

## The European Union Climate Package

The European Parliament passed its Climate and Energy Package on December 17, 2008, in Brussels. This important development came after months of intense debate and weeks of extended negotiations. With the passage of its package, the European Union raised the international standard for climate change policy. Currently, no other national or multi-national proposal addresses emissions with virtually economy-wide breadth. In addition to its actual carbon reductions, the package represents larger global importance: it demonstrates that even during a global financial downturn, an extensive, multi-national agreement can still be crafted that aids both the economic and climate crises.<sup>1</sup> Despite significant policy gains, some experts and environmental organizations question if the package will deliver large enough emission reductions. Heavy lobbying from European industries may have significantly weakened the package's targets by (1) increasing the number of carbon credits given away for free instead of being auctioned, (2) allowing large number of foreign offsets to be purchased for reductions, (3) giving longer timelines for the implementation of new regulations and (4) setting weaker penalties for non-compliance.

### *Basics of the EU Package*

The EU Package, nicknamed the “20-20-20 Package,” focuses on three major policy areas: greenhouse gas emissions (GHGs), renewable energy and energy efficiency.

### **Emissions Reductions**

- Greenhouse gas emissions will be cut by 20 percent by 2020 from 1990 levels.<sup>2</sup>
  - Reduction efforts will be shared by all EU nations based upon a GDP formula.
  - The package contains an offer to commit up to a 30 percent reduction in the event that a satisfactory international agreement is reached.

### **Renewable Energy**

- 20 percent of final EU energy consumption must be derived from renewable sources by 2020.<sup>3</sup>
  - Country-specific plans will have a 10 percent target for the transportation sector.

### **Energy Efficiency**

- Energy consumption will decrease by 20 percent across the EU by 2020 through increased efficiency.<sup>4</sup>
  - Country-specific plans will achieve this goal (similar to shared but differentiated responsibility).
  - A 12 percent levy on the European Carbon Market (or European Trading System-ETS) will finance a “solidarity fund” that will help former Communist nations modernize their power sector.
  - The EU will target the residential sector, which accounts for 25 percent of Europe's energy consumption, by helping member states with home efficiency retrofitting, especially for low-income households.

## Details of the “20-20-20” Package

### How the Package Affects the European Emissions Trading System (ETS) <sup>5</sup>

- In Phase I and II of the ETS, the large majority of carbon permits were given away for free. Phase III, which starts in 2013, was originally subject to 100% auctioning. Under Phase III in the new European Package, three groups will have special trading exceptions: former Communist nations, power stations in countries with below average GDP producing more than 30 percent of that nation’s electricity, and power stations not well-linked to the European power network. These three groups will be given 70 percent of their carbon credits for free and required to purchase 30 percent. Full auctioning for these groups will not begin until 2020.
- All other EU utilities, unless it is determined that they are at risk of carbon leakage (the risk that industries will relocate to locations with less stringent carbon policy) will face 100 percent auctioning starting in 2013.
- Former Communist nations will also receive 12 percent of the revenues from the ETS in order to help them transition to cleaner technologies.
- The ETS currently only covers carbon dioxide emissions from power stations and other combustion plants. Starting in 2013, the scope of the ETS will be expanded to include other sectors and other greenhouse gases.
- In 2012, emissions from aviation fuels will also be included in the ETS

### Carbon Capture and Storage (CCS)<sup>6</sup>

- The package mandates that all new power plants must be built “carbon capture ready.” €9 billion was allocated for the construction and operation of 12 new commercial CCS demonstration projects to be operational by 2015. The package also provides a legal framework to manage possible environmental risks and liability issues associated with CCS.
- Many believe heavy coal usage in Europe will continue well into this century. Continued growth of coal-fired power plants would potentially derail the EU targets if CCS technology is not utilized.

### Automobile Efficiency<sup>7</sup>

- The package mandates that beginning in 2015, automobile must meet an emissions standard of 120g CO<sub>2</sub>/km with a long-term target of 95g CO<sub>2</sub>/km by 2020 (approximately 57 miles per gallon).<sup>8</sup>

### Carbon Offsets<sup>9</sup>

- The package allows for up to 50 percent of reductions to be met by purchasing carbon credits from projects undertaken outside of the EU. This measure has the potential to generate up to €65 billion through Clean Development Mechanism (CDM) offsets. If the EU were to accept 30 percent reduction targets by 2020, half of the extra commitment could be undertaken through international credits and would allow for roughly 65 percent of the package’s total emissions reductions to take place outside of the EU. Many environmental policy experts believe, however, this level of offsets could significantly undermine the overall effectiveness of the package and they question specifically whether such a large number of verifiable offsets actually exist.

### What to Watch For

- In the first and second ETS trading periods (2005-2012), the EU decided to give most of the CO<sub>2</sub> permits to power plants and energy-intensive industries for free to help with the phasing in of the

cap and trade system. Full auctioning was scheduled to begin during Phase III in 2013. Yielding to industry pressure, auctioning will be delayed until research determines which sectors are most susceptible to “carbon leakage.” It is likely that the debate over carbon leakage, how it affects industries and, as a result, who receives credits, will likely be a highly debated topic up to and after the report commissioned by the EU is released in early 2010.

- In addition to posing severe risks to the environmental integrity of the system, the ability of polluters to purchase such a large number of international offsets has implications for domestic revenue generation. Without revenue generated from their trading system, the EU may face significant challenges developing the clean technology critical for achieving its 2020 emissions goals.

### *The Politics of the Package*

The final version of the European Climate Package reflects some of the critical issues that were wrestled with during negotiations. Below is a summary of some of the key country positions during the crafting of the package:

- Poland: 95% percent of Polish electricity comes from its labor-intensive and government-sponsored coal industry. Poland fought hard for larger numbers of free credit allocations in the ETS, and there is an indication that Poland may fear being trapped into a climate package that forces it to rely heavily on cleaner energy resources, supplied in large part by Russia. Poland was joined by Hungary, Romania, Bulgaria, Slovakia, Latvia, Lithuania and Estonia in arguing that the climate package would be financially detrimental to poorer members of the EU. Italy later joined this group.
- Italy: Prime Minister Berlusconi has publicly questioned the science of climate change. Italy argued that passing climate legislation during the global financial crisis would be far too costly for struggling businesses and industries. Italy also authored and pushed a revision clause into the EU Package that renders the proposed targets conditional pending the outcome of the UN Copenhagen agreement.
- Germany: Chancellor Angela Merkel, once a leader on the issue of climate change, was influenced by the German manufacturing industry and fought to add loopholes to the package which provide heavy industry with free carbon credits and weaker penalties for non-compliance.
- France: Current EU President Nicholas Sarkozy was determined to conclude the agreement under his watch and allowed a watered-down version of the original package to be passed.
- United Kingdom: Prime Minister Gordon Brown balked when asked to reach heightened renewable targets, but ultimately argued against free credit allocations and a commitment that would undermine the EU’s global credibility when negotiating with developing countries like China and India.

### *Conclusions* <sup>10</sup>

In the end, over 550 members of the European Parliament voted in favor of passing the package while less than 100 members voted against it. In order to complete the package, concessions were made on all sides. The highly-visible “20-20-20” targets were never changed in the negotiations, but behind-the-

scenes horse trading of free allowances and of offset permits changed the package's stringency. Policy analysts now criticize the package's environmental integrity and question if the existing policy can still achieve the 30 percent reduction target consistent with international goals.

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<sup>1</sup> European Parliament: Greenhouse gas emissions allowance trading system, December 2008, <[www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2008-0610+0+DOC+XML+V0//EN&language=EN](http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2008-0610+0+DOC+XML+V0//EN&language=EN)>.

<sup>2</sup> Communication from the Commission to the European Parliament, the European Economic and Social Committee and the Committee of the Regions, "20 20 by 2020: Europe's Climate Change Opportunity, January 23, 2008, <[eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0030:FIN:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0030:FIN:EN:PDF)>.

<sup>3</sup> European Parliament: Greenhouse gas emissions allowance trading system, *op. cit.*

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

<sup>6</sup> European Union : Climate and Energy Package, "Carbon Capture and Storage," December 17, 2008, <[www.europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/798&format=HTML&aged=0&language=EN&guiLanguage=en](http://www.europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/798&format=HTML&aged=0&language=EN&guiLanguage=en)>.

<sup>7</sup> European Union: Climate and Energy Package, "CO2 From Passenger Cars" *op. cit.*

<sup>8</sup> "What the EU Climate Package Means for the Global Climate Package," E3G, January 2009, <[www.e3g.org/images/uploads/E3G\\_EU\\_Climate\\_Package\\_Briefing\\_Note.pdf](http://www.e3g.org/images/uploads/E3G_EU_Climate_Package_Briefing_Note.pdf)>.

<sup>9</sup> "Europe needs to go further to combat climate change," World Wildlife Federation, January 2009, <[www.wwf.org.uk/what\\_we\\_do/press\\_centre/?2629/Europe-needs-to-go-further-to-combat-climate-change](http://www.wwf.org.uk/what_we_do/press_centre/?2629/Europe-needs-to-go-further-to-combat-climate-change)>.

<sup>10</sup> Council of the European Union, "Energy and Climate Change-Elements of the final compromise, December 2008, <[www.register.consilium.europa.eu/pdf/en/08/st17/st17215.en08.pdf](http://www.register.consilium.europa.eu/pdf/en/08/st17/st17215.en08.pdf)>.