

EU "Climate action and renewable energy package" Fact Sheet

On January 23, 2008, the European Commission unveiled a new set of proposals to achieve the EU's target for reducing greenhouse gas (GHG) emissions in the years beyond Kyoto, from 2013 to 2020. The package includes:

- a proposal amending the EU Emissions Trading Directive (EU ETS);
- a proposal relating to the sharing of efforts to meet the Community's independent greenhouse gas reduction commitment in sectors not covered by the EU emissions trading system (such as transport, buildings, services, smaller industrial installations, agriculture and waste);
- a proposal for a Directive promoting renewable energy, to help achieve both of the above emissions targets.
- Other proposals including a legal framework on carbon capture and storage, a Communication on the demonstration of carbon capture and storage and new guidelines for environmental state aid..

The proposals fall under the co-decision procedure, meaning that it must be approved by both the Council of the EU and the European Parliament to become law. They are expected to begin discussing it soon. The Commission hopes that a final decision adopting the modifications to the Directive will be taken by 2009.

For more information visit the EU portal:

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/80&format=HTML&aged=0&language=EN&guiLanguage=en>

http://ec.europa.eu/environment/climat/climate_action.htm

***Overall Emissions targets:** The Commission endorses a 30% reduction in GHG emissions provided that other developed countries commit themselves to comparable emissions reductions. Unilaterally, it commits to achieve at least a 20% reduction in GHG emissions by 2020 compared to 1990.*

How will the targets be met?

- **EU-wide Cap in Phase III (2013-2020):** An EU-wide cap will be established for current ETS sectors in place of the previous 27 national caps and allocation plans. This overall cap will amount to a 21% reduction of emissions for the covered sectors from 2005 levels by 2020. From 2013, the total number of allowances should decrease annually in a linear

manner. The national allocation approach has generated significant differences in allocation rules, creating an incentive for each Member State to favor its own industry, and has led to great complexity.

- **Increased sector participation:** A number of new industries (e.g. petrochemical, aluminum and ammonia production) will be included in the ETS. Two more gases (nitrous oxide and perfluorocarbons) will also be included. Coverage will thus increase by about 6%. Member States will be allowed to exclude small installations from the scope of the system, provided they are subject to equivalent emission reduction measures.
- **A move toward auctioning credits:** The proposal concludes that full auctioning of permits is preferable to free allocation because auctioning best ensures the efficiency, transparency and simplicity of the system and creates the greatest incentive for investments in a low-carbon economy. It best complies with the “polluter pays principle” and avoids giving windfall profits to certain sectors that have passed on the notional cost of allowances to their customers despite receiving them for free. The EU will auction 60% of carbon permits by 2013. Free allocation of emission allowances will be progressively replaced by auctioning of allowances by 2020. The distribution of the auctioning rights to Member States will be largely based on historical emissions, but a part of the rights will be redistributed from richer Member States to poorer ones. This is in order to take account of the lower GDP per head and higher prospects for growth and emissions among the latter and to strengthen their financial capacity to invest in climate friendly technologies.

Any allowances to be allocated for free should be distributed according to EU-wide rules which will be developed later under a committee procedure (“Comitology”). These rules will fully harmonise allocations and thus all firms across the EU with the same or similar activities will be subject to the same rules. The rules will ensure as far as possible that the allocation promotes carbon-efficient technologies. The rules may for instance specify that allocations are to be based on so-called benchmarks, e.g. a number of allowances per quantity of historical output. Such rules would reward operators that have taken early action to reduce greenhouse gases, would better reflect the polluter pays principle and would give stronger incentives to reduce emissions, as allocations would no longer depend on historical emissions. All allocations are to be determined before the start of the third trading period and no ex-post adjustments will be allowed.

Installations in sectors judged to be at significant risk of 'carbon leakage,' meaning that they could be forced by international competitive pressures to relocate production to countries outside the EU that did not impose comparable constraints on emissions, will receive up to 100% of their allowances for free.

- **Emission credits from third countries:** The EU will continue to recognize credits from GHG emission reduction projects in third countries. If no international climate agreement is reached, operators will only be able to use credits post-2013 given to

them by their governments for the period 2008-2012 that they have not already used up. If a satisfactory international agreement is reached, the overall emission reduction target by 2020 for the EU will become 30% instead of 20% - in that case the limit on the use of JI/CDM credits will be automatically increased up to half of the additional reduction effort.

- **It will not be possible to use credits from carbon ‘sinks’ like forests:** Doing so could undermine the environmental integrity of the EU ETS. LULUCF projects cannot physically deliver permanent emissions reductions. Insufficient solutions have been developed to deal with the uncertainties, non-permanence of carbon storage and potential emissions 'leakage' problems arising from such projects. The inclusion of LULUCF projects in the ETS would require a quality of monitoring and reporting comparable to the monitoring and reporting of emissions from installations currently covered by the system. The simplicity, transparency and predictability of the ETS would be considerably reduced. Moreover, the sheer quantity of potential credits entering the system could undermine the functioning of the carbon market unless their role were limited, in which case their potential benefits would become marginal.
- **Emissions from sectors not included in the EU ETS:** Emissions from sectors such as transport, housing, agriculture and waste will be cut by 10% of 2005 levels by 2020. To meet the demands of the cap, countries will be prohibited from emitting more than 20% above 2005 levels and are not required to reduce more than 20% below 2005 levels.
- **Renewable energy targets:** The proposal poses a mandatory target of 20% renewable energy by 2020. It also includes a 10% biofuels share target for transport, given sustainable production. The commission will create a biofuels sustainability regime in the renewable energy roadmap to ensure the biofuels are produced without environmental harm to other ecosystems.
- **Carbon Capture and Storage (CCS):** The proposal states that EU and world CO₂ emissions cannot be reduced by 50% by 2050 unless other options are used, such as carbon capture and storage. The EU Emissions Trading System will recognize CO₂ captured, transported and safely stored as not having been emitted. CCS will not be made mandatory at this stage. Whether CCS is taken up in practice will be determined by the carbon price and the cost of the technology. Revised guidelines on state aid for environmental protection will enable governments to support initial CCS demonstration plants when the carbon price is lower than the price needed for CCS deployment. Member state support measures for early projects are likely to play a major role. The proposal enables carbon capture and storage by providing a framework to manage environmental risks and remove barriers in existing legislation.

Some quotes...

“What are the main lessons learned from experience so far?”

The EU ETS has put a price on carbon and proved that trading in greenhouse gas emissions works. The first trading period successfully established the free trading of emission allowances across the EU, put in place the necessary infrastructure and developed a dynamic carbon market. The environmental benefit of the first phase may be limited due to excessive allocation of allowances in some Member States and some sectors, due mainly to a reliance on emission projections before verified emissions data became available under the EU ETS. When the publication of verified emissions data for 2005 highlighted this over-allocation, the market reacted as would be expected by lowering the market price of allowances. The publication of verified emissions data has allowed the Commission to ensure that the cap on national allocations under the second phase is set at a level that results in real emission reductions.

Besides underlining the need for verified data, experience so far has shown that greater harmonisation within the EU ETS is imperative to ensure that the EU achieves its emissions reductions objectives at least cost and with minimal competitive distortions. The need for more harmonisation is clearest with respect to how the cap on overall emission allowances is set.

The first two trading periods also show that widely different national methods for allocating allowances to installations threatens fair competition in the internal market. Furthermore, greater harmonisation, clarification and refinement are needed with respect to the scope of the system, access to credits from emission-reduction projects outside the EU, the conditions for linking to emissions trading systems elsewhere and monitoring, verification and reporting requirements.”

“What effect will the changes have on electricity prices?”

The reduction in the EU-wide quantity of allowances to be issued in the third trading period will increase scarcity in the allowance market and hence the price of allowances can be expected to increase. The price of electricity can be expected to increase correspondingly but, taking into account today's carbon prices, the rise is expected to be limited to 10 to 15% by 2020 compared with business as usual. Other factors such as oil and gas prices may have a much bigger impact.

The fact that electricity producers will no longer receive any allowances for free is not in itself expected to have a significant influence on electricity prices since generators are able to pass on a significant part of the cost of allowances to their customers, irrespective of whether they receive the allowances for free or not. The most important impact from ending free allocation to electricity generators is that it will eliminate windfall profits.

For consumers the total bill for households may not increase: this depends on the extent to which household energy efficiency measures succeed in reaching the target of 20% savings.”