

Tough line gives hope for 2007 success of European Emissions Trading scheme

Confrontation lies ahead for emissions trading as the EU environment commissioner rejects every proposed carbon allocation plan and faces the anger of member countries, including the United Kingdom

Let us have some good news to start the New Year. I think that the most ambitious scheme to control carbon emissions anywhere in the world may yet start working. But only if those who police it are allowed to do their jobs.

I refer to the European emissions trading scheme. Begun just two years ago this month, it already involves most of the major energy-consuming industries trading within the now 27 countries of the European Union. Plus, critically, all those who burn fossil fuels to generate electricity. This, theoretically at any rate, covers almost half of the carbon emitted.



It is now accepted that the first phase, which ends this December, has had very limited direct impact upon improving end-use efficiency. That is for one simple reason. For participants to be motivated to undertake any extra energy saving investments, the value of the energy (and hence carbon emissions) saved must be sufficiently high to prompt action.

That is not happening. The reason is simple. It is because there are far too many "carbon allowances" available within the system. Why? Because before the trading scheme was launched, it was up to each government to allocate allowances to their own industries. And, with a few honourable exceptions, they were all too generous.

Initially the price of carbon was reasonably strong. But 16 months into the trading scheme, the European Commission revealed the actual emission figures during the scheme's first year of operation. It became very clear that far too many allowances had been allocated than was necessary (about 65 million too many).

The immutable law of supply and demand kicked in. At one stage, carbon lost almost two-thirds of its trading value. It has become apparent that it is now far easier to buy- and harder to sell- allowances than previously presumed. Thus negating any pressure upon participants to seek to reduce energy consumption any more than would have occurred under business-as-usual.

At the same time as this price crash occurred, each government was busy preparing its National Action Plan, setting the levels of carbon allocations for the second phase. This will cover the five years from next January, through to December 2012. As the draft Plans began to emerge during the second half of last year, it became very clear that most governments were playing exactly the same game as before the first phase.

Being far too generous in their allocations. Undermining the potential price of carbon. And removing any stimuli to participants to make extra energy and carbon-saving investments.

The man charged with policing the scheme is European environment commissioner Stavros Dimas. At the end of October, he revealed that 17 governments had already sent him their proposed allocation plans. And that on average, they were now allocating 15% more allowances than in the present phase of the trading scheme. Granted, there will be a few extra participants after 2008. But overall, this looked like a recipe to encourage profligacy.

Under the Directive which set up the trading scheme, these second phase plans are not permitted to be more generous than for the first phase (and that, as we have seen, is already over – generous). Importantly, each of the original fifteen European Union governments must comply with the specific emission level commitments under the Kyoto Protocol way back in 1990. And which coincidentally, concludes over just the same 2008-2012 period.

Very few of the proposed national second phase allocations would satisfy these Kyoto commitments. So, as 2006 ended,

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Mr Dimas took the dramatic step of rejecting every single one of the proposed allocation plans submitted for the post-2008 trading scheme. This even included the UK, albeit mostly for rather technical reasons. Prompting our environment secretary David Milliband to commend the Commission's overall actions, and – importantly – to urge Mr Dimas to stick to his guns. And reject any allocation plan which failed to meet these simple criteria.

Others were less polite. In Berlin economics minister Michael Glos described the rejection as "unacceptable", saying it "infringed upon a member states' competency", and would be "resisted by all available means." . As Germany is not just the biggest carbon emitter in Europe, but also critically holds the Presidency of the European Council, this has all the portents to be a battle royal in the coming months. And of course Germany is far from the only Government in the dock.

Before the first phase got started, the EC as policemen were rather diffident about challenging national government proposals. Having seen how fast and loose governments played then, Mr Dimas and his colleagues are determined not to cave in this time round.

In theory all the odds are against the European Commission's will prevailing. But I have a sneaking suspicion that this time round they will. Forget any incipient Euroscepticism you might have. Everybody who is concerned to see energy consumption and carbon emission reductions should be backing them to the hilt. ■

FURTHER INFORMATION

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