

EU Tries to Combat Climate Change with Tough CO2 Cut

BRUSSELS - The European Commission sharpened its main weapon for fighting climate change on Wednesday, drawing fire from EU governments after demanding cuts in their carbon dioxide emissions plans for 2008-2012.

The move set up a fight with some EU member states, while the rest of the world watched what is a possible model for a future worldwide carbon market to tackle global warming.

German Economy Minister Michael Glos said the decision was "totally unacceptable" and would push up electricity prices.

Germany is Europe's biggest polluter. France withdrew its plan at the last minute after indications it too faced rejection.

"I think that with today's decisions the European Union will affirm its leadership role in fighting climate change and also our strong commitment to achieving the Kyoto Protocol targets," Environment Commissioner Stavros Dimas told a news conference.

Only Britain's CO2 cap was accepted by the Commission -- the other EU member states have two months to challenge the Commission's decision in a European court.

The EU has struggled to contain greenhouse gas emissions, which rose in 2004, and the bloc's "old" 15 members are only narrowly on course to meet their Kyoto Protocol target.

Its emissions trading scheme, launched last year, is at the heart of EU efforts to meet Kyoto targets by capping emissions of carbon dioxide from heavy industry, and may be a model for other markets from Australia to the United States.

The scheme's first phase from 2005-2007 came close to collapse when 2005 data showed governments gave industry more emissions permits than needed and carbon prices crashed.

The Commission tried to restore lost credibility on Wednesday, demanding a nearly seven percent cut in the total allowance that 10 EU countries proposed for 2008-2012.

The 10, including Germany, accounted for 42 percent of total allowances in the first phase. The Commission has yet to rule on plans submitted by other EU member states.

"The second allocation process in the European Union emissions trading system is a credibility test for Europe and I'm confident that we have mastered the test," Dimas said.

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The ruling drew angry responses from some governments.

Lithuania, facing a halving of its planned emission, said it was "very upset". Slovakia called its new cap too small.

France questioned Brussels' methods of setting targets.

German industry group VDEW, which represents 750 power firms, said the new targets could hinder new power generation projects and discourage industry.

Michael Grubb, chief economist at Britain's Carbon Trust, which spearheads Britain's drive to a low-carbon economy, said he believed the Commission had done a good job.

"They have done a lot to create a level playing field."

Carbon market participants -- brokers, traders and analysts -- forecast the cuts would fuel demand for permits.

"It's slightly stricter than I'd expected," said Mats Ahl, head of carbon trading at German utility RWE.

"It looks like the second phase is going to be short. We might see a carbon price for 2008 delivery of 25 euros."

The 2008 carbon price rose by 45 cents to 18.3 euros by late afternoon, versus some 8.2 euros for 2006 delivery.

But some green groups were disappointed.

"The decision announced by the Commission today is still not strict enough on member states that seek to shelter their polluting industries from tough emissions standards," said Mahi Sideridou, EU Climate Policy Director at Greenpeace.

Decisions were handed down on 10 EU nations -- Britain, Germany, Greece, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Sweden. France said it would not resubmit for several weeks.

(additional reporting by Muriel Boselli, Tim Hopher, Noah Barkin, Patrick Mcloughlin, Vera Eckert, Martin Santa, Patrick Lannin, Stuart Penson and Jodie Ginsberg)

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