Letting the market play: corporate lobbying and the financial regulation of carbon trading

by Carbon Trade Watch and Corporate Europe Observatory
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The European Union is changing its rules on how carbon is traded in response to a series of fraud cases and the financial crisis. This report looks at how corporate lobbies are trying to influence this process, and notes that such measures are bound to fall short since they attempt to "regulate the unregulatable".

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Letting the market play: corporate lobbying and the financial regulation of EU carbon trading, co-published by Carbon Trade Watch and Corporate Europe Observatory, shows that:

- The European Commission adopted a deliberately light touch approach to regulating its Emissions Trading System since its launch in 2005. A series of fraud cases made this position untenable.

- The Commission has proposed measures to tighten security, which was previously so lax that it was easier to become a carbon trader than to open a bank account. However, the new rules would also cover-up evidence of fraud and gaming by hiding carbon permit serial numbers. The Commissionâ€™s intention is to re-issue stolen permits, opening an additional hole in the schemeâ€™s accounting for emissions.

- The Commission has belatedly identified carbon as a commodity that is susceptible to excessive speculation. Leaked drafts of the Market in Financial Instruments Directive (MiFID), a set of rules governing European financial markets, are set to be extended to include carbon trading.

- New regulations on carbon trading have been consistently opposed by financial services lobbyists. For example, in January 2011, the European Commission halted trading on a key part of the carbon market after the latest in a series of large fraud cases was uncovered. Less than a month later and with the suspension still partly in place, the International Emissions Trading Association (IETA, the main carbon trade lobby group) were privately insisting to Brussels officials that â€œthere might be no need to regulate this market.â€• This report documents how financial sector lobbying has been driven by a desire to find new opportunities for carbon market speculation by whatever means are necessary.

- Although the lobbyists look to be losing some of these battles, plenty of loopholes remain in the financial regulation of the carbon market. More fundamentally, emissions trading introduces speculation by design and has failed to meet its stated objectives. There is a need to de-financinalise climate policy.

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