Europe set bar low on greenhouse gas targets

By Katrin Bennhold and Heather Timmons

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The European Commission admitted Monday that member states had given companies far too generous targets for greenhouse gas emissions last year, raising questions about the Continent's ability to meet its obligations under the Kyoto Protocol and triggering chaos in Europe's embryonic market in trading emissions credits.

The revelations, some of which had been leaked earlier in the month, prompted Germany and Britain to call for stricter European quotas for greenhouse gas emissions in the years ahead.

Although companies polluted less than expected, the move by Germany and Britain indicated that the level of Europe's carbon dioxide emissions was still too high to meet the goals set out by the Kyoto agreement among countries to fight global warming.

Europe's market to trade carbon dioxide credits was shaken Friday when the news was leaked in a posting on the commission's Web site. Governments use the market, which opened in January 2005, to curb industrial pollution by allocating permits limiting the amount of carbon dioxide countries can release into the atmosphere. Companies can trade the permits, selling credits they do not need or buying extra ones if they exceed their quotas. On Monday, Germany said it would cut the number of credits it had handed out, a controversial move that is being opposed in court by the European Union.

Europe's market for trading these credits was worth $10 billion in 2005, and may grow to as much as $30 billion in 2006, the World Bank estimates. Its success, analysts say, is crucial to reaching the Kyoto Protocol goals. "Trading is the only way to reduce emissions economically and efficiently," said Louis Redshaw, head of environmental products at Barclays Capital.

In recent weeks, though, the market has attracted calls for a swift overhaul from participants, environmentalists and governments alike. At the heart of the complaints: Information that filtered out to the market beginning with the Netherlands on April 25 showed that countries had far lower carbon emissions than the market had budgeted for. The European Commission's official figures, released Monday, showed that 21 of the 25 member states produced 44.1 million tons less carbon dioxide, or 2.5 percent less, in 2005 than expected.

Taken at face value, this should be good news: After all, lowering carbon dioxide is the goal. But many in the market say the reverse is true: Governments, under pressure from industry, have overestimated the amount of carbon dioxide credits their companies need, making it possible for companies to sell them at a profit.

So far, the permit market appears to have done more for the balance sheets of power companies than for pollution control. The permits, which started trading at about €9, or $11, in January 2005, peaked at €30 last month and have raised the revenues of power companies in the EU 15 percent to 25 percent, according to Point Carbon, a consulting firm specializing in energy markets and emissions trading based in Oslo.

"The electricity sector has had a very good year," said Kristian Tanger, research director at Point Carbon, adding that most improvements in energy efficiency in the past year were unrelated to the trading system.

If several countries emitted fewer gases than expected it was because governments had handed out 1 percent to 4 percent more permits than industry had required, Tanger said. One explanation is that the emissions market is unique in terms of the sway governments hold over it. They determine how much their countries get to pollute and which industries get how many permits.

So the fact that European countries have hit, or even come in under, their targets is by no means an indication that they will meet the obligations for emission cuts set in the Kyoto Protocol, he said. "Most countries are off track when it comes to Kyoto," Tanger said.

Environmental activists and agencies argue that the recently released year-end figures show that most European governments are more interested in protecting their companies than in reducing carbon emissions. "Governments have been cheated by the big industries, which gave them the wrong assumptions for their emissions," said Stephen Singer, head of the European climate and energy policy unit of the World Wildlife Fund.

François Loos, France's industry minister, disputed this, but said that he and his counterparts from Germany, Belgium, the Netherlands and Luxembourg were working on a proposal for the commission that would avoid carbon prices driving electricity prices - and profits of power companies - higher. The proposal will be submitted in June, he said.

Meanwhile, the banks, brokers, hedge funds and traders that jumped into the rapidly growing market for trading carbon emission credits complain that the big difference between what countries estimated they would use and what they actually used unfairly skews the market.

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