



*EU Environmental Policy Briefing**

European Commission Releases Climate and Energy Package

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In January 2007 the European Commission put forward a series of ambitious targets for the EU - to reduce greenhouse gas (GHG) emissions by 20 per cent by 2020 (or 30 per cent if other industrialised countries join a post-Kyoto agreement), increase the share of renewable energy in the overall primary energy supply by 20 per cent by 2020, including an increase in the share of renewable energy in transport fuels (therefore including for instance gas, electricity and hydrogen from renewable energy) by 10 per cent by 2020. These targets were endorsed by EU leaders in March 2007 and the package of proposals published on 23 January 2008 converts these high-level commitments into concrete actions by Member States.

A summary of the legislative proposals included in the package is provided below. In addition to these legislative measures, the Commission also published its first assessment of national energy efficiency action plans as submitted by 17 Member States¹.

Revision of the EU ETS²

The proposed revisions to the EU Emissions Trading Scheme (ETS) aim to strengthen the EU-wide carbon market for its third phase from 2013 to 2020. The proposed measures include: extending the scope of the ETS to all major industrial emitters; the inclusion of other greenhouse gases (currently the scheme only applies to CO₂ emissions); allowances to be centrally allocated by the Commission (rather than through 27 national allocation plans); the power sector to face full auctioning of permits from 2013 while auctioning in other sectors is to be phased in from 2013 with the aim of achieving full auctioning by 2020. By 2010, the Commission is to identify sectors at risk of 'carbon leakage' (especially relocating due to competitive pressures). Based on this analysis and the state of international negotiations; in 2011 the Commission may propose measures to compensate for competitive pressures, either by increasing the free allocation of permits to identified sectors or requiring importers to buy permits to neutralise their competitive advantage. The latter is a highly controversial proposal that has already seen a formal rebuttal from the US in comments made by officials during the World Economic Forum in Davos.

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Reducing emissions in non-ETS sectors³

The Commission has proposed individual GHG reduction targets for Member States, which together with the targets to reduce industrial emissions through the EU ETS will enable the EU to reach its overall target of reducing GHG emissions by 20 per cent by 2020. These new targets will replace those set under the Kyoto Protocol, which are due to expire in 2012. The EU target for emissions from non-ETS sectors has been allocated among Member States on the basis of their GDP. Thus newer, less-developed Member States have in general been allowed to increase their emissions (ie Bulgaria can increase its emissions by 20 per cent) while older, wealthier states are required to make more significant cuts (ie Denmark and Luxembourg have to reduce emissions by 20 per cent). Under these proposals, the UK will be required to reduce its GHG emissions by 16 per cent relative to 2005 levels. Should international negotiations result in an agreement among industrialised countries, these individual targets will be revised upward so as to reach an overall EU emissions reduction target of 30 per cent.

Boosting renewable energy⁴

To reach the EU's target of a 20 per cent share of renewables in the overall energy supply by 2020, the Commission has proposed binding targets for Member States differentiated according to national circumstance and GDP. Under the proposed rules, Member States will be required to submit national renewables action plans to the Commission by 2010 detailing how they will achieve their targets. A series of interim targets have also been set in the lead up to 2020; Member States meeting these targets are allowed to sell tradable renewables certificates (guarantees of origin) to states falling behind on their interim targets. The proposed national target for the UK is for 15 per cent of its energy to be generated from renewable sources by 2020. This is one of the highest increases required of a Member State and is a result of the UK's high GDP and its low starting point of around 2 per cent.

The proposals include a binding target for all Member States to increase the share of biofuels in transport fuels by a minimum of 10 per cent by 2020. For biofuels to count towards this target, they need to demonstrate a minimum level of GHG savings of at least 35 per cent and meet a set of sustainability criteria. Importantly, the approach proposed would preclude Member States establishing their own sets of sustainability criteria as these measures are being brought forward under Article 95 of the Treaty relating to harmonisation of the EU's internal market.

Enabling the development of CCS⁵

The Commission's package includes a proposed framework to promote the development of carbon capture and storage (CCS) projects. This proposed Directive does not impose CCS on Member States but is rather intended to enable the development of the technology by managing its environmental risks and removing existing legal barriers. Under the proposed revisions of the EU ETS, plants with CCS technology would not be granted free allowances, rather their emissions would be regarded as not having been emitted thus negating the need to buy carbon permits.

Revised state subsidy rules for environmental protection⁶

The Commission has proposed revised guidelines for state aid rules increasing the permitted level of government aid granted for environmental purposes. These revised

rules apply to investments in projects to improve environmental standards in existing EU legislation, promote the early adaptation to new standards, invest in renewable energy or energy efficiency, and improve waste management or the remediation of contaminated land.

Next steps

The contested package has received a mixed reception in European capitals, among NGOs and the business community. European politicians have in general welcomed the Commission's proposals as a means of showing EU leadership at the international level. While some industrial groups have welcomed the proposals for the opportunities they create, namely in the renewables sector, others have been more sceptical of the competitiveness implications of the proposals. Environmental groups have been more critical of the proposals, their main point of contention being the inadequacy of proposed sustainability criteria for biofuels.

The Commission's proposals will now go through the EU's normal legislative procedures and will be debated by the Council and the Parliament in the coming months. The Commission is eager to achieve an agreement on the package by late 2008 or early 2009 to set a good precedent for international climate negotiations on a post-Kyoto framework expected to conclude in late 2009.

References

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