

The EU & Climate Change – the December 2008 Agreement

Summary

At the March 2007 European Council EU Member States agreed on an ambitious plan to dramatically cut carbon dioxide emissions by 2020 and to equally dramatically increase the use of renewable energy sources by the same date. What remained to be settled were the precise means of achieving these goals. The European Commission brought forward draft legislation in January 2008 - proposals that attracted considerable controversy as some Member States felt the burden being placed on them to reduce emissions was unfair.

The economic downturn in 2008 made agreement on these measures more difficult as a number of Member States dependent either on solid-fuel power generation or with older industrial equipment that is heavily polluting, were increasingly anxious about the costs of the proposed measures. At the December 2008 European Council Member States reached agreement on a package of measures but in doing so had to compromise by accepting that not all Member States would be able to reduce emissions to the extent required in the timeframe. Shortly afterward, the Council and the Parliament reached agreement on the legislative measures needed to implement the package.

Whilst the concessions have been criticised by environmental pressure groups as being inadequate, the EU has maintained its status as the largest and most powerful group of nations committed to making major cuts in CO₂ emissions and the only one so far to have taken legislative action to give effect to its commitments. It remains to be seen whether the rest of world will follow the EU's lead between now and the Copenhagen Climate Change Summit in December 2009.

The EU's March 2007 Proposals

The March 2007 plan was very straightforward:

- the strategic objective was to ensure that global average temperatures were not more than 2°C above pre-industrial levels;
- as energy production and use was the main source of greenhouse gas (GHG) emissions, there needed to be integration between energy and climate change policies;
- international collective action was needed and the EU called for an agreement under the auspices of the UN Framework Convention on Climate Change by the end of 2009;
- as part of the measures to tackle climate change, the EU and other developed nations should take the lead in reducing their GHG emissions by the order of 30 per cent by 2020 compared to 1990 levels;
- the EU committed itself to a 20 per cent reduction in GHG emissions by 2020 (and to 30 per cent provided that other comparable developed countries committed themselves to the same target);
- the EU recognised that in meeting its own target, it would need to take account of the impact of energy intensive industries and of the need for “burden sharing” between EU Member States;

- the European Council also agreed on an Energy Action Plan designed to improve the security of Europe's energy supplies and to raise the percentage of energy generated through renewable methods to 20 per cent by 2020.

Ideas into Action: the Legislation

In January 2008 the Commission brought forward legislative proposals based upon the objectives agreed the previous March. In doing so they took account of the importance laid on the EU's emissions trading scheme (ETS) by the European Council in March 2007.

The Commission's proposals were in several parts:

- a draft directive on renewables to achieve the 20 per cent target;
- a draft directive on amendments to the emissions trading scheme;
- and measures to achieve a 20 per cent improvement in energy efficiency.

After the December 2008 European Council, the European Parliament promptly reached agreement with the Council of Ministers on all these legislative proposals, which were then approved by the Parliament with large majorities.

Renewable Energies Directive

The proposals in this legislation, and their relationship to biofuels, have already been discussed in an existing briefing paper, 'The EU & Biofuels'. This directive was agreed by the Council and the Parliament in December 2008. It confirms the previously agreed target that the EU should meet 20 per cent of its energy needs from renewables (defined as energy from hydro power, solar, wind, biomass or geothermal sources) by 2020. It set national targets for each Member State, reflecting the differing levels of renewable provision in each country at present.

The 20 per cent general target is supported by a requirement that 10 per cent of all transport fuels will be renewables by 2010. But the Directive has dropped the idea of requiring a certain percentage of these renewables to come from so-called second-generation biofuels (those made from waste products and not crops that compete for land with food production) and instead provides for these more sustainable fuel sources (including hydrogen and electricity) to count at double the rate towards the 10 per cent figure.

Binding sustainability criteria for biofuels are also included in the Directive. There are measures too, to ensure that grid networks and other distribution systems are open to different energy sources, including "green" electricity.

Revising the Emissions Trading Scheme

The EU's emissions trading scheme was introduced in January 2005; it caps the overall level of emissions allowed but enables the trading of allowances. Over 10,000 installations in the EU are covered by the current scheme and the new Directive will extend the scheme further. Power stations, oil refineries and several heavy industries,

including glass and brick manufacture, are covered at present. New industries to be covered from 2013 include aluminium and ammonia production and petrochemicals. Most of the allowances made available in the 2005-12 period of the ETS were allocated free of charge; from 2013 the electricity power generation sector will have to pay in full for its allowances. In the case of manufacturing, auctioning of allowances will be phased in with 80 per cent of initial allowances allocated at no cost but decreasing to 30 per cent by 2020.

In order to deal with the danger that manufacturing industries that generate a large quantity of emissions would move out of the EU area to avoid being caught by the new rules, the Council and the Parliament agreed that industries at risk of what is known as “carbon leakage” should be covered by exemptions of up to 100 per cent of their allowances. This rule would apply until there is an international agreement and is subject to certain conditions. Shipping will be included in the ETS scheme if the International Maritime Organisation has not agreed reduction targets – as is intended – by the end of 2011. The existing system for aviation will remain in place, that is, it will continue to receive 85 per cent of its allocation for free.

Other measures in this Directive include the rule that at least 50 per cent of the revenue from the auctioning of permits should be used by the Member States for climate change related purposes, such as further reductions in emissions, to increase energy efficiency or to tackle deforestation. EU Member States will be able to offset emissions in their countries by buying credits from third countries but these will have to be verifiable and will be restricted to a maximum of 50 per cent of the EU-wide emission reduction target.

Other Measures

The Council and the Parliament also agreed on a Directive in December 2008 concerning carbon capture and storage (CCS). This will allow a substantial portion of the income from the ETS to be used to pay for large-scale CCS commercial demonstration projects. It is expected that these resources will enable between six and nine such projects to be funded. All new power stations with an output of 300 Megawatts or above will have to assess whether storage sites are available and the feasibility of fitting CCS equipment to the power station.

A further regulation to reduce the amount of CO₂ produced by cars was also agreed. This will reduce the current limit of 160g CO₂ per kilometre down to 120g CO₂/km by 2012. This will be done through improvements in technology, for the first 130g CO₂/km and the remaining 10g will be achieved through other aspects of the car’s operation, such as use of biofuels or better tyres. Manufacturers, other than small manufacturers who will be given a derogation, will pay fines for each gram above the 120g limit.

Conclusion

It is not surprising that reactions to the December 2008 agreement varied widely. From the perspective of EU leaders, the package was a triumph - particularly given the unhelpful economic background. But it was equally understandable that environmental pressure groups should have characterised the deal as backtracking on previous EU

commitments. The reality lies somewhere between; the EU was unlikely to have agreed the Commission's initial proposals without exemptions for certain sectors because of the particular circumstances of the new Member States. Although these exemptions are significant, they are transitional. Delivering on the considerable commitments made in this agreement will be both politically difficult and controversial. The hostile reaction in some countries to the original proposals is an indication of the considerable obstacles that lie ahead.

The EU has maintained its status as the world's most advanced group of countries in terms of facing up to and tackling climate change.

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