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## Europe's emissions-trading scheme

### Compressed

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#### The European Commission insists, belatedly, on tighter emissions caps

EUROPEANS like to think they take their greenery seriously. On November 29th the European Commission boosted this self-image by proposing more exacting limits on the amount of carbon dioxide and other greenhouse gases that European firms will be allowed to emit in future. If confirmed, the decision may restore European policymakers' reputation for tackling climate change seriously. And it might even inspire less enthusiastic countries (including America) to take more determined action themselves.

As it is, the European Union is the only place in the world that sets any limits on heavily polluting industries' output of greenhouse gases. National governments have set caps on overall emissions, and then handed companies a corresponding number of permits to pollute. Firms that want to exceed their allocations must buy spare permits from cleaner rivals, or else pay for projects to offset their excess emissions in poor countries. The system, known as the emissions-trading scheme (ETS), is designed to help European countries to meet their commitment to cut emissions under the Kyoto Protocol, an international treaty on climate change, as cheaply as possible.

The commission reserves the right to vet the national caps, to make sure that each country is pulling its weight. For the first phase of the ETS, between 2005 and 2007, governments handed out more permits than were needed. When this became clear earlier this year, the price of emission permits plummeted. The surfeit of allowances also suggested that Europe was not cutting its emissions very dramatically. Environmentalists fretted that the world's most ambitious emissions-trading scheme might prove meaningless, setting a poor precedent for other countries which are being urged to take vigorous measures to combat climate change.

Sure enough, national governments once again proved to have been too generous when it came to handing out permits for the second phase of the ETS, which runs from 2008 to 2012. But this time, the commission has put its foot down. It has trimmed all the proposed caps except Britain's, by 7% on average. It has told countries that promised to hand dirty power plants all the permits they needed for years to come that they could not do so, because such pledges might undermine any chance of introducing a tougher regime after 2012. The price of permits has now gone up a little—although an ever-increasing supply of credits resulting from emissions reductions overseas should stop it from rising too far.

Alamy



**More power to the commission's elbow**

So far the commission has ruled on the plans of only ten of the 25 EU members. Six countries have not yet bothered to file their plans, five months after the supposed deadline; France is promising to resubmit its proposals. Nor is the commission's verdict the final word. There will be months of revisions and haggling before the shape of the second phase is clear. Nonetheless Kate Hampton of Climate Change Capital, an investment bank that specialises in emissions trading, argues that the commission has at least shown that it is determined to be a "credible regulator".

That might encourage other countries to imitate the ETS, or even to join it. America seems to be inching towards some sort of regulation of greenhouse gases (see [article](#)). Indeed, Europe's example might just pave the way for a worthy successor to Kyoto, which expires in 2012—so long as the commission manages to keep Europe's recalcitrant governments in line.

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