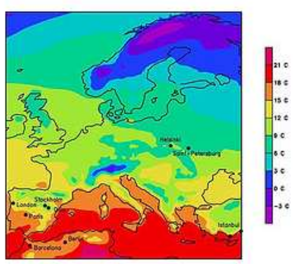
THE VINE

Is Europe Really On Track To Meet Its Kyoto Goals?

Bradford Plumer November 16, 2009 | 3:06 pm SHARE

There's a fairly basic question about climate policy that gets asked a lot: Can a cap-and-trade program actually cut carbon-dioxide emissions? Set aside the question of cost and the endless debate over whether a mythical carbon tax would be sleeker. Can a cap on carbon actually do what it's supposed to do? Right now, the best example of an up-and-running cap-and-trade system is in Europe. And, for years, the continent was seen as a hopeless failure at cutting emissions. But judging by the latest data, the evidence is fairly encouraging that a carbon cap can actually work.



Under the Kyoto Protocol, members of the EU-15 had agreed to cut their greenhouse-gas emissions 8 percent below 1990 levels by 2012. To get there, the EU set up its Emissions Trading System, which first got underway in 2005. Initially, the program got ensnarled in all sorts of embarrassing mishaps: Regulators gave away way too many pollution permits (so that companies could easily comply with the cap without making any cuts) and utilities were allowed to hike up rates without having to reduce emissions. The whole plan looked like a total flop. But, by 2007, the kinks were getting smoothed out, and, as a Lehman Brothers analysis concluded, the system "succeeded, and fairly quickly, in imposing a price on carbon."

That carbon price appears to have had an impact. According to new data from the European Environment Agency (EEA), all of the EU-15 members except Austria are now on track to exceed their Kyoto obligations. In fact, the group as a whole will likely slash emissions

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more than 13 percent below 1990 levels by 2012. That's not as ambitious as the 20 percent figure European leaders have been murmuring about, but it beats what Kyoto demanded. So how'd they do it? Here's the breakdown:

> * A 6.9 percent cut in greenhouse-gas emissions from existing policies to cap carbon and promote renewable power and efficiency.
> * They'll get an additional 1.6 percent cut by 2012 if energy policies that are currently planned (like ratcheting down the carbon cap) get carried out.
> * A 1 percent cut from better forest management.
> * A 1.4 percent cut by financing clean-energy projects in the developing world.
> * Another 2.2 percent cut by purchasing excess credits from other Kyoto countries that are below the cap.

Some of this can probably get filed under "creative accounting." A few EU-15 countries are making tangible strides in cutting emissions—namely France, Germany, Britain, Greece, and Sweden (true, Germany has been helped by East Germany's post-Soviet industrial collapse, but its policies to promote renewable power, especially feed-in tariffs, have made a difference, too). Yet some EU-15 members are serious laggards, especially Italy and Spain, and they'll need to buy up excess credits from other Kyoto countries to meet their targets. This would likely be true in a U.S. cap-and-trade system, too—some states would make big cuts, utilities and businesses in others would have to buy up credits to meet the cap. That's the logic of a trading system.
Overall, though, it's an encouraging picture. Even if you exclude iffy measures like offsets for developing-world clean-energy projects and tree-planting, the EU-15, on the whole, is still expected to cut emissions 8.5 percent below 1990 levels by 2012 just through existing and planned energy measures—including the cap-and-trade system. And the EEA isn't factoring in the effects of the economic slump. (The recession will no doubt drive emissions down even further, although that can't really count as a victory for climate policy.)

That said, one thing that's not so clear from the EEA analysis is the extent to which the cuts are coming from businesses and households *inside* Europe, and to what extent it's from manufacturers moving their operations overseas. The evidence here is mixed: In June, a survey by GHK found that Europe's carbon cap was forcing many companies to improve their energy efficiency—finding new ways to make cement, say. But, on the other hand, the Stockholm Environment Institute has estimated that Britain's CO_2 emissions have actually *grown* 20 percent between 1992 and 2004 when you factor in the growth of imports from China. It's a good reminder that a cap-and-trade may be effective domestically, but no single country can stop global warming all by itself.

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