Friends of the Earth Europe

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The EU Emissions Trading System: failing to deliver

Reliance on the EU-ETS leaves Europe failing to meet its share of the climate challenge, and obstructing real action

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- End the reliance on the EU-ETS. Priority should be given to other policy options, such as regulation, taxation and subsidies which are able to deliver the scale and speed of emissions reductions that are necessary to avoid catastrophic climate change.

- The most dangerous loopholes in the EU-ETS must be removed by ending overseas offsets, stopping free permits to polluters, introducing a much tighter cap, and preventing the use of banked permits from earlier phases of the EU-ETS scheme. Auctioning money must not be used to subsidise fossil fuels, such as state aid for new coal power plants, or false solutions such as nuclear power or CCS.

- The EU-ETS must not be expanded by either linking with schemes outside of the EU or instituting sectoral trading with developing countries. Carbon markets cannot be a replacement for mandatory targets under a binding international climate agreement, and adequate and appropriate public funding for climate finance in developing countries.

- The EU-ETS should not be used as an argument to prevent other policies such as setting binding energy efficiency targets or to prevent any other measures at national level such as national climate laws to tackle industry or industry sector emissions.

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Introduction

Launched in 2005, the European Union's Emissions Trading System (EU-ETS) is the largest carbon trading market in the world. It is the EU's principal policy mechanism for reducing greenhouse gas emissions in the power generation and industrial sectors. But the EU-ETS is not delivering the CO_2 cuts required by science, historical responsibility and sound financial practices.

The first carbon trading trial phase in 2005-2007 was an abject failure. At 2298 million tons of CO_2, the 2007 cap was actually 8.3% *higher* than verified 2005 greenhouse gas emissions. Businesses were therefore free to increase emissions – or set emission permits aside for the next EU-ETS phases. Anxious to avoid having to make short-term investments in emissions reductions, industry lobbying against higher, effective targets has been extremely effective. In the current 2008-2012 phase, the average CO_2 cap is 2% lower than 2005 emissions. But in seventeen out of twenty-member states – including France, Poland and the UK, 2012 caps are still higher than measured emissions in 2005. Overall, twenty-one out of twenty seven member states sought 2012 emissions caps that were higher than 2005 emissions (with the richest EU member state, Luxembourg, pushing for a 52% increase).

There are now so many unused permits that most industries covered by the Emissions Trading System (responsible for almost 50% of EU emissions) can legally avoid making any cuts before at least 2016. What's more, there is no obligation to reduce emissions in Europe. Through the United Nations' Clean Development Mechanism, EU-ETS sector businesses may invest in projects outside Europe. Known as offsetting, this avoids domestic cuts, frequently even fails to reduce emissions in developing countries, and may also cause significant social and environmental problems.

Adding up paltry CO_2 emissions caps and offsetting loopholes reveals a dangerous gap between science and political reality. The International Panel on Climate Change (IPCC) has made it plain that 25-40% emissions cuts will only offer a 50% chance of keeping global temperature increases below 2°C. Within the EU, the Netherlands has already budgeted for €100 billion to cope with sea level rises of 1 metre. Yet reports are now warning that a 2°C increase could lead to the tipping point beyond which the Greenland ice cap can not survive. This could result in catastrophic 7 metre sea level rises.

In this context, ongoing reliance on the Emissions Trading System is a risk that cannot be taken. The EU must urgently increase its emissions target to at least 40% - the upper 'safe' level set by the IPCC – and ensure that these cuts are domestic. This calls for strong political will. Rather than depend on the uncertain, ineffective, and unfair Emissions Trading System, the EU must privilege other forms of action. This includes tougher laws to develop renewables and increase energy efficiency, as well as carbon taxation and incentives for public and private investment to pay for emissions cuts.

Part I: The EU-ETS, and why it's failing to deliver

Combating climate change means reducing CO_2 emissions. This means decreasing Europe's use of fossil fuels and supporting increases in energy efficiency, energy savings, and renewable energy. The following section shows how loopholes and design flaws in the EU Emissions Trading System actually work against these goals and are causing social and environmental problems in Europe and elsewhere in the world.

Over allocation and banking of permits

Over allocation

The purpose of the EU-ETS is to limit the quantity of emissions (by setting a cap) and distribute the right to emit through a system of tradable permits. But there are far too many CO_2 permits on the European market. To cushion the introduction of a carbon price in 2005, governments pushed for the right to propose how many permits to allocate to their national industries, then overestimated emissions to justify excessive allocations. The result: European Commission figures show that in the first 2005-2007 EU-ETS phase, only three member states had caps that were lower than baseline 2005 emissions levels. This caused a glut on the allowance market - permit prices crashed to a low of €0.03 per ton in December 2007 - and made a mockery of the cap concept. In the second phase, the cap has been tightened, but only by 2% compared to 2005 – far from what is necessary to give a strong price signal. Seventeen out of twenty-seven member states still have 2012 caps that are higher than 2005 emissions levels.

Member State	*1st period cap*	*2005 verified emissions*	*Proposed cap 2008-2012*	*Cap allowed 2008-2012 (in relation to proposed)*
Austria	33.0	33.4	32.8	30.7 (93.6%)
Belgium	62.1	55.58	63.3	58.5 (92.4%)
Bulgaria	42.3	40.6	67.6	42.3 (62.6%)
Cyprus	5.7	5.1	7.12	5.48 (77%)
Czech Rep.	97.6	82.5	101.9	86.8 (85.2%)
Denmark	33.5	26.5	24.5	24.5 (100%)
Estonia	19	12.62	24.38	12.72 (52.2%)
Finland	45.5	33.1	39.6	37.6 (94.8%)
France	156.5	131.3	132.8	132.8 (100%)
Germany	499	474	482	453.1 (94%)

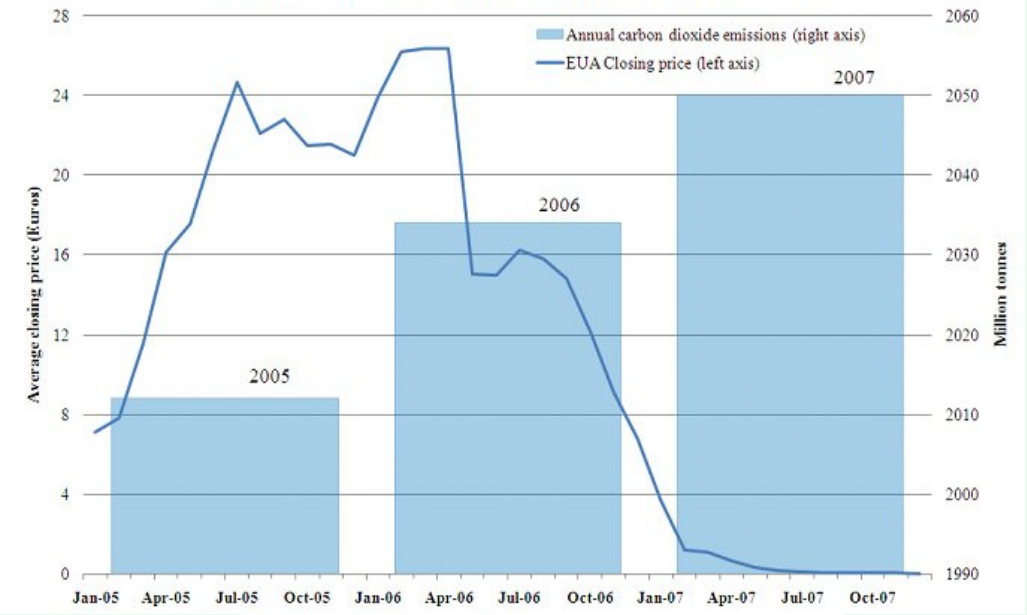
Extract from a European Commission press release, 26/10/2007
Column two lists 2007 Phase 1 caps; column three 2005 emissions; column four the caps requested by member states for the 2008-2012 Phase 2 period; column five the compromise deal set by the Commission.

Banked permits

EU-ETS rules allow unused CO_2 emission permits set aside ('banked') during the second (2008–2012) phase to be used in the third 2012–2020 trading period. Over allocation has been so high in the second phase that the campaigning and research organisation Sandbag estimates there are now sufficient spare permits to allow EU industrial and power sector emissions to grow unchecked until 2016.[1]

Price volatility

Both big cap and trade schemes in existence today - Europe's Emissions Trading System for CO_2 and America's market for trading sulphur dioxide permits (to reduce acid rain) - have shown acute price volatility. The ETS has varied from over €30 to €0.03 in the past five years. Such unpredictability acts as a major deterrent to people investing in renewables and energy savings / energy efficiency.



EU ETS Covered CO_2 Emissions and EUA prices 2005-2007
Source: Parliamentary Library using EC and PointCarbon data

According to the Economist magazine: "Under a cap and trade system, an invention that reduced the cost of cutting carbon emissions could itself push down the price of permits, reducing investors' returns".[2] Similarly, higher than expected energy efficiency investments – to lower industrial production costs, for example – could cut energy use and CO_2 emissions but reduce demand for permits. Hence a 'good' (cutting CO_2 emissions) can be 'bad' for permit prices, killing the incentive for further green investment. In other words, the ETS is a counter incentive to the very goal of emissions reductions that it is designed to achieve.

[1] Sandbag, "Cap or Trap": http://sandbag.org.uk/files/sandbag.org.uk/caportrap.pdf
[2] The Economist, "Doffing the cap": http://www.economist.com/node/9337630

Free allocation of permits and industry lobbying

Greenhouse gas emissions increased in the first EU-ETS phase (2005-2007), clear evidence that the cap was too high and that there was a massive overabundance of emissions. Yet little has been done to close the loopholes. Instead, the Emissions Trading System is acting as a money-making machine for Europe's biggest companies. Uwe Leprich, from Saarbrucken University in Germany, has tracked electricity prices since the EU-ETS launch in 2005. His analysis shows that the introduction of CO_2 costs was fully included in electricity prices even though energy companies received the majority of their credits for free. This led to 30% wholesale electricity price increases in Germany and France, 50% in Scandinavia, and over 80% in the UK.[3] Poorer households have suffered most as a higher proportion of their income is spent on energy. A recent study by Dutch institute CE Delft confirms these findings: it estimates that the refining, iron and steel sectors alone generated roughly €14 billion between 2005 and 2008 by passing on the costs of freely acquired CO_2 allowances.[4]

Not only are businesses *not* reducing their emissions (thanks to excess permits) but they are making extra profits out of the EU-ETS by passing on the costs to consumers. In effect, consumers are paying twice: once for the costs of setting up the carbon market, and once again through higher energy bills. The result: the current EU-ETS makes for very profitable business for a few major industries. A successful policy to cut emissions could mean replacing carbon trading altogether.

Scenario	Carbon price 20 Euros	Notes
(a) Power price increase	€10.9 /MWh	
(b) Total sales	3016 TWh	
(c) Total cost increase	33 Billlion	(a) x (b)
(d) Emissions reductions	133 Mt	
Consumer cost per ton reduced	€248	(c) ÷ (d)

Allowing Energy Utilities to pass on the costs of freely acquired allowances would lead to consumers paying €248 costs for each ton of CO2 reduced in the electricity sector. Source: Regulatory Assistance Project (adapted from Sijm, et al, The Impact of the EU ETS on Electricity Prices, Final Report to DG Environment, December 2008: ECN-E-08-007)

[3] Uwe Leprich, "The Crisis of the Electricity Markets in Europe": http://www.greens-efa.org/cms/default/dokbin/108/108267.pdf
[4] CE Delft, "Does the energy intensive industry obtain windfall profits through the EU ETS?": http://www.ce.nl/?go=home.downloadPub&id=1038&file=7005_finalreportSdBEV.pdf

Offsetting is an escape clause for emissions cuts

For every ton of CO_2 emitted in the European Union by the industrial sectors covered by the EU-ETS, polluters must surrender one emissions permit. However, up to 50% of the 2020 EU-ETS target (minus 21% compared to 2005 levels) can be met by buying credits through the United Nation's Clean Development Mechanism (CDM). This is known as offsetting: instead of cutting emissions within the EU, Europe-based industries and power companies may buy their way out of their obligation to cut emissions by investing in projects which purportedly cut emissions in developing countries. In return, they receive CERs, or Certified Emission Reduction credits, which are fully interchangeable with EU Allowance Units (EU-ETS permits) and count towards the 2020 emissions target. Put simply, EU-ETS sector companies are free to buy credits on the international market and continue to pollute in Europe.

Offsetting is a critical loophole in the EU's emissions reduction policy, chiefly because there is very little atmospheric space left for greenhouse gas emissions. Scientific consensus is that 25-40% emissions cuts in developed countries would only offer a 50% chance of keeping below 2°C. What's more, this level is increasingly criticised as inadequate to prevent the most devastating consequences of climate change.

Domestic emissions reductions of at least 40% by 2020 are needed. But in the 2008-2012 EU-ETS phase, authorised levels of offsetting are actually higher than emissions caps. This means that no domestic reductions are required at all. Yet any offsetting of emissions allows industrialised countries to continue using the little remaining atmospheric space, denying developing countries their right to use this space to develop and bring their populations out of poverty. This explains the urgency of reforming the EU's climate policy to cut domestic emissions in the EU-ETS sector in line with scientific evidence *and* provide additional public financing for emissions reductions in developing countries.

Offsetting, moreover, is crucially dependent on the success and viability of CDM projects. Yet the system is regularly rocked by market scandals – most recently by the production / destruction of HFC-23, an ozone-depleting by-product of the refrigerant gas HCFC-22[5]. As HFC-23 is also an extremely potent greenhouse gas (11,700 times more than CO_2), its destruction is eligible for CDM funding and the resulting credits may be used to meet the offsetting share of the EU's Emissions Trading System. The destruction of each ton of HFC-23 generates 11,700 credits (issued on a CO_2 equivalent basis) which are worth about €150,000 on

Misuse of Clean Developmet Mechanism funding is an increasing concern: Eskom, a South African electricity utility, created a scandal in June 2010 by announcing that it would seek CDM financing for the construction of Medupi Coal Power Station.

[5] CDM Watch, "HFC-23 Offsets in the Context of the EU Emissions Trading Scheme": http://www.cdm-watch.org/?p=1065

the ETS market (with the current 2010 spot price of €13). Meanwhile, the real cost of destroying HFC-23 is an astonishing *seventy* times less, at roughly €2000 per ton. The result: industries (mostly in India and China) are deliberately increasing HCFC-22 production with the primary intent of churning out, then destroying, ever greater amounts of HFC-23. Fuelled by the EU-ETS market, the Clean Development Mechanism is incentivising companies to create greenhouse gases purely so that they can then be paid to destroy them.

Even looking beyond these scandals, many of the other projects funded by the Clean Development Mechanism frequently fail to reduce emissions in developing countries, and may also cause significant social and environmental problems.[6]

The wrong tool in times of economic crisis

Solving the climate crisis requires a speedy transition to a low consumption, renewable based energy system, but it is also a superb opportunity to build a fairer and more resilient economy. The Emissions Trading System isn't up to this new green deal. Offsetting and the over allocation of permits mean that there is simply no obligation to finance emissions cuts and move to a green energy system. This is at a time when the EU urgently requires large infrastructure investments, such as modernised electricity grids, up-front financing for energy efficiency and greatly accelerated renewable energy development.

Extending the EU-ETS: a non starter

The European Commission has plans to expand the EU-ETS by linking it up with other national cap and trade schemes. The intention is to include Australia, Japan, New Zealand, and the United States by 2015, and to set up an even broader market by 2020. But there are many practical and deep-rooted reasons not to extend such an unsuccessful scheme. First, a single trading partnership assumes a free flow of emissions credits in a multinational carbon market – but standards within each regional and national system could be very different. This risks a race to the bottom: the country with the lowest standards (for instance high percentages of poorly verified offsetting) would effectively set the benchmark for everyone else. Second, greenhouse gas concentrations are rapidly increasing: time is of the essence and there is no room for error in policy decisions. Even at present rates of fossil fuel use, the 2℃ temperature ceiling – which the EU pledged in 2005 to meet - will be breached in the next fifteen years. Finally, any increase in the scale of the carbon markets is also likely to popularise the use of highly complex financial instruments – risking a burst carbon bubble with far greater economic, political and environmental consequences than the subprime crash.[7]

[6] Friends of the Earth "A Dangerous Obsession": http://www.foe.co.uk/resource/reports/dangerous_obsession.pdf
[7] Friends of the Earth US, "Subprime Carbon": http://www.foe.org/subprimecarbon

EU-ETS: not fit for purpose

In an increasingly urgent environmental situation, the Emissions Trading System is not delivering emissions cuts. Policymakers can make fundamental changes to the way the EU-ETS works: excluding offsetting, stopping free permits to polluters, setting a much tighter cap, and preventing the use of banked permits from earlier phases of the scheme. But they must also consider a return to other important policy mechanisms which are currently being overshadowed by carbon trading, such as budgetary reform, tougher renewable and energy saving targets, CO_2 taxation, efficiency standards and national legislation. Only by doing so can Europe bring down its emissions in line with scientific evidence and historical responsibility.

What Friends of the Earth Europe calls for:

- The most dangerous loopholes in the EU-ETS must be removed by ending overseas offsets, stopping free permits to polluters, introducing a much tighter cap, and preventing the use of banked permits from earlier phases of the EU-ETS scheme. Auctioning money must not be used to subsidise fossil fuels, such as state aid for new coal power plants, or false solutions such as nuclear power or CCS.

- The EU-ETS must not be expanded by either linking with schemes outside of the EU or instituting sectoral trading with developing countries. Carbon markets cannot be a replacement for mandatory targets under a binding international climate agreement, and adequate and appropriate public funding for climate finance in developing countries.

PART II: Other policy measures

More than simply delaying or avoiding action on climate change, the choice to invest so much political capital in the EU-ETS is obstructing other tried and tested measures that would lead to more certain results. The following section details some of these other policy measures, shows how they could achieve what the EU-ETS is failing to deliver, and also explains how the EU-ETS is obstructing their implementation.

National climate laws

Climate legislation at national level can both stimulate action in the absence of ambitious European Union targets, and increase the EU's overall ambition. Examples of progressive climate legislation already exist in the UK, and legislative proposals for national climate laws are being debated by governments and parliaments across Europe.

Friends of the Earth Europe's pan-European climate campaign (the 'Big Ask') is calling for:

- National climate laws with legally binding targets for annual emission cuts across all sectors
- Direct penalties for EU member states which do not reduce their emissions year by year
- The EU to deliver its fair share of the finances and technology needed by developing countries to tackle climate change.

Annual targets make it easier to measure progress towards medium and long-term emission reductions and ensure that these cuts start happening rapidly. They also help fix problems highlighted in Part 1, creating a positive and stable context for investment, allowing long term planning and innovation and ensuring a smooth transition to an environmentally, socially and economically sustainable economy.[8]

In parallel, national compliance mechanisms are needed to place appropriate sanctions on government departments, regions and sectors that fail to meet their targets. National measures must be linked up with EU-wide infringement procedures to penalise countries that fail to meet national targets.

Overreliance on the EU-ETS is currently standing in the way of strong national climate legislation. The power and industry sectors covered by the EU-ETS are arguing – and lobbying their governments to support them – that it would be unfair to add additional legislation to current climate objectives. Yet this ignores the disturbing mismatch between EU-ETS sector objectives and real world environmental needs. Climate legislation incorporating higher targets, energy efficiency standards, energy or CO_2 taxation and incentives for innovation can be introduced at national level without coming into legal conflict with the EU ETS. In other words, implementing strong and fair climate laws is a question of political will, rather than legal obstacles.

[8] Friends of the Earth Europe, "The Big Ask": http://www.thebigask.eu

A more ambitious mandatory energy savings target

Alternatives to the Emissions Trading System must be simpler to execute, and have a more direct impact on emissions reductions and economic recovery. With roughly 75% of the EU's energy supply coming from fossil fuels, reducing energy consumption clearly fits the bill.

The European Commission has highlighted the benefits of bringing energy consumption back down to 1990 levels: over €200 billion annual savings in energy bills between now and 2020, hundreds of thousands of new jobs (through industrial upgrades, energy and telecommunications services, building retrofits) and 800 million tons of CO_2 reductions (equivalent to 20% cuts below 2005 levels). Meanwhile, by scaling back its energy requirements, Europe would also counter its growing dependency on external energy suppliers (import dependency currently exceeds 50% of European energy consumption). Put simply, while the EU's CO_2 emissions targets set the level of ambition, it is the energy savings - and renewables – objectives which deliver the results.

Smart meters like this "Wattson" (by DIY Kyoto) save energy by raising consumer awareness: the Wattson changes colour depending on household consumption levels

But this interdependence between climate and energy policies has been pushed aside by excessive faith in the Emissions Trading System. Despite its clear benefits, the current 2020 savings objective (which includes the EU-ETS sector) is a purely voluntary affair that member states – with no mandatory legislation to ensure compliance - have largely ignored. The EU must step up its energy savings policy in the coming months. A mandatory savings target in the EU-ETS sector would combine efficiency with transparency, eliminating the risk of offsetting scandals or misjudged emission caps. Results would be measured by simply comparing year by year energy consumption. Despite claims from some business lobby groups that introducing efficiency targets in the ETS sector would be unfair, industry too, would gain: mandatory energy efficiency standards can push down production costs *and* lead to more efficient and competitive products. The EU is currently debating whether to set mandatory energy savings legislation: it should not hesitate to do so – nor to think more ambitiously than 20% by 2020.

A higher target for renewable energies

The simplest way of reducing emissions is to cut energy use. But alongside higher efficiency standards, the EU must accelerate the transition to a renewable based energy system. Fossil fuel power generation is not only a massive source of greenhouse gas emissions, it is also extremely inefficient: coal, oil (and nuclear) power plants convert little more than 30% of the primary resource - coal, uranium - into electricity. The remainder is lost in the transformation process - typically in the form of waste heat. In comparison, with mainstream renewables such as wind and solar, there is no cost or CO_2 content to unused resources. Renewables fluctuate with changing weather patterns but this can be solved by strengthening regional interconnections and storage capacity. Renewables, moreover, counter the extreme price volatility of international oil and gas prices and reduce the EU's dependence on external energy supplies - Europe currently imports over 80% of its oil and 60% of its gas requirements. The EU has everything to gain from increasing its renewables target beyond the current objective of 20% of energy use by 2020.

Taxation

Compared to cap and trade schemes, taxation is simpler and far more transparent. First, having a fixed price for CO_2 offers investment security to businesses and the public (unlike the EU-ETS, which as noted in Part 1 has seen extreme price fluctuations).

Secondly, taxation removes uncertainty: the Emissions Trading System has shown that it is too easy to misjudge the number of permits. Conversely, if a tax when introduced is too low to stimulate change, it can be increased with relative ease – and in any case it makes good political sense to start low and work upwards. For example, Sweden's escalating carbon tax was introduced in 1991at a rate of €28 per ton but is now over €100 per ton, and the country's Ministry of Finance estimates that emissions would be 20% higher without the tax.

Thirdly, taxation both induces and funds emissions reductions. The perfect carbon tax would cause an immediate shift away from CO_2 intensive activities but in the real world there is a time lag, especially for capital intensive products such as power plants which take a comparatively long time to be replaced (compared to low consumption light bulbs or household insulation, for instance). This gap between setting a tax and achieving change provides government revenue for energy efficiency and renewables to cut emissions.

Fixing EU taxation by revising energy taxes to focus on CO_2 emissions

European Union energy taxation is currently worth €240 billion per year. Properly used, taxation is both a powerful tool to enforce emissions reductions and a major source of funding. However, "*the EU only taxes energy when it is used as fuel or for heating, and not as raw materials in industrial processes, or as input in the making of other energy products (in refineries) or even as inputs for electricity generation*".[9] Consequently, the EU-ETS sector is exempted from energy taxation. What's more, EU taxation currently focuses on the energy content of fuels rather than CO_2 values, making no distinction, for instance, between fossil

[9] David Buchan, "Energy and Climate Change, Europe at the crossroads": Oxford University Press

fuel and renewable power generation. The alternative is to redirect EU energy taxation: to fine CO_2 intensive fuels *and* include the EU-ETS sector, thus giving power companies and industry a powerful incentive to change business models and cut emissions.

Barriers and opportunities: Making taxation work

Until now, stiff industry resistance has held off EU-coordinated CO_2 taxation in favour of the softer EU-ETS alternative. It has even led to regressions: Sweden had to phase out taxation in the manufacturing sector to comply with EU-ETS rules. But opposition is exaggerated. The UK is the EU's staunchest opponent to common taxation but it already has a form of carbon taxation with the Climate Change Levy. Denmark, Finland, Ireland, the Netherlands, Sweden and Norway (which complies with many EU regulations) also have carbon taxes. Crucially, the point is not to ramp up overall taxation, but simply to readjust taxes towards CO_2 intensive sectors. Denmark, for example, offers tax rebates to companies willing to invest in energy savings, renewables and other measures to cut emissions.

Another serious concern is to ensure that the polluter pays. For this, strict regulation is needed to avoid extra costs of taxation being passed onto consumers (as so often occurs with EU-ETS permits). Similarly, policymakers must make certain that taxation does not penalise poorer households with less financial capacity to respond to CO_2 price incentives (house insulation costs, for instance, are a major barrier without grants, low interest loans and other support schemes). Modelling by the Institute for Public Policy Research shows that, without adjustment, those in the lowest income decile would, in proportional terms lose almost four times as much from a carbon tax as those in the highest decile.[10]

Financing emissions cuts

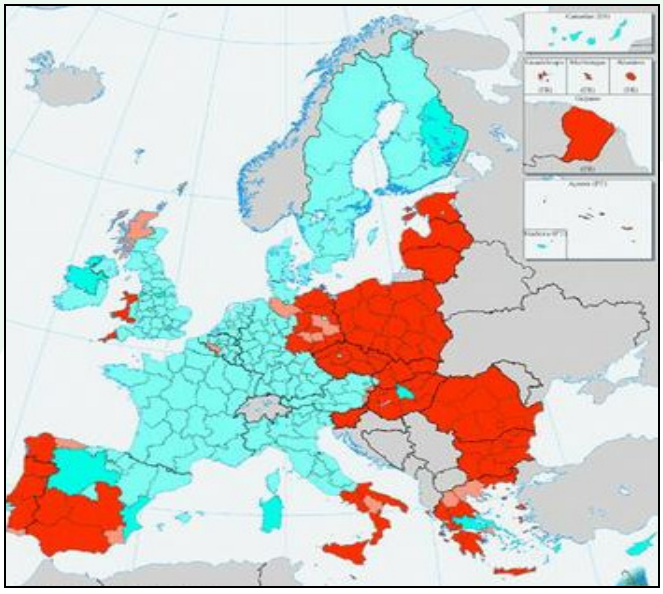
As noted in Part 1, the urgency of tackling climate change cannot be overstated. There is very little atmospheric capacity left to absorb emissions. In this context, democratically elected governments should be deciding where and how emission cuts are made. Carbon markets, and companies driven by short term profits, are not the right institutions to do this. The EU must prioritise direct regulation over indirect market incentives, and ensure adequate up-front public and private financing. Here are some of the options:

Redirecting structural and cohesion funds

The EU's structural and cohesion policy stems from fears in member states with weaker economies that they would lose out in free competition within the common market. First launched in the 1960s for Italy, then extended for Ireland and the UK, the main beneficiaries are now the new member states from Central and Eastern Europe. As these are also the countries with the biggest potential for reducing emissions, rather than rely on the EU-ETS, emissions cuts could be financed from a re-direction of structural funds. The EU's structural funds amount to a projected €344 billion for the current 2007-2013 financial period. Most (nearly one third of the EU's total budget) go to the new member states, but only €8.6 billion (2.5% of the total) will be spent on energy savings and renewables.

[10] IPPR, "Equity begins at home": http://www.ippr.org.uk/articles/?id=4070

By redirecting structural funds, the EU would be funding much more than emissions reductions. Fuel poverty – when a disproportionately large share of monthly salaries is required to pay energy bills – is common in Central and Eastern Europe; reducing household energy use is the simplest fix. District heating systems are widespread, but generally dilapidated and unpopular: residents must often pay for the amount of energy dispatched, rather than for what is actually received after network losses. And energy savings – rather than costly gas pipelines and storage centres – are the best counter to dependence on Russian energy supplies. Redirecting EU funds can simultaneously reduce emissions, modernise energy systems and provide geopolitical security in the new member states.



Red colouring shows the regions and member states receiving EU Structural Funds

Multiplying money

In the wake of the 2008 economic crisis, the EU put together a €3.98 billion recovery package with redirected funds from the Common Agriculture Policy. Most of this money has already been spent – essentially on gas and electricity interconnections. But during initial discussions with the Commission and the European Council on the details of the package, the Parliament carried its view that any unspent money should be allocated to energy efficiency and renewable projects. As it happens, unspent funds now amount to €114 million. The EU's intention is to 'multiply' this money by using it as a guarantee for additional public and private funds (in partnership with the European Investment Bank, the German KFW and the French Caisse de Depot). The anticipated result: up to €500 million in very low interest loans and a model that - with strict transparency criteria - must be expanded.

Energy Services

As the simplest and least contentious way to reduce emissions, energy savings pay for themselves through reduced energy bills – but require up front financing that many businesses and households cannot or are unwilling to provide. One solution is the Energy Service Company (ESCOs) model. ESCOs carry out energy audits in businesses, offices and houses. They then sign a deal to reduce (at their own expense) monthly energy bills by, for example, 20%, while actually cutting costs by up to 50% or more. The 30 point difference goes to cover the ESCOs' investment costs (and pay profits in the case of privately owned ESCOs) over a mid to long term contract period. Put differently, the power company supplying electricity or gas henceforth only receives 50% of the usual bill; the business (or household) saves 20% and the ESCO receives the remaining 30%. The great advantage of this win-win system is that it mobilises up-front private capital for energy and emissions reductions – and brings immediate tangible benefits.

Community financing

When Denmark first launched the idea of feed-in-tariffs (guaranteed long term prices) for wind power, development quickly ran into public opposition. Unsupportive of new wind farms that changed the landscape and brought no direct returns (whatever their environmental and energy security benefits), people blocked new sites and delayed planning permission. In response, the Danish Government offered guaranteed 'buy ins'. Local communities were given the chance to co-invest in wind farm development. And because feed-in-tariffs ensured more generous – and secure – rates of return than banks or stock markets, public response was extremely enthusiastic. Denmark now receives over 19% of its electricity from wind power – among the highest figures in Europe.

One way to ensure public support is to involve local communities in wind farm investment – a lucrative outlay given the high sales prices for renewable electricity

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Switzerland	Pro Natura
Ukraine	Zelenyi Svit

Friends of the Earth Europe campaigns for sustainable and just societies and for the protection of the environment, unites more than 30 national organisations with thousands of local groups and is part of the world's largest grassroots environmental network, Friends of the Earth International.

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