, p20 http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

Environment giving evidence to the committee. Sir Brian Bender, also from the Department for Environment explained that from the scheme's inception "creating a market centre in the City of London was a prize." He defended the scheme by arguing that: "The City thinks it was a good thing"[31].

James Cameron of the investment managers Climate Change Capital[32] explained that the scheme also "schooled a number of the essential advisory communities - law, insurance and banking - to prepare us for these bigger markets,"[33] and these advisors also benefited from the scheme. The Liberal Democrat Member of Parliament Richard Allan however criticised the scheme's mechanics for "siphoning off a percentage of taxpayers money to the brokers"[34].

Allan raised concerns that the scheme might actually hamper attempts to curb greenhouse gas emissions. He pointed out that big polluters, which were already required to reduce their emissions under the government's Climate Change Agreements, could side-step their obligation by simply buying pollution permits which had been over allocated within the trading scheme.

Because the focus of the scheme was on trading, individual companies were limited as to the number of reductions they could earn credits for, for fear that they might distort the market. This lead Gerry Steinberg to conclude that: "Companies that could actually exceed what you were asking them to were not allowed," and that such a scheme "cannot be successful"[35].

Labour MP Jim Sheridan was also frustrated by the scheme, asking: "As I understand it, we are offering incentives to companies to reduce their emissions. Why do we not just set a target and then fine them?"[36].

Genesis of the EU Scheme

While Rodney Chase and Margaret Mogford were designing the UK Emissions Trading Scheme, Europe was following a parallel path. A report by the UK's National Audit Office states that "the UK Scheme has encouraged the development of the European scheme and influenced its design"[37]. Given the well documented failures of the UK scheme it is surprising that Europe followed the British example. However the model was promoted not only by the UK government but by the fossil fuel industry in Europe, led by BP - a formidable lobbying team.

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[31] House of Commons Committee of Public Accounts (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[32] Climate Change Capital (2008) Company Overview, http://www.climatechangecapital.com/about-us/company-overview.aspx

[33] Bender, B. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q13, P20, http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[34] Allan, R. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q52, p25, http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[35] Steinberg, G. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q20, p21 and Q30, p22, http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[36] Sheridan, J. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q55, p25 http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[37] National Audit Office (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, UK Parliament House of Commons, Executive Summary Key Finding No. 2, p2, http://nao.gov.uk/publications/nao_reports/03-04/0304517.pdf

The European Parliament first adopted a Green Paper on emissions trading within the EU in March 2000[38] and the Commission's proposal for an EU wide scheme was presented to the Parliament in October 2001[39]. By this time groundwork for the UK scheme was almost complete, leaving BP and the UK government in a position to "try and encourage Europe to do a similar scheme"[40]. In drafting the proposal the Commission consulted with at least six industry associations representing BP[41], as well as with the UK Emissions Trading Group, where BP was a key player. One of the most vocal industry associations was UNICE, the Union of Industrial and Employers' Confederations of Europe. Mike Wriglesworth, BP's Assistant Director European Government Affairs represented UNICE in the meetings with DG Environment.

The Commission received significant input from the US NGO Environmental Defense which emerged as a prominent supporter and self-appointed expert on carbon trading during the UN's Kyoto negotiations. In 1997 BP had engaged Environmental Defense as the company's main advisor on the design of its internal emissions trading scheme. The group had also been involved in the design of the US sulphur emissions trading scheme, the only large-scale emissions trading scheme to have operated prior to the EU ETS[42].

EUROPIA has admitted that the industry "provided significant input into the debate on how to structure the [EU-ETS] system,"[43] and this level of input was criticised by the economist John Kay in an article for the Financial Times. "When a market is created through political action rather than emerging spontaneously from the needs of buyers and sellers, business will seek to influence market design for commercial advantage," he wrote[44]. The Commission's market design inevitably drew on BP's initial experiment and is markedly similar to the UK emissions trading scheme which ran from 2002 to 2006[45].

EU Scheme Repeats British Mistakes
By the time the EU Greenhouse Gas Emissions Trading Scheme (ETS) came into force in January 2005 the shortcomings of the UK scheme were clear. Yet the EU scheme has repeated many of the same mistakes.

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[38] European Parliament (2000) Green Paper on greenhouse gas emissions trading within the European Union, EP Publications Office, COM-2000-0087 final, 8 March 2000, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52000DC0087:EN:HTML

[39] DG Environment (2001) Proposal for a framework Directive for greenhouse gas emissions trading within the European Community, European Commission, COM-2001-581, Official Journal 075 E, 26 March 2002, proposal of October 2001, p33-44, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52001PC0581:EN:HTML

[40] Leigh, E. in (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, Forty-sixth Report Session 2003-2004, House of Commons Committee of Public Accounts, Evidence Q12, p20, http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/604/604.pdf

[41] DG Environment (2001) Proposal for a framework Directive for greenhouse gas emissions trading within the European Community, European Commission, COM-2001-581, Official Journal 075 E, 26 March 2002, proposal of October 2001, p33-44, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52001PC0581:EN:HTML

[42] Braun, M. (2008) The evolution of emissions trading in the European Union, Rupprecht Consult, Forschung und Beratung GmbH, Koeln - Germany, Sections 4.1 and 4.2, http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VCK-4T24FM3-1&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=b698c4996e39425b093a19d091fdac61

[43] European Petroleum Industry Association (2008) Emissions Trading, Issues and policies - Climate change, http://www.europia.com/content/default.asp?PageID=416

[44] Kay, J. (2006) Why the key to carbon trading is to keep it simple, Financial Times, 09 May 2006, http://www.johnkay.com/in_action/441

[45] National Audit Office (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, UK Parliament House of Commons, Executive Summary Key Finding No. 2, p2, http://nao.gov.uk/publications/nao_reports/03-04/0304517.pdf

The most catastrophic failure in both schemes, has been the over-allocation of emissions permits. While the ETS directive adopted in 2003 defines the architecture of the EU system, individual member states were left to formulate National Allocation Plans (NAPs)[46]. These NAPs determined the level of the emissions cap. The UK's National Audit Office found that under the UK scheme some companies' caps "may be undemanding," and that "in some key cases emissions baselines were well above direct participants' emissions at the start of the scheme"[47]. Having learned from its experience of the UK scheme, BP (and others) successfully lobbied national governments for generous emissions allowances under the national allocation plans.

Lobbying on National Allocation Plans
When the UK Government submitted its draft National Allocation Plan (NAP) in May 2004 it had already accepted significant input from BP and other big polluters[48]. Dr. Catarina Cardoso of WWF-UK said that the government was "clearly only listening to the loudest voices in industry"[49]. The Commission approved the draft plan in July, but in November the UK Government submitted a revised plan, with increased allowances[50]. The revised plan was subsequently rejected, but the UK government chose to mount a legal challenge against the rejection of the plan[51]. A study by British Labour MPs found that "BP, Esso and Shell successfully lobbied for surplus credits, then sold them for profit"[52].

In Germany, BP lodged an objection to its allocation under the country's NAP, requesting 14 million tonnes per year more than had been allowed under the NAP. The government responded suggesting that companies such as BP could be at least partly compensated during the phase two allocation period[53].

Lessons from Phase One
Despite BP Germany's discontent, over-allocation across the EU was so acute that in 2005, the first year of trading under the ETS, installations bound by the scheme emitted 66 million tonnes less than the allocated cap[54]. An investigation by the UK Government's Environment Agency concluded that "Experience from Phase 1 suggests that the use of relatively high growth rates may be introducing inflated baselines, resulting in a substantial over-allocation"[55]. The UK

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[46] DG Environment (2006) Questions and Answers on National Allocation Plans for 2008-2012, Rapid - Press Releases - EUROPA, MEMO/06/2, European Commission, 9 January 2006, http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/2&format=PDF

[47] National Audit Office (2004) The UK Emissions Trading Scheme - A New Way to Combat Climate Change, UK Parliament House of Commons, Section 2.5, p14, Section 2.7, p15, http://nao.gov.uk/publications/nao_reports/03-04/0304517.pdf

[48] Department for Environment Food and Rural Affairs (2007) UK National Allocation Plan Phase 1, Defra UK - Environment - Climate Change - Trading - EU Emissions Trading Scheme, 17 September 2007, http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/phase-1.htm

[49] Cardoso, C. (2004) UK government likely to surrender to CO2-polluting industry, WWF-UK News Archive, 28 Apr 2004, http://www.panda.org/news_facts/newsroom/news/index.cfm?uNewsID=12743

[50] Point Carbon (2005) UK threatens lawsuit over NAP, Oslo, 7 January 2005 http://int.pointcarbon.com/Home/News/All%20news/EU%20ETS/article5936-466.html

[51] Johnson, B. (2006) EU rejects revised UK CO2 targets, EU Politics News - theParliament.com, 22 February 2006, http://www.theparliament.com/latestnews/news-article/newsarticle/eu-rejects-revised-uknbspco2-targets

[52] Trickett, J. Cruddas, J. and Burgon C. (2008) What type of Europe do we want, Tribune supplement in association with UNISON, 22 February 2008, http://www.jontrickett.org.uk/PageViewerRepeater.aspx?Id=369

[53] Point Carbon (2005) BP to object to German allocation, 19 January 2005, http://int.pointcarbon.com/Home/News/All%20news/EU%20ETS/article6082-466.html

[54] Smith, K. (2007) Pollute and Profit, Parliamentary Brief, May 2007, p30, http://www.thecornerhouse.org.uk/pdf/document/ParlBrief.pdf

[55] Environment Agency (2006) Where next for the EU Emissions Trading Scheme, LETS Update, Layman's Summary, April 2006, http://www.environment-agency.gov.uk/commondata/acrobat/lets_laymans_summary_1621846.pdf

Government's Stern Review into the economics of climate change highlighted the same issue, saying: "the total EU wide allocation in Phase One is estimated to be only one per cent below projected business as usual emissions"[56]. The Financial Times described the ETS as being in "disarray" and argued that "the recent history of carbon trading shows serious perils" [57].

The Spanish Government was so concerned at windfall profits generated through over-allocation that it imposed a one billion euro tax, aimed at forcing corporations to repay profits made by passing the cost of emissions' allowances on to customers despite having received the allowances for free[58].

Experience from Phase One Breeds Lobbying on Phase Two

Two months after the initial launch of the EU-ETS in 2005, Tom Thomas, the director responsible for climate change within BP's Refining and Marketing division outlined BP's position on the scheme. He acknowledged start-up difficulties but expressed BP's support for this form of flexible mechanism, which was "a more effective engagement tool than taxes or regulation." The EU-ETS "must be designed to reach beyond the boundaries of Europe," he argued[59].

Industry across Europe had in fact been quick to complain about the impact of the ETS and Thomas was cautious of the tighter caps already being proposed for phase two. BP was already lobbying as governments built towards allocating allowances for the second phase[60].

The second phase of the scheme (2008 - 2012), introduced a slightly tighter cap on EU-wide emissions but this was more than counterbalanced by a new "linking directive" allowing credits to be imported to the ETS from controversial projects under the Kyoto Protocol's Clean Development Mechanism (CDM) and Joint Implementation (JI), a system whereby European companies can avoid reducing their own emissions by funding offset projects elsewhere[61].

Dr. Karsten Neuhoff, an academic from Cambridge University Faculty of Economics, has warned that: "Some market participants anticipate that the European market could be flooded by these allowances to such an extent that the EU allowance price would plummet. Such uncertainty undermines investment certainty for low-carbon options and also poses obstacles to implementing a price floor"[62].

Paolo Ghislandi, spokesman for the Italian Association of Energy Traders (AIGET), which represents BP in Italy admitted that: "We are lobbying for opening the market up as much as

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[56] Stern, N. et al. (2006) Stern Review - The Economics of Climate Change, Chapter 15 Carbon Markets in Action, UK Government - HM Treasury, 30 October 2006, p329, http://www.hm-treasury.gov.uk/d/Chapter_15_Carbon_Pricing_and_Emissions_Markets_in_Practice.pdf

[57] Harvey, F. (2006) Carbon Trading's History of Dangers, and editorial comment, Financial Times, 31 October 2006, http://www.ft.com/cms/s/0/de537240-6885-11db-90ac-0000779e2340.html

[58] Point Carbon (2007) Generators Lobby Against Spanish Windfall Profit Legislation, 17 December 2007, http://int.pointcarbon.com/Home/News/All%20news/article25979-703.html

[59] Thomas, T. (2005) BP's perspective on EU ETS, Presentation to Petroleum Environmental Research Forum, Evolving International Environmental Regulations and Technology Opportunities, Sunbury UK, 30-31 March 2005, http://www.perf.org/ppt/Thomas.ppt

[60] Point carbon (2007) BPs emissions fall in 2006 but emissions intensity rises, 9 May 2007, http://int.pointcarbon.com/Home/News/All%20news/Energy%20&%20Emissions/article22130-478.html

[61] Salay, J. in (2005) Linking in the EU ETS Bulletin, Vol. 115, No. 1, Summary Of The Seminar On Linking The Kyoto Project Based Mechanisms With The EU ETS, International Institute for Sustainable Development, 19 September 2005, http://www.iisd.ca/sd/euets/ymbvol115num1e.html

[62] Neuhoff, K. et al. (2006) Implications of announced Phase 2 National Allocation Plans for the EU ETS, Earthscan, 14 November 2006, http://www.electricitypolicy.org.uk/pubs/wp/eprg0632.pdf

possible." AIGET has lobbied against a limit on the number of allowances which may be imported to the ETS through the linking directive[63].

The Future of the Scheme

The second phase of the ETS, which began in January 2008,is timed to coincide with the first commitment period under the Kyoto Protocol. The Commission has been reviewing the system ahead of the third phase, which will begin in 2013[64]. The Commission has stated that "around 60 per cent of the total number of allowances will be auctioned in 2013,"[65] and "free allocation of emission allowances will be progressively replaced by auctioning of allowances by 2020"[66].

BP has lobbied hard to retain free permits for refineries. When EUROPIA issued its January 2008 press release declaring: "it is vital that measures taken to address GHG emissions do not undermine the competitiveness of European industry"[67] it was speaking from a position formulated under the presidency of Wilhelm Bonse-Geuking, BP Group's vice president for Europe[68].

In the first draft of the Commission's legislation for phase three, refineries were included as one of the sectors in which permits were to be auctioned. Yet shortly before the Commission adopted the proposal, the reference to auctioning in the refining sector was removed from the text, without any explanation. Amid speculation that the wording on refineries had been removed as a result of successful lobbying by BP and Shell, Reuters called both companies in January 2008, but they refused to comment[69]. The climate package was adopted by the European Parliament in December 2008[70] but NGOs as well as some MEPs were critical that the measures had been watered down and it seems unlikely that refineries will be forced to pay for permits in phase three of the ETS[71].

Overall, only about three per cent of allowances in the 2008-2012 scheme will be auctioned, with only half of the member states planning any kind of auction[72]. The European Petroleum Industry Association (EUROPIA), which represents BP, has always maintained that "CO2 allowances related to the baseline period should be granted free-of-charge by each Member State to each refinery,"[73]. Given the efficacy of such lobbying by BP and its peers in the past, it seems unlikely

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[63] Point Carbon (2006) Italian second phase national allocation plan suffers further delays, 26 September 2006, http://int.pointcarbon.com/Home/News/All%20news/EU%20ETS/article17913-466.html

[64] Milner, M. (2007) UK steelmakers lobby for opt out on tougher emission limits, The Guardian, 19 November 2007, http://www.guardian.co.uk/business/2007/nov/19/carbonemissions.uknews

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[68] European Petroleum Industry Association (2007) Dr. Panos E. Cavoulacos Appointed President of EUROPIA, Press Release, 19 October 2007, http://www.europia.com/content/default.asp?PageID=400

[69] Personal Correspondence

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[73] European Petroleum Industry Association (2005) Principles for the allocation of CO2 allowances in the 2nd period 2008-2012 within the oil refining sector, EUROPIA Position Paper, September 2005, http://www.europia.com/content/default.asp?PageID=416

that future phases of the ETS will introduce auctioning to adequately reflect the externalised cost of greenhouse gas emissions.

Conclusion

BP designed and implemented an internal emissions trading scheme which through the company's close ties to the UK Government provided a model for a national scheme. With UK Government support, the company successfully lobbied the EU to make emissions trading the main instrument in Europe's post-Kyoto strategy. The company's input has intentionally shaped a scheme which fails to deliver cuts in greenhouse gas emissions while diverting attention from meaningful action on climate change.

Sir Nicholas Stern, the UK Government's adviser on the economics of climate change states that "global emissions will need to be reduced to below the level that the Earth can absorb" and that "this is more than 80 per cent below the absolute level of current annual emissions,"[74]. As an instrument for delivering this magnitude of cuts, the EU ETS is not fit for purpose - and indeed Stern estimates that it delivered cuts of no more than one per cent in the first phase[75].

The media has described the ETS as "the EU's primary mechanism for meeting its Kyoto obligation,"[76] yet it was conceived by the Commission only as "an environmental policy instrument to lower the costs of reducing greenhouse gas emissions"[77]. It is hardly surprising then, that a scheme designed to cut the cost of climate change policies has failed to deliver a reduction in emissions. Yet the European Petroleum Industry Association (EUROPIA) has lobbied for the ETS to be the only EU legislation on emissions, arguing that "GHG emissions associated with EU oil production and refining are already accounted for and regulated under the current EU ETS. There appears to be no rationale that justifies the additional regulation of GHG emissions"[78].

If the ETS remains the EU's primary response to climate change, the EU is unlikely to meet its legally binding obligations under the Kyoto Protocol and will fall woefully short of the 80 per cent emissions reductions recommended by Stern. Given the recent lobbying against tighter emissions caps and the fact that BP has so successfully shaped the underlying architecture of the ETS, it appears unlikely that the scheme can be sufficiently reformed to deliver the necessary cuts in greenhouse gas emissions.

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[74] Stern, N. et al. (2006) Stern Review - The Economics of Climate Change, Executive Summary, UK Government - HM Treasury, 30 October 2006, p11, http://www.hm-treasury.gov.uk/media/4/3/Executive_Summary.pdf

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