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European leaders clash over pledges on global warming

Credibility at risk as leaders gather to discuss ambitious greenhouse gas targets

Ian Traynor in Brussels

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The EU summit must decide how the bloc will achieve its target of 20% emissions cuts by 2020. Photograph: PA/Haydn West

European leaders gather in Brussels today for a crunch summit, acutely divided over how to deliver on pledges to combat global warming almost two years after declaring they would show the rest of the world how to tackle [climate change](#).

The EU is split between the poorer east and the wealthy west. [Germany](#) says that most of their industries need not pay to pollute, Italy says it cannot afford the ambitious scheme, and Britain says that the package on the table could result in huge windfall profits for companies.

"There is a very big chasm between the various parties," said a senior European diplomat.

Prime ministers and presidents appear to be getting cold feet over key decisions that need to be taken by the weekend to enact laws that will make the climate change package binding for 27 countries.

Failure is not an option, they say. But Polish veto threats, Italian resistance, and German insistence that it will not jeopardise jobs to help save the planet, suggest that the action plan will be diluted. The risk is the EU will draw withering criticism from climate campaigners and signal weakness and indecision to the US, China, India and other key players in the global warming fight.

"It's a question of credibility," said Jose Manuel Barroso, president of the European Commission who described the summit as the most important of his five-year term. "It would be a real mistake for Europe to give the signal that we are watering down our

position."

A negative outcome to the talks would moreover cast a pall over the latest round of UN negotiations to secure a post-Kyoto treaty to limit global greenhouse gases.

But at talks in Poznan, [Poland](#), on Wednesday, EU environment commissioner Stavros Dimas, said: "There are a few issues left but I cannot imagine that we're not going to get an agreement on Friday. We are going to deliver the targets."

The EU package represents the most ambitious legislative effort on climate change anywhere which includes four laws that mandate cuts in greenhouse gases by one-fifth by 2020 compared with 1990 levels, reduce energy consumption in Europe by one-fifth by the same deadline and stipulate that 20% of Europe's energy mix comes from renewable sources.

Germany's chancellor Angela Merkel engineered the deal as EU president in March last year. Since then the EU has been bragging about leading the world in the race to keep global temperatures from rising by more than 2C.

It falls to Nicolas Sarkozy, the French president, to end his dynamic six months in the EU hot seat with a deal that could see the entire package turned into law before Christmas.

Sarkozy is staring failure in the face. But he is widely viewed as a consummate fixer who may pull it off. The disputes are fundamentally about costs, a disagreement that has become magnified in the current economic climate. While everyone agrees the headline target of 20% cuts in greenhouse gases by 2020 is sacrosanct, the disputes are about how to get there.

The heart of the scheme is the "cap-and-trade" or [emissions trading](#) system which is to supply around half of the cuts in greenhouse gases. The ceiling for industrial pollution levels is progressively lowered and industries and companies pay to pollute by buying permits in an auction system.

The pay-to-pollute principle is supposed to kick in from 2013, but is hugely contentious. Germany, in particular, is demanding that 30 industrial sectors be given their permits free of charge. The sectors are responsible for 90% of emissions in the scheme. If the Germans win the argument, the incentives for going greener will be minimised and revenue from the scheme will collapse.

"The Germans have set out an extreme negotiating position," said another diplomat. "They want absolute protection for all of their industry."

The mighty industrial lobbies in Germany are complaining that their global competitiveness will be wrecked if they need to pay for the pollution permits and are threatening to move out of Europe.

Merkel this week said that the summit "must not take decisions that would endanger jobs or investments in Germany. I will see to that."

The dispute between "old" and "new" Europe is also deep, with many seeing it as the biggest obstacle to an agreement.

The poorer post-communist states of central Europe, led by Poland, feel they are getting a raw deal, that they cannot afford the package, that their economic development will be affected and that their costs of living will soar.

Poland, for example, generates more than 90% of its electricity from dirty coal. It wants its power stations exempted from buying the permits until 2019 as well as massive transfers of funds from west to east.

The subsidies are supposed to be funded from the proceeds of the permit auctions. But the pot of money will be small if Germany wins the free permits argument. Britain is leading opposition to this form of subsidy, arguing that transfers of money to central Europe should come from the EU budget.

Silvio Berlusconi, the unpredictable Italian prime minister, has also warned he could veto the package on the grounds that he was not in office when it was agreed in spring last year.

Since then, the financial meltdown and the threat of a deep economic recession have dampened enthusiasm among European leaders.

While Barroso and Gordon Brown emphasise the opportunities for investment and job creation through tackling climate change, the German and Italian leaders are spreading the gloomier message that fighting global warming will cost jobs and growth.

If a deal is struck, it will result from Sarkozy twisting arms in a series of face-to-face meetings with other leaders likely to run into the small hours of Saturday morning.

The deadline is daunting. If the laws are not enacted within a couple of months, the momentum will be lost because the current European parliament ends its term in the spring and a new European commission is due next October.

The Europeans will have forfeited the leadership role on global warming to the incoming Obama administration in Washington.

What is proposed: from old-fashioned trading to futuristic burials

The greening of Europe - aimed at making the EU the world's first low-carbon economy - is to be carried out through four EU directives, binding on 27 countries:

Emissions Trading Scheme

The cap and trade scheme limits industrial emissions and forces companies to pay to pollute by buying permits for each tonne of carbon dioxide and other greenhouse gases. The permits are to be traded in an auction system. The new law revises the ETS, which has been operating in embryo since 2005. This scheme is supposed to supply about half the greenhouse gas cuts. The draft exempts some sectors from paying on competition grounds. But Germany wants to vastly expand the exemptions and Poland wants to get its power stations' permits for nothing.

Effort-sharing

This law covers the other half of the pollution total from sources not subject to the ETS, such as emissions from farming, the building sector and transport. While the ETS is to be run on a Europe-wide basis, the effort-sharing targets are to be prescribed nationally. Connected to this, there have already been agreements on new car emissions and road fuel, cutting CO₂ emissions from most new cars by 19% over a three-year period from 2012 and stipulating that 10% of transport fuel is to be non-fossil.

Renewables

An agreement was reached on Tuesday that 20% of Europe's energy mix will come from renewable sources, such as windfarms and hydro-power, by 2020. Progressive national targets and quotas have been set, with Britain needing 15% from renewables by the deadline.

Carbon Capture and Storage

A new law envisages the establishment of 12 "demonstration" CCS projects to sequester and bury CO₂ from power plants. Expensive and futuristic, the scheme is to

be off the ground by 2015, but is the subject of dispute over which countries get the pilot projects and how they are funded.

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