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Carbon finance

NEWS & ANALYSIS OF MARKET SOLUTIONS TO CLIMATE CHANGE

Germany accepts Phase II cap

Germany will not take the European Commission to court over the latter's decision to lower the country's cap on carbon dioxide emissions for Phase II of the EU Emissions Trading Scheme.

At the end of November 2006, the Commission issued its first round of decisions on 10 national allocation plans (NAPs) put forward by member states for the second phase of the EU ETS (2008-12). Germany's NAP was cut to 453.1 million tonnes (Mt) a year from 482Mt.

After months of speculation over whether German government would challenge the decision through the European Court of Justice, the environment ministry issued a statement on 9 February saying that it accepts the restricted NAP.

Germany will also introduce a new benchmarking system to allocate allowances to installations in the energy sector, but not other sectors covered by the EU ETS. The benchmarks will replace proposals to guarantee free allowances to new installations for up to 14 years, scrapped after the Commission said that the guarantee could not be allowed as it may breach state aid rules.

The country will allow installations to use carbon credits from Clean Development Mechanism and Joint Implementation projects up to 20% of their allocation, compared to 12% in the NAP originally submitted to the Commission.

Germany industry was not happy with its government's decision.

"We have been surprised, because on the one hand the minister of the environment went to the Commission with the number of 482Mt, then he reduced it to about 460Mt, then he again changed his mind," said Thomas Hüne, a spokesman for the BDI (the German industry association).

Dieter Ameling, president of the German Steel Federation, said: "We are very disappointed that the German federal government has not interceded with the EU Commission to retain the competitiveness of Germany as an industrial location."

Jürgen Hacker, chairman of the German

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Increased certainty of human impact on the climate – IPCC

The world's top climate scientists are now more certain than ever that human activity has led to the dangerous warming of the Earth. Their latest conclusions were presented in the Intergovernmental Panel on Climate Change's (IPCC's) Fourth Assessment Report, details of which were released on 2 February.

"The probability has increased from 66% in the [2001] Third Assessment Report to 90%," said Susan Solomon, co-chair of the working group that produced the report. "Warming of the climate system is unequivocal," she added.

The report projects global surface temperature increases by 2100 of between 1.1° Celsius and 6.4° C, with the most likely rise being between 1.8° and 4.0°. However, the report adds that "continued GHG emissions at or above current rates would cause further warming and induce many changes in the 21st century that would very likely be larger than those observed in the 20th century."

The IPCC's findings were seen by many as further evidence of the need for concerted measures to reduce GHG emissions globally.

"The report confirms our concerns that the window of opportunity to avoid dangerous climate change is closing more quickly than previously thought," said David Miliband, the UK Secretary of State for the Environment. "It is another nail in the coffin of the

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Germany accepts Phase II cap (Contd.)

emissions trading association, welcomed the decision, but added that the ministry should have spent the last month developing the new benchmarking system instead of fighting the cap. "The outcome may not be as efficient a benchmark system as it could be," he said.

A spokeswoman for utility RWE indicated that the energy giant will push for a fuel-based benchmarking system which differentiates between coal, lignite and gas-fired power-stations, and applies to new and replacement installations. She indicated that RWE's planned €15 billion investment in power plants, open cast mines and the electricity grid could be affected. "We're going to have to look at the new NAP," she said.

But three companies from the German lime and glass industry have launched legal action against the Commission's decision to end guaranteed allowances for new installations, over fears that they will not be covered by the new benchmarks.

Stefan Altenschmidt, a lawyer from Freshfields Bruckhaus Deringer, which is acting on behalf of Fels-Werke, Saint-Gobain Glass Deutschland and Spenner Zement, said: "One client would receive just 20% of the allocation [needed] for its new installation."

Freshfields has applied to the European Court of First Instance to have the case fast-tracked, so it will be dealt with before the start of Phase II.

Meanwhile, Slovakia has launched a legal challenge to the Commission's decision, which cut its NAP to 30.9Mt from 41.3Mt.