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“FILE ON 4”

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ACTUALITY COAL DIGGING MACHINE

O’HALLORAN: A digging machine, relentlessly scooping coal from a huge mound to keep a power station running day and night. Although coal causes high greenhouse gas emissions, it’s been staging a big comeback in Britain’s generating plants. But that wasn’t meant to happen. It’s just the sort of thing a major European carbon trading system was designed to deter. The EU Emissions Trading Scheme is seen as the cornerstone of Britain’s strategy to beat global warming, but File on 4 has learned that after two and half years in operation it’s still failing to deliver. Government figures show that it has yet to result in any cutback in our output of carbon dioxide, the gas largely blamed for causing global warming. However carbon trading has brought huge windfall profits to the power generators and caused electricity price rises for customers.

ASHER: Consumers all increasingly accept the need for reductions in carbon. However, consumers have actually been duded by this. Paid the price but not got the benefit.

SIGNATURE TUNE

ACTUALITY IN TRADING ROOM AT BARCLAYS

MAN: If you look at the screen here Paul, the market's 21.30 bid and 21.35 offered.

PAUL: So has much gone through today?

MAN: Several million tonnes. I mean typically we've got about 5 million tonnes, but today ...

O'HALLORAN: At Barclays Capital trading room in Canary Wharf, London, executives chew over forward prices. But what they're monitoring is not oil, wheat or cocoa. It's hot air - allowances for industry to emit millions of tonnes of carbon dioxide, the main greenhouse gas linked by scientists to climate change.

MAN: ... seems to have gained a bit of ground recently.

MAN 2: There has been quite a lot of buying interest the last week or so. I think it's driven by the German electricity prices ...

O'HALLORAN: Under the European Union Emissions Trading scheme, the biggest greenhouse gas polluters have to keep their carbon dioxide or CO₂ output within an agreed limit, or buy allowances on the market to cover the excess. It's called a cap and trade system. It began in 2005 and covers all 27 EU member countries. And it involves firms responsible for almost half the EU's greenhouse gas emissions, says Paul Dawson, Director of Commodities Regulation at Barclays Capital.

DAWSON: Since the scheme came into being, it became an offence to emit carbon dioxide without a permit; and one of the conditions of those permits is that every year you have to show up with a number of allowances equal to your annual emissions of carbon dioxide.

O'HALLORAN: Can you explain for ordinary people what exactly is a cap and trade system?

DAWSON: A cap and trade system is based around two essential components. The first is the cap, and this places a limit on the pot of emissions that can be released from industry. So that cap is around two billion tonnes of carbon dioxide per year and that will progressively shrink over time. It's a bit like musical chairs: as time goes on, you pull a chair away, emissions have to reduce.

O'HALLORAN: And what is the real purpose then of the EU Emissions Trading Scheme?

DAWSON: The overriding purpose is to reduce emissions of carbon dioxide and overall greenhouse gas emissions to mitigate climate change.

O'HALLORAN: At the outset, the European Commission set caps - or limits - on CO2 emissions for each member country. These caps were meant to be lower than existing emissions. But sixteen months into the scheme in April last year, an awkward fact leaked out. Across the EU the caps had been set way too high. And Kevin Smith of the campaign group Carbon Trade Watch believes that was no accident.

SMITH: This is one of the biggest scandals so far of the EU Emissions Trading Scheme. It was revealed that there had been a massive over-allocation of permits across the board in Europe. So companies and businesses had actually been allocated more permits than they actually needed.

O'HALLORAN: So that meant at that time they had to do absolutely nothing in order to get their emissions down?

SMITH: Not only did they have nothing to get their emissions down, they had surplus permits that they could then profitably sell on to other companies.

O'HALLORAN: So was it purely a question of miscalculation, an honest mistake, do you think, that caused that?

SMITH: No, I think the problem with these carbon trading schemes is that at each stage of the design and implementation they are very vulnerable to corporate lobbying, and there's an incentive and an opportunity for businesses to exaggerate their emissions needs so that they receive more free permits and have to take less action and have more permits to sell on afterwards.

O'HALLORAN: Ultimately though it was the member governments which sent the figures to the European Commission. And Paul Dawson of Barclays Capital says that politicians must also bear some responsibility for what happened.

DAWSON: It's important to remember here that this was a trial phase, very much a learning phase, and before we had the scheme in place we didn't have the architecture to monitor, report and verify the actual emissions coming out of industry. So governments and the European Commission had to make forecasts, and I think that there was a combination of over-optimism on the level of emissions, there was maybe some deliberate asking for more than you actually needed, and I'm sure there were some mistakes. But, yes, the total was higher than actual emissions.

O'HALLORAN: So when you say asking for more than you actually needed, it's possible that some companies, quite a lot of companies perhaps overestimated, perhaps knowingly overestimated their business as usual emissions for 2005?

DAWSON: I think that's possible. I doubt we're ever going to know, you know, whether it was over-allocation, over-optimism, or frankly genuine emissions reductions which have also taken place.

O'HALLORAN: But a recent report from the Commons Environmental Audit Committee was more critical.

READER IN STUDIO: Overall, the emissions projections appear to have been inaccurate and inflated, and the national caps derived from them too unambitious... Lessons must be learned and things radically improved ...

O'HALLORAN: The discovery of the large oversupply of carbon allowances in April last year had a severe impact on the price of carbon on the market, says Paul Dawson.

DAWSON: When it became apparent that there was more emission allowances than there were actual emissions, there was no longer any scarcity. The result of that is that the market worked absolutely as it should have done, which is that prices fell significantly from around 30 euros down to 9 euros.

O'HALLORAN: So since April 2006, what has happened to the price of carbon in the first three year phase ending at the end of this year?

DAWSON: Generally the trend has been strongly downwards and prices now are in, you know, tens of euro cents, so 20, 30 euro cents.

O'HALLORAN: And that's virtually nothing. That's, what, a third of a euro or less?

DAWSON: That's, around that. But that reflects the fact that the first year's surplus was followed up by a significant surplus in the second year of the scheme.

O'HALLORAN: The immediate result of the price collapse was the virtual destruction of the power of the market to incentivise carbon reductions, because allowances were now going for a song. Before the collapse, the carbon price had been around 20 Euros a tonne and more. So for some time the emissions allowances granted to UK companies had been worth hundreds of millions of pounds. For firms with a surplus on their hands, that could mean some quick profits when they sold them on the market. The allowances had actually been granted free of charge in the first place. Indeed the higher a company's past carbon dioxide emissions, the more free allowances it received, says Larry Lohmann, of the environmental research group, The Corner House.

LOHMANN: What you are doing is, you are creating a new kind of property, a new kind of asset and you are giving it away free to the worst polluters. It's not a polluter pays programme, it's a polluter earns programme. For example, in Europe

O'HALLORAN: Free allocations of emissions allowances to power generators will occur again at the start of the next phase of the scheme in January 2008, meaning more large windfall profits. And there's now growing political pressure in Europe for generators to be made to pay for them. But Karsten Neuhoff, of Cambridge University's Faculty of Economics, says a free allocation of allowances at the outset was seen as way of encouraging business to get involved.

NEUHOFF: Only by getting the support of stakeholders and giving them some free allowances at the beginning, we could get the proposal of emissions trading through the European Parliament.

O'HALLORAN: So was the free handout of these valuable emissions allowances to industry, was it really an inducement, a kind of bribe to get them to play ball?

NEUHOFF: To some extent it was certainly an inducement to win their participation, but we also have to see that various of these high carbon assets will lose their value in a future low carbon situation, and so it was a compensation at the same time for these assets.

O'HALLORAN: Now if the power generators in Britain made, according to the Department of Trade and Industry, windfall profits of £1.2 billion, what proportion of those profits would have been made from the ordinary domestic customers?

NEUHOFF: Domestic customers have about one-third of the total electricity bill, so one-third of this has been passed on.

O'HALLORAN: The rest would have been paid by industry and business customers. We asked Karsten Neuhoff to work out the impact of EU Emissions Trading on electricity prices in the year the scheme began - 2005. He calculated that for a home with an annual electricity bill of £300, it would mean an increase of just over £20 or about 7%. However, the minister for Climate Change, Ian Pearson, disputed this figure. He points out that next year, Phase Two of the Emissions Trading Scheme will start, and he predicts the system will then begin to deliver results.

PEARSON: I think what most people want to focus on is are we seeing genuine carbon dioxide reductions, and under Phase Two of the scheme we will certainly see, I think, major improvements in that field. And carbon markets are going to play, I think, an increasing role in future, in terms of helping the world move towards a low carbon economy. And the EU ETS is going to be a main plank of that.

O'HALLORAN: But electricity customers have been forced to pay up front in Phase One to the tune of £1.2 billion. It's a lot of money, isn't it?

PEARSON: Well, the figures that we have show that as a result of the EU ETS in Phase Two going forward, we think domestic customers might pay ...

O'HALLORAN: Let's just talk about ...

PEARSON: Hang on, let me just ...

O'HALLORAN: Let's just finish with Phase One for a second.

PEARSON: Well why don't we talk about the future and what's happening in the future?

O'HALLORAN: But I'm saying they've paid out once. What have people got in return for the money they have been forced to shell out, every electricity customer in this country I should think, in Phase One?

PEARSON: Well in Phase One, customers have probably paid a fraction of 1% extra in terms of their electricity bills as a result of the EU ETS..

O'HALLORAN: Well a Cambridge energy economist told us it could be 7% on their electricity bills in terms of these windfall profits that the generators have accepted.

PEARSON: I don't accept that.

O'HALLORAN: You don't accept that?

PEARSON: I don't accept that as a figure at all.

O'HALLORAN: So an apparent sharp conflict of evidence. An independent energy economist speaks of a 7% rise. The minister says a fraction of 1%. Which version is most likely to be right? We asked Energywatch, formerly known as the Gas and Electricity Consumer Council. Its Chief Executive, Allan Asher, says he's has been concerned about the effect of the EU scheme on consumers for some time and has voiced his worries on government committees. Now he says it's time to speak out.

ASHER: It's pretty obvious from the price figures that the 7% figure is much closer to being accurate. You only have to look at the way in which wholesale and retail prices have risen over the last three years. If you look at it, 7% looks much closer to the mark than half a per cent.

O'HALLORAN: So is it possible to estimate at all what the average household might have paid extra per annum?

ASHER: The reality is, larger users would have paid more and I would estimate somewhere around £15 to £20 a year on electricity bills for domestic consumers.

O'HALLORAN: So a household using quite a bit of electricity will have been paying an extra £20 or so a year, you think?

ASHER: Yes that's right, as a result of the Emissions Trading Scheme.

O'HALLORAN: Despite the government's rejection of that price analysis, it does accept that something needs to be done about the scale of windfall profits reaped by the power generators. Climate Change Minister, Ian Pearson, says that in Phase Two of the EU scheme, the government will force the power generators to buy some of their emissions allowances at auction.

PEARSON: I think there is clear evidence that power generators have made windfall gains as a result of their EU ETS and the allocation methodology.

O'HALLORAN: Now the DTI estimate for those windfall profits for the power generators is between £1.2 and £1.3 billion and that's just for the year 2005 alone - that's a huge figure, isn't it?

PEARSON: Well there are different calculations used for this, but certainly I accept ...

O'HALLORAN: That's in a very recent government document, a couple of months old, the one I'm quoting.

PEARSON: I accept that power generators have made windfall gains as a result of the EU ETS. It's why, as I say quite clearly, we've allocated less than business as usual to the power generation sector and we've said that auctioning is going to be concentrated in that sector as well, so we're very aware of the issue of this.

O'HALLORAN: So by how ...

PEARSON: We know ...

O'HALLORAN: Let me just ask this though. This is crucial. These free allocations to power generators and others are going to happen all over again, aren't they, at the beginning of next year? By how much will you have cut them back, do you think, in the power generating sector?

PEARSON: Well we're going to be auctioning up to 8% of total allowances in Phase Two under a national allocation plan.

O'HALLORAN: So not very much.

PEARSON: and those are going to be focussed on the power generation sector, and the key thing here to mention and to keep stressing is that we're putting a cap on overall CO2 emissions right across Europe, and this cap and trade scheme that is now become firmly established and will become even tighter as a cap in Phase Two, is going to make a real difference.

O'HALLORAN: A real difference, in terms of the impact on climate gas emissions, is badly needed. But the signs from some of Britain's electricity power stations are far from encouraging. The fact is they've been burning more and more coal, and the big problem with that is that it causes far more carbon dioxide emissions than its main rival, gas.

ACTUALITY AT KINGSNORTH

MAN: This is our main coal stock here at Kingsnorth and this is what 700,000 tonnes of coal looks like. When it's full it's about a million tonnes of coal. As you can see, it's a few hundred yards across, a good quality coal ready to go into the power station just behind us.

O'HALLORAN: Kingsnorth power station near Rochester in Kent run by EON UK. At full tilt it burns 20,000 tons of coal a day. And price-wise coal's been very competitive against gas, so this station has been increasing its power output, says Simon Vasey, EON's director of trading. The result of that is that CO2 emissions from the plant have also been shooting up.

Your carbon dioxide emissions from this plant went up by 14% from 2005 to 2006, the first two years of the emissions trading scheme. So it didn't do anything to inhibit your output of CO2, it looks like?

VASEY: And we had to pay for those carbon credits, increasing our costs. I can tell you that it would have been the most efficient and economic answer to generating the power that the country needed. If we would have had any other options, such as gas fired stations or renewables from our fleet, we would have been running those first.

O'HALLORAN: But to critics of the scheme itself who suggest that, you know, you've made a mint out of this, you the power generators, how do you reply?

VASEY: I would reply by saying our intention in the UK is to reinvest from EON every penny of those profits that we've made. Over the next few years the business plan that EON has for the UK business is to re-invest all the cash flows coming out of the UK business back into vital infrastructure for the UK, not only in power but in gas storage.

O'HALLORAN: So can you say with any certainty when, if ever, the EU Emissions Trading Scheme is going to cause carbon dioxide emissions in the UK to be cut back? By you, the power generators in particular?

VASEY: I can't, no. That's a political question. Because critical here to the price of carbon is the allocation by national governments across Europe, policed by the European Commission, in making sure that they do not over-allocate the carbon credits needed to see a reduction in carbon emissions.

O'HALLORAN: The steady surge in coal-fired power generation across Britain has been monitored with growing concern at the wildlife group, WWF. Its head of climate change, Keith Allott, says that since 1999, CO2 emissions from the electricity generation sector have risen nearly 30% due to the extra coal being burnt. So how has the EU Emissions Trading Scheme impacted on that trend?

ALLOTT: Unfortunately, so far there's been no discernible impact at all. Coal burn fell dramatically right through the 1990s. Since 1999, we've seen a roll back to coal, where the amount of coal being burnt for power generation has shot back up again. The increase has been particularly steep in the past couple of years, despite that coinciding with the Emissions Trading Scheme.

O'HALLORAN: And you're saying the arrival of the EU Emissions Trading Scheme beginning 2005, that had what impact on coal?

ALLOTT: Well, no real discernible impact. Put it this way: the emissions from coal-fired power stations in 2006 increased by about 8%.

O'HALLORAN: In one year?

ALLOTT: Yes.

O'HALLORAN: Carbon dioxide emissions ...

ALLOTT: Yes.

O'HALLORAN: From coal-fired power stations?

ALLOTT: Yes. The first phase of the EU Emissions Trading Scheme has been disappointing in that it has not led to any significant reduction in Europe's emissions. It has been a success in terms of getting the whole architecture of the policy up and running, but in environmental terms it has not been a success at all.

O'HALLORAN: So how much have CO2 emissions been cut back in Britain overall since the start of the carbon trading scheme? In 2005 there was a tiny drop of just 0.1%. But that was more than wiped out last year, according to government figures.

READER IN STUDIO: DEFRA NEWS STATISTICAL RELEASE 29 March 2007. The provisional estimate of 2006 carbon dioxide is around 1.25% higher than the 2005 figure. This increase was primarily as a result of fuel switching from natural gas to coal for electricity generation.

O'HALLORAN: Allan Asher of Energywatch concludes that in climate terms, consumers have yet to see any dividend from the significant price increases he says they've had to pay.

ASHER: Consumers haven't had very much back at all. Consumers have actually been duded by this, they're paying the price and not seeing the benefits.

O'HALLORAN: Consumers have been duded by this, what do you mean - they've been fooled by this, they've been gypped?

ASHER: Well it's not a matter of being fooled or gypped, it's that the system was poorly designed. The EU Emissions Trading Scheme has got off to a very shaky start. It's been expensive and it hasn't been successful. In terms of actually reducing carbon production, we know that generators have actually increased their carbon production quite a bit. In fact, the only new announcements of new generation in the last year have been new coal fired plants.

O'HALLORAN: The Institute of Public Policy Research – a think tank close to the government – estimates that across the EU, over the first two years of the Carbon Trading Scheme, there's been a rise in CO2 emissions of between 1% and 1.5%, mirroring that in Britain. And Climate Change minister Ian Pearson concedes that Phase One has not, in that sense, lived up to his hopes.

PEARSON: Phase One has been disappointing in terms of carbon reductions. There've been some studies that suggest some reductions. That's encouraging but there's no doubt that we've got to do far better in Phase Two.

O'HALLORAN: Isn't it right that the figures from your own department show that during Phase One, carbon dioxide emissions have actually gone in the wrong direction. They've gone up, not down. So they certainly haven't been curbed in any way by the Emissions Trading Scheme.

PEARSON: Well, if you're looking at UK total CO2 emissions, yes they've risen slightly in the last year. Largely as a result of power generators burning more coal rather than gas because of the differential in prices. There are teething difficulties with the EU ETS and it hasn't been as big a success as we would like it to have been in terms of immediate CO2 reductions, but it is going to make a big difference.

O'HALLORAN: Well it hasn't produced any at all in fact ...

PEARSON: Well, there are some studies saying that carbon abatement activity has clearly taken place as a result of Phase One, but I'm not going to pretend to you that it's been a major source of CO2 emission reductions at the moment.

O'HALLORAN: The scheme has not produced a cutback in CO2 emissions in the European Union or in Britain. These hard figures suggest the opposite in the last two years.

PEARSON: Well, Julian, what I've been trying to stress here is that the EU ETS has been seen as an experiment. It is the world's first scheme on a large scale introducing a cap and trade regime. I think it's been an administrative success and all the EU member states are absolutely committed to emissions trading. They all see it as an important way forward.

O'HALLORAN: But those who are imbued with optimism about the future benefits of the EU carbon scheme might do well to look at history. Advocates of pollution trading often point to its record in America in the 1980s and 90s, for instance in helping the country to get the better of sulphur dioxide pollution. But Larry Lohmann, of the environment research group The Corner House, says actual results of trading in the USA don't stack up well against more conventional environmental measures used elsewhere.

LOHMANN: One of the selling points was always the US claim that this was a great success story; it had reduced the amounts of sulphur dioxide by an amazing amount and it had done so very quickly.

O'HALLORAN: Now, sulphur dioxide being important because of the battle at that time against acid rain?

LOHMANN: That's right.

O'HALLORAN: So what had emissions trading achieved in percentage terms in the United States, in relation to sulphur dioxide, and how did that compare with elsewhere?

LOHMANN: Well, the acid rain programme achieved a reduction of 31% between 1990 and 2001, which sounds like a pretty respectable figure, but it's interesting to compare that with similar figures from other countries which actually didn't use emissions trading, they used conventional sorts of regulation to reduce sulphur dioxide

LOHMANN cont: emissions. And if you look at Germany, over a comparable time period, Germany actually achieved 90% reductions in sulphur dioxide without emissions trading. Italy achieved 62% and western Europe as a whole achieved something like 57% over a similar time period.

O'HALLORAN: So you mean these other west European countries did, what, twice as well, broadly speaking, or more than the United States over the same time, without emissions trading?

LOHMANN: Yes, that's right. And that counts against the claim which is often made by carbon trading proponents that it was emissions trading that enabled the US to achieve these great results.

O'HALLORAN: So are you suggesting , really, that Europe, the European Union has gone down the path of emissions trading really on the basis of a sort of myth about its effectiveness in North America?

LOHMANN: I think there's a lot of misapprehension about this. I think a myth has been propagated by a lot of people who actually haven't looked carefully into the history of emissions trading in the US, which is not the success story it is claimed to be. So it is quite ironic that this is the thing which is always trotted out by defenders of emissions trading is that well, it worked in the US therefore it will work with global warming.

O'HALLORAN: But other environmental groups argue that trading can and must be made to work. Keith Allott of WWF suggests that now that the architecture of emissions trading is up and running, the EU should not turn back. Even if Phase Two, the next four year phase of the EU Emissions Trading Scheme is more successful, can it really have any impact on climate change, given that many experts say we're approaching a tipping point in the next ten, fifteen or twenty years?

ALLOTT: Our view is that to avoid dangerous climate change, the world's emissions have got to peak within ten years. Now currently they're rising at about 3% per year, so that's a huge challenge to try and turn that round, but what's critical is that we have very ambitious targets set for the next phase of Kyoto which would then

O'HALLORAN: Half an hour's drive away at the Pocerady power station, a huge wheel fitted with scoops digs into a mound of coal to keep the boilers fed with about a thousand tonnes of coal per hour. The plant is run by CEZ, two thirds state-owned, and the country's biggest power generator. In Phase One of the carbon trading scheme, CEZ seems to have been awash with carbon emissions allowances, and made about 40 million Euros of profit a year trading in them. The company's Environmental chief is Martin Cmiral.

Did you in fact get far more allocation of emissions allowances than you actually needed?

CMIRAL: No, I don't think so.

O'HALLORAN: But you got a bit more than you needed?

CMIRAL: Well, we've saved quite a bit. We've saved quite a bit and that has to do with some of the measures we have adapted across the company - partially looking at how to fix some of the technologies, make it more efficient, etc.

O'HALLORAN: But wasn't the cap set too high both for the Czech Republic as a whole in the first three years and for you as a company in the first three years?

CMIRAL: I think the cap was possibly set a bit too high for the entire Europe. For CEZ, I don't think the cap was set too high.

O'HALLORAN: But CEZ - and indeed the whole Czech economy - were allocated way too many emissions allowances, according to Friends of the Earth in Prague. Its campaigns director, Vojtech Kotecky, recalled that for Phase Two the government had applied for a whopping allocation, nearly 102 million tonnes as against existing emissions of about 20 million tonnes less. Even after its bid has been severely cut back by Brussels, the Czech Republic looks like being left with about four million tons of surplus allowances.

KOTECKY: Well it was sort of obvious that the government wants to get windfall profits for Czech companies rather than to bring a credible proposal for allocation scheme, and it was rightly rejected by the European Commission and dramatically cut by roughly 15%, back to 86 million tonnes.

O'HALLORAN: Now that 86 million tonnes of carbon, that's still quite a bit more, isn't it, than your actual emissions in the last year for which you have figures.

KOTECKY: It's definitely far from being an effective reduction of emissions. When you look at the level, it is an increase not a decrease of emissions. The final cap does not reduce emissions, which is exactly what we need, especially in a country which is one of the worst polluters in Europe.

O'HALLORAN: So, in the light of the Czech case, how does Paul Dawson of Barclays Capital, back at the heart of carbon trading in London, assess the European Commission's attempts to tighten up on the scheme?

DAWSON: I think you have to look at the individual state levels, but I think what the European Commission has done a very, very good job in auditing member state plans and ensuring that they are not giving out more allowances than they need. Many other member states face significant cuts and the Commission has done a good job in they've made sure that the emissions projections are in line with realistic figures of what is required.

O'HALLORAN: But is there any real evidence of the European Commission cracking the whip now and really bringing the cap down tightly if you've got countries already apparently about to get caps allocations which will mean they can go on doing business as usual for a while?

DAWSON: The Commission's done a very good job and if you look at the, I forget what the actual total is at the moment, but they've made reductions to member state projections of the order of two hundred million tonnes, so they've been very strict in terms of pushing back on member states.

O'HALLORAN: Indeed the Commission points out, out of 22 applications dealt with so far for national allocations of emissions allowances, 21 were sent back to member countries for changes. It says a substantial forward price for carbon in the next phase is a good sign. With global warming now prominent on the G8 agenda, and with new interest in emissions trading from countries like Australia, climate minister Ian Pearson believes a reformed and tightened up EU Emissions Trading Scheme can be a model for the world. So how do you reply to those critics who say that the scheme has been a bit of a fiasco so far in the first phase?

PEARSON: I think people that suggest that have got it completely wrong. What we were doing with EU ETS is setting up the world's first regionally based trading system covering all EU member states, and that's a huge task, and for those that say, well maybe it's been disappointing, well it's become established right across the world now. We're seeing other countries looking to introduce schemes, talking about the EU ETS, using it as a model. So although it might not have been faultless, it certainly has been a major task and a major achievement.

O'HALLORAN: But can we really afford to tread water for three years, which is what's been happening under the first phase of the Emissions Trading Scheme?

PEARSON: We haven't been treading water. What we've been doing is setting up a scheme that is now a leading scheme right across the world, it's the foundation of what I think will be a global carbon market in the future.

O'HALLORAN: But even some supporters of emissions trading are not confident that as things are set now it will have a big effect even in the next five year phase. There is already talk at the Commission itself of trying to make big changes, such as making power generators pay for all their allowances from 2013 onwards, and of extending the scheme to cover aviation. But with so many member countries required to reach agreement, decision-making in the EU can be slow. And the latest scientific evidence suggests that the pace of climate change is in danger of outstripping the bureaucratic response time of the world's leading industrial countries.

SIGNATURE TUNE