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## How green are UK carbon trading plans?



By Susan Watts  
BBC Newsnight's science editor

**As climate experts and politicians convene in Buenos Aires for the latest round of UN talks on climate change, Newsnight examines Britain's plans to cut greenhouse gases.**



Fossil fuel burning is one of the biggest sources of CO2 emissions

The Kyoto Protocol on climate change works like this: the developed world agrees to limit greenhouse gases, and each nation works out how to do it.

For companies, market trading is fast becoming the most attractive way to go "green", and the UK government likes the idea, too.

Recent estimates suggest this could become a huge market, worth many billions of pounds and outstripping markets in oil and gas. Global emissions trading won't start until 2008, but Europe is running a road test - a continent-wide scheme that starts in January 2005.

Under the Kyoto agreement, Europe has agreed to cut greenhouse gases by 8% of 1990 levels by 2012. From the first of January next year, companies face fines if they emit more than they're allowed under national plans.

### Carbon market

If a company wants to emit more than its carbon allowance, it must buy credits from others who are cleaning up. If it emits less, it has allowances in hand that it can sell to those doing less well - thus creating a market in carbon.

It's not a new idea. In America there's been a market for a decade now in the sulphur dioxide emissions behind acid rain. Companies were none too pleased at first, but met their targets more quickly, and more cheaply, than expected.

Shell has just secured a carbon deal for the Kyoto-proper period beginning in 2008, though it's not saying how big a

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Science editor Susan Watts on UK plans to cut greenhouse gases



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deal this was - nor even if the company bought or sold.

The head of their "green" trading team, Garth Edward, told Newsnight: "The details perhaps are not so important. The point is that a price was established for the next period of the market. The Kyoto period - the 2008 through 2012 period - when the market's going to expand beyond just the EU itself and into the wider global community."



Oil giant Shell has already secured a carbon deal for 2008-12

But there's growing cynicism over just how serious Britain is about cleaning up at all.

For three years, businesses will be eased into trading with free carbon credits, up to a national quota agreed with Europe. The UK had agreed our national carbon allowance, but then last month the government changed its mind.



Paul Golby says changing emission allowances does not amount to a government handout

The government went back to the European Commission saying the UK had got the sums wrong and companies need to emit more carbon dioxide than originally thought.

There's a widespread belief that the government succumbed to pressure from the power sector. Andreas Arvanitakis, a carbon analyst, told Newsnight that to some it's just sensible business planning. Power generators who want to take advantage of cheap coal need more carbon credits.

### Government handout?

"Some people are saying that this is because the DTI has reworked its projections for our emissions over the next few years and without these extra allowances it will be difficult to operate.







"Others are saying this is just a knee-jerk reaction to other governments across Europe being too generous with their industry, and others are saying the DTI has been hoodwinked in its projections and that we won't need these extra allowances at all".

Paul Golby, UK chief executive of E-On, the German company that now owns energy provider Powergen, says he and his peers *did* talk to government about their allowances, to make sure they got enough carbon credits at the start, but without shifting the final target.

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I asked Mr Golby if the power sector had secured a windfall. "I don't think there's any windfall involved here," he said. "My company, like many others, is short of allocations, so we'll have to buy allocations to the tune of several tens of millions of pounds to operate at our current levels of output and provide a secure electricity system for the UK."

This surprised Dr Bridget Woodman of the Warwick Business school. She told Newsnight: "I'd say that's something of a bargain if you look at the overall turnover of the business and also their annual profits; it is a small slice of the cake."



Bridget Woodman is sceptical about plans to cut emissions

"I think the signal it sent out overwhelmingly is that this government isn't as serious as it claims to be about carbon emissions. It's far more interested in its relationship with business and how much money large energy users can make, than it is about actually reducing carbon emissions."

So will all this lead to a fall in carbon dioxide emissions? The key signal of whether industry or the planet is winning will be how high a price tag we see for carbon.

Close to 20 euros per tonne of carbon dioxide would be about right to ensure the environment gains. At the moment it's short of that, at just eight euros a tonne.

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**Susan Watts' film was screened on Monday, 6 December, 2004, but you can watch it again by clicking on the link at the top right-hand side of this page.**

**Newsnight is broadcast on BBC Two at 1030pm every weeknight in the UK.**

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