Cameron's hot air. Pollution, fraud and the politics of carbon emissions

Reece Walters and **Peter Martin** identify how the coalition's emissions policies have failed the British public and created new markets for corporate polluters and carbon fraudsters

UK Government in the dock over air pollution breach...
Europe refuses UK air pollution reprieve
(Greenwisebusiness, 2012; BBC News, 2012)

It is widely recognised that exposure to air pollutants affect pulmonary and lung dysfunction as well as a range of neurological and vascular disorders. The rapid increase of worldwide carbon emissions continues to compromise environmental sustainability whilst contributing to premature death. Moreover, the harms caused by air pollution have a more pernicious reach, such as being the major source of climate change and 'natural disasters', which reportedly kills millions of people each year (World Health Organization, 2012).

The opening quotations tell a story of the UK government's complacency towards the devastation of toxic and contaminating air emissions. The above headlines greeted the British public earlier this year after its government was taken to the Court of Appeal for an appalling air pollution record that continues to cause the premature deaths of 30,000 British people each year at a health cost estimated at £20 billion per annum. This combined with pending legal proceedings against the UK government for air pollution violations by the European Commission, point to a Cameron government that prioritises hot air and profit margins over human lives.

The UK's legal air pollution regimes are an industry dominated process that relies on negotiation and partnership between regulators and polluters. The entire model seeks to assist business compliance rather than punish corporate offenders. There is no language of 'crime' in relation to UK air pollution violations but rather a discourse of 'exceedence' (Walters, 2010). It is a regulatory system not premised on the 'polluter pay' principle but instead the 'polluter profit' principle.

Emissions trading and the emergence of carbon fraud

Large corporate polluters in Britain and across Europe can profit through reducing emissions and trading carbon credits on the European Carbon Emissions Trading Scheme established in 2005, which regulates almost half of all polluting installations across Europe. Article 17 of the Kyoto Protocol created a market model to reduce carbon emissions. 'Carbon is now tracked and traced like any other commodity. It is known as the 'carbon market' (UN Framework Convention on Climate Change). In this context, 'dirty air' has become an intangible yet profitable commodity for global trade. Numerous international attempts to regulate and enforce air emissions through partnership models have proven unsatisfactory, ineffective and counterproductive. Driven by the doctrine of green economics, and influenced by established government trade practices, the Kyoto Protocol formally accepted the use of a system of carbon credits to assist those nations unable to meet Kyoto's carbon emission goals of reducing green house gas compliance (GHC) by 5.2 per cent on 1990 levels by 2012. This process of certification gives states and corporations legal permission to release emissions into the atmosphere, with one carbon credit equalling one tonne of carbon dioxide. The Kyoto Protocol established upper limits or 'emission caps' for all 170 signatory countries. Large polluting nations, such as China and the US, however, have refused to agree to mandatory caps, while the UK is widely reported to exceed its projected carbon emission target (Harvey, 2011). Moreover, polluting countries can participate in reforestation initiatives or the creation of 'carbon sinks' as a contribution to reducing emissions.

The process is a trade-oriented form of control based on 'supply and demand'. It was intended that rapidly developing and high polluting countries such as China and India would need support, while other industrialised countries would need incentives, in a global effort to reduce greenhouse gases. Countries now purchase carbon credits up to their maximum emission cap. Should an annual emission allowance not be met, then credits may be sold on the international market in what has become known as the global carbon trading industry. The number of consultants and traders offering advice in 'carbon finance', 'carbon accounting' and 'carbon investment' has increased substantially in the past three years (*The European Business Review*, 2010).

Polluting companies that meet their targets are given 'carbon credit points' and those that exceed their targets must purchase carbon credits in order to avoid fines. This market-led model pivots on trading where the decrease in credits increases their value. As companies continue to comply with air pollution standards, they are rewarded with carbon certificates that can be sold as currency on international markets to

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big polluters who exceed their targets. The only way for a polluting nation or company to avoid fines is to purchase carbon credit certificates that act as a 'get-out-jail-free-card' for the auditors appointed under Kyoto.

Therefore, answers to reducing global carbon emissions, have in recent years, been presented within discourses of trade that, and as the following quotation from Barclay's asserts, have provided lucrative and unprecedented profits.

> *Carbon will be the world's biggest market...Barclays was the first UK bank to set up a dedicated carbon trading desk to help clients, and Barclays Capital is the most active player in the emissions trading market having traded 300 million tonnes as at February 2007 (Barclays, 2007; Carbonprofits, 2012)*

As a result, the world's biggest polluters, transnational corporations, have increasingly ventured into the largely unregulated voluntary carbon credit market to offset their emissions and or give their customers the opportunity to be 'carbon neutral'. Alternatively they have traded their unused carbon credits on the EU Trading Scheme and sold credits to polluters who have exceeded their emission targets. The value of carbon credits on the trading market has declined in recent years. One credit is currently trading at 7.27 euro a credit. The decrease in credit value has recently been hailed by Forbes as a success, however, emissions continue to rise, and EU countries continue to exceed agreed upon pollution targets. In addition, what was recognised by banks and governments alike as the best model to reduce emissions whilst stimulating economic growth has recently been wracked by a different sort of headline: 'Interpol warns of carbon fraud'; 'Carbon Markets Rocked by Credits Fraud'; 'Organised Crime in Charge of EU Carbon Trade'

Carbon markets are artificially constructed markets that aim to internalise the costs of pollution within firms. As such, they provide a price signal to firms that encourage minimisation of greenhouse gas emissions or a displacement of emission savings through offsets, i.e., purchasing emission savings in other firms. Markets can only occur when objects are *commensurable* and so exchange values are known and trusted. GHC instruments are remarkable to the extent that they represent no value as a tangible commodity but instead as a *permit*. In creating this synthetic commodity, a multiplicity of projects and technologies in action must be made *commensurate*. Given this process, plus the intangibility of the instrument *and* the political basis for its value, issues of compliance, regulation and the potential for fraud are significant concerns (Drew and Drew, 2010).

In September 2012, three UK traders were convicted of £39 million of fraud and jailed for a total of 35 years. They were involved in complex 'carousel trades' which utilised the VAT free export of securities within the EU and sold them on with VAT included in the sale, without paying VAT to the UK government. This type of fraud has cost the EU countries around 3 billion euros. There are also numerous examples of fake offset projects; fabricated carbon certificates, bribery of Government officials, as well as numerous unwanted green projects, where indigenous peoples argue wantonly created carbon sinks are having devastating social and environmental impacts. So concerned by the unscrupulous and untrustworthy actions of carbon brokers and the unreliability of carbon emission trading, the Financial Services Authority in the UK has recently release a stark public warning:

> *Carbon credits can be sold and traded legitimately and there are many reputable firms operating in the sector. However, we are concerned that an increasing number of firms are using dubious, high pressure sales tactics and targeting vulnerable customers. We do not regulate carbon credits as a product in the same way as shares or units. This means a firm promoting or selling them does necessarily have to be authorised by us.*
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> (Financial Services Authority, 2012).

This admission identifies how the regulators of carbon trading have little or no control over illegal activities. The market model for reducing emissions, supported by the Cameron government, is a complex and costly failure. While the public sector in the UK is experiencing unprecedented financial cut backs; while British people continue to be squeezed in a belt-tightening exercise not seen in the post-war era; corporate polluters profit and the public purse is denied millions of pounds by carbon fraudsters exploiting an unregulated and largely ignored carbon market. To add insult into injury, when and if, the UK Government is fined by the European Commission for repeated pollution violations, it will be the British public asked to foot the bill. ■

Reece Walters is Professor in the School of Justice and Assistant Dean Research, Faculty of Law and **Dr Peter Martin** is a Senior Research Associate, Faculty of Law, both at Queensland University of Technology

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