

## Can the EU provide credible leadership for climate policy beyond 2012?

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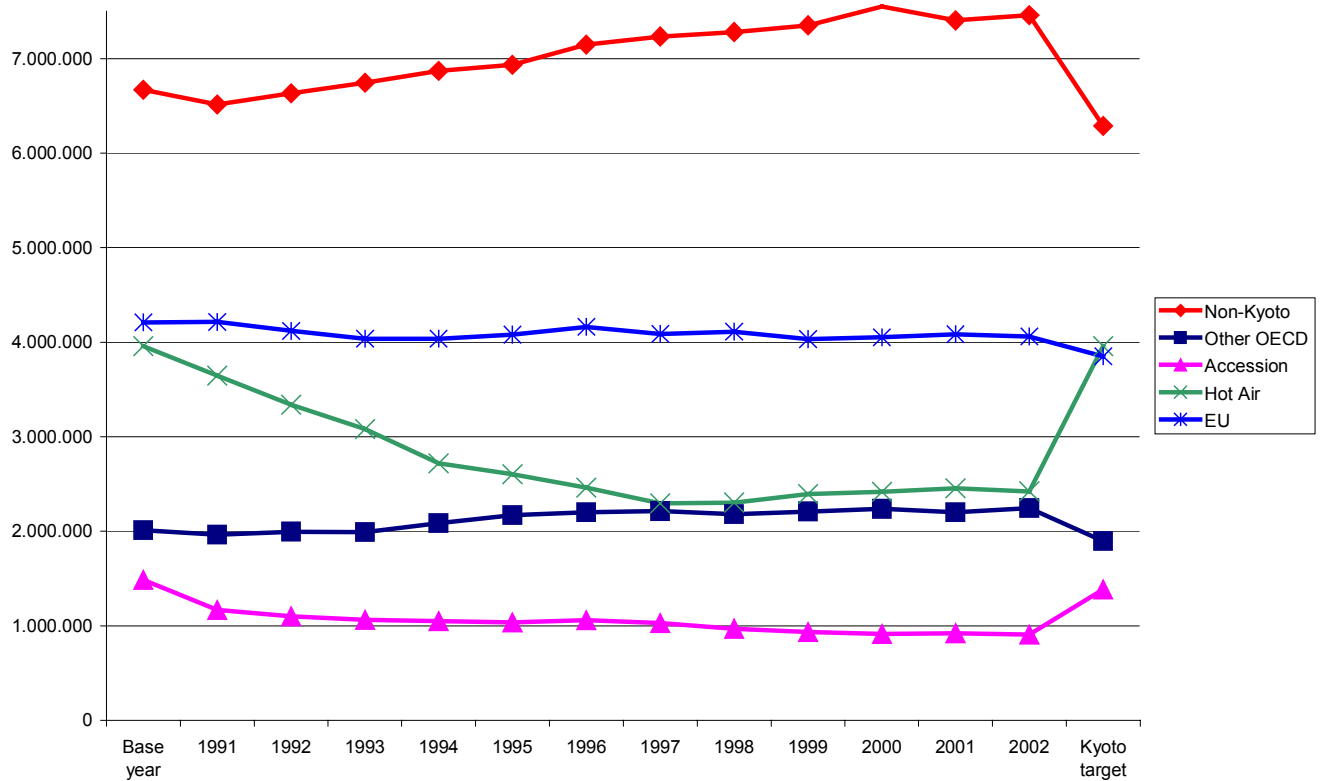
### 1. The EU leadership: strong words, less strong action

In the past 15 years, the EU has consistently pressing for a strong climate policy on the international level. Without the EU, the Kyoto Protocol would not have contained strict absolute emission targets and it would never have entered into force. The EU consistently put pressure on Russia to ratify the Protocol – a strategy that has now been successful. The EU redistributed its Kyoto target internally by forming a bubble; country targets range from –28% for Luxembourg to +27% for Portugal. With its domestic emission trading system for large sources, the EU has made a bold step to implement market mechanisms and observers from the Anglo-Saxon world have been surprised by the EU’s willingness to overcome deep-seated preferences for command and control instruments.

At face value, the EU has been relatively successful in stabilising and somewhat reducing its greenhouse gas emissions since 1990 compared to the other OECD countries (see Fig. 1).

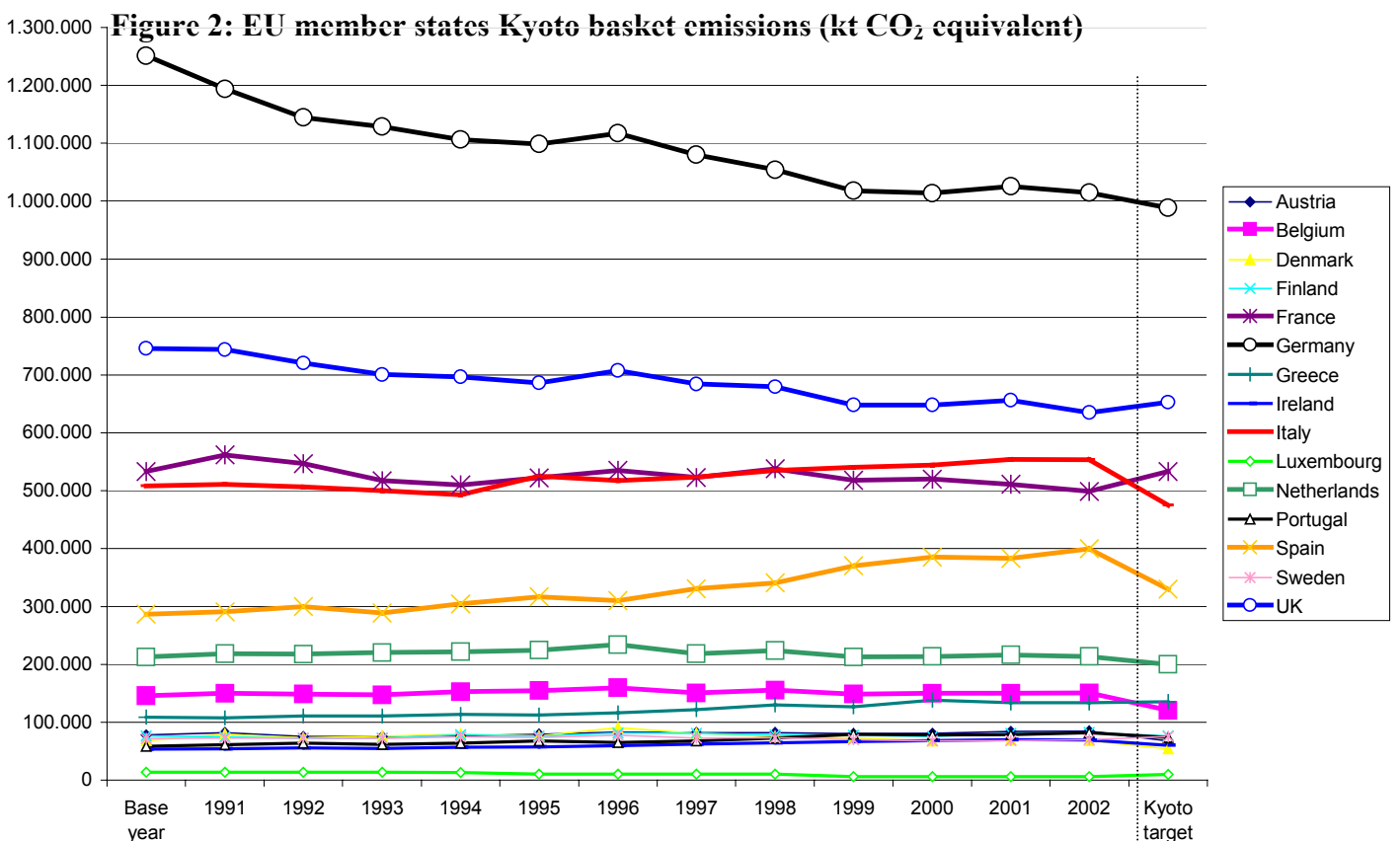
**Figure 1: Kyoto basket emission trends of the major groups of Annex B countries (kt CO<sub>2</sub> equivalent)**

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Non-Kyoto: US and Australia; Hot Air: Russia, Ukraine; Accession: Annex B members of Eastern Europe. Data source: 2004 inventory submissions to UNFCCC Secretariat, [http://unfccc.int/national\\_reports/annex\\_i\\_ghg\\_inventories/national\\_inventories\\_submissions/items/2761.php](http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/2761.php), accessed Oct. 15, 2004. Data for Russia since 1996 extrapolated using data from US Energy Information Administration: CO<sub>2</sub> emissions from Fossil Fuel Combustion; <http://www.eia.doe.gov/emeu/iea/table1.html>, accessed Oct. 15, 2004

However, the relatively good performance of the EU as a whole hides strongly diverging trends in the different member states (see Fig. 2).



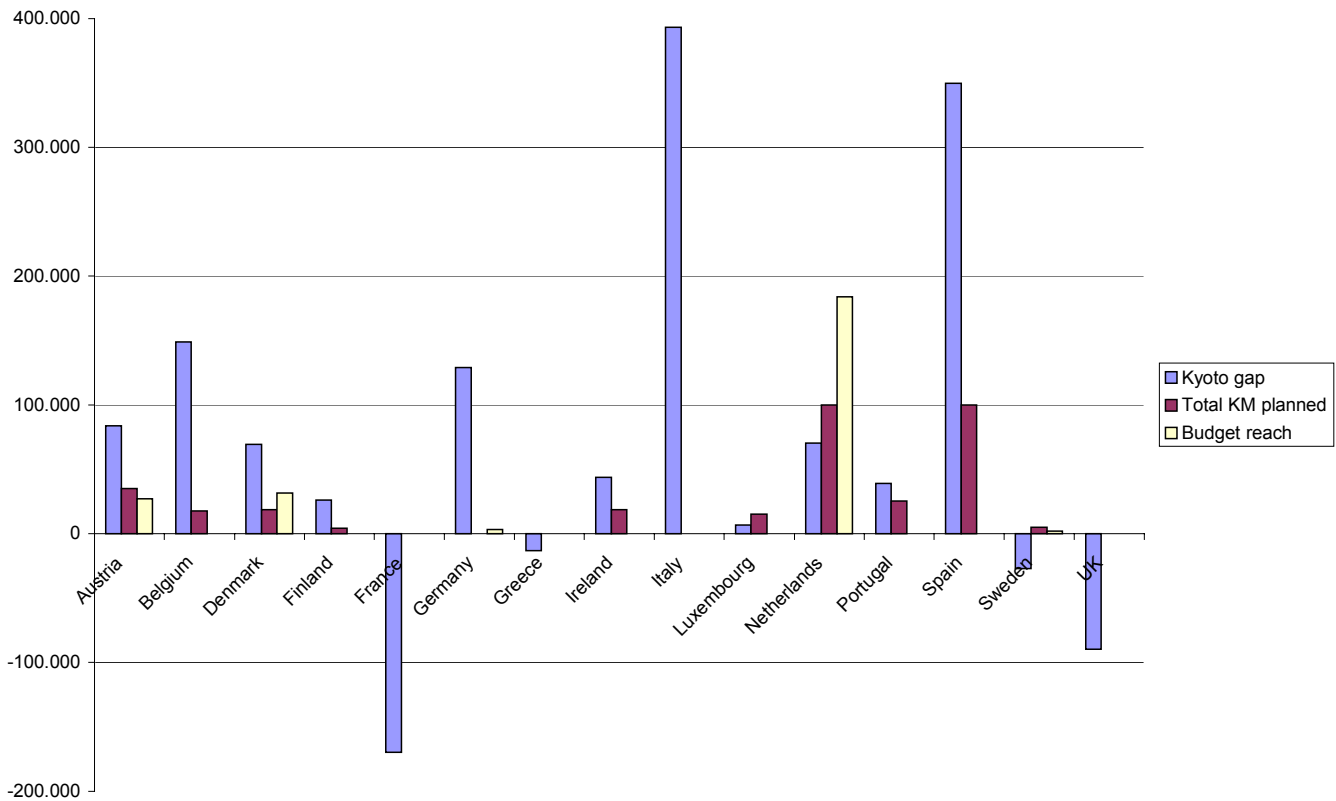
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It can be clearly seen that the emission reduction has essentially been achieved by the two large emitters Germany and the UK that have essentially already achieved their Kyoto target. However, reductions from these countries have slowed down significantly since 1999 and may be reversed soon as the cheap non-CO<sub>2</sub> reduction and easy fuel switch opportunities have been used up. On the other hand, the cohesion countries of Southern Europe have witnessed an enormous emissions increase; Portugal's emissions have risen by 40%, Spain's by 39% and Greece's by 23%! These countries have overshoot their Kyoto targets by far despite the relatively generous allocation under the EU burden sharing. What is particularly noteworthy is the struggle of some countries that had been pioneers of climate policy in the early 1990s: Austria, Denmark and the Netherlands. Their gap between their current emissions and their Kyoto target has already reached 25, 26 and 7 percentage points, respectively.

When EU policymakers noticed these trends in the early 2000s, they set up the European Climate Change Programme to introduce additional policies. The cornerstone of this programme is the EU-wide emissions trading scheme for large emitters. This scheme covers CO<sub>2</sub> emissions from fuel use at installations of above 20 MW capacity from power and heat generation, iron and steel, oil refining, pulp and paper, cement and other building materials. These emissions amount to about half of the Kyoto basket on the EU average. The legislation was accomplished in a record speed in only three years from the first draft by the EU Commission until the start of the scheme on Jan. 1, 2005. The EU has also made a remarkable step to link the trading scheme with the flexible mechanisms of the Kyoto Protocol. In April 2004, the EU Parliament agreed on a legal text, the so-called "linking directive" that allows use of CDM credits from January 2005 without any limit. The linking directive is the first large-scale incentive for private companies to participate in CDM projects. While being revolutionary from an institutional point of view, the scheme's actual impact on emissions is however likely to be relatively limited because industry lobbies managed to convince policymakers to grant them a lenient allocation of emissions allowances for the initial compliance period 2005-2007. The 14 published allocation plans of the old member states allow an annual emissions increase of over 50 million t compared to levels of the early 2000s and the plans of 5 new member states from Eastern Europe generate an aggregated increase of 45 million t. However, while letting pass the first round of allocation plans relatively unscathed, the Commission cracked down on eight plans of the second round in October 2004 requesting a slashing by 12.6 million t of which 6 million concern the accession countries but also France and Belgium have been hit. Despite this encouraging decision, industry will not have to do relevant reductions; on the contrary many companies will sit on a bank of emissions allowances. Of course the allocation for the 2008-2012 period may become more stringent, but the principles laid out in many allocation plans for that period make it relatively unlikely.

In the allocation plans, governments have also started to define at which level they would need to buy credits from the Kyoto Mechanisms. Only in few cases, a budget has been committed and in most of those, it will be insufficient to close the gap (see Fig. 3). Only the Netherlands have already enough funds in place to cover the entire acquisition programme, even if some projects fail. However already the committed funds generate demand for over 160 million Certified Emission Reductions and Emission Reduction Units. The planned demand amounts to 340 million and the Kyoto gap to over 1 billion. However, easy tons lurk around the corner in the accession countries.

**Fig. 3: Kyoto gaps for 2008-2012, acquisition plans and budget committed (kt CO<sub>2</sub> eq.)**



Source: National allocation plans, various government websites

To mobilise the CDM supply, the EU has become the world leader in CDM capacity building funds (Michaelowa 2004). Member states such as Netherlands and Germany, but also several EU programmes fund these activities. Total volume up to 2004 amounts to 19 million €, i.e. 2% of the total CDM budget committed so far by EU stakeholders.

## 2. Post-2012 activities within the EU

In 2003, the EU Presidency set up an “Expert Group on Further Action on international climate protection efforts following the Kyoto protocol” (EGFA) which compiles and analyses relevant research. It shall prepare the EU strategy for negotiations on the second commitment period of the Kyoto Protocol and provide the scientific and strategic basis for the EU position. Currently, the work focuses on the establishment of intensive dialogues with other industrialised countries and with developing countries in order to identify possible starting points for future negotiations. In May 2003 an EGFA workshop on the integration of developing countries took place which dealt with burden-sharing approaches and their cost for specific countries/regions, latest developments in research on regional climatic effects and the vulnerability of regions, inter-linkages between development aid and development priorities of countries and the requirements for climate protection. On 13 September 2004 the EU Commission (2004) launched a web-based consultation “Action on Climate Change Post 2012” to provide an opportunity for stakeholders to submit their views on how the future global climate change regime should be shaped and what the EU’s contribution to this should be. This consultation shall assist the Commission in identifying important issues for consideration in preparing its report for the spring 2005 European Council. The report shall

analyse benefits and costs and take into account both environmental and competitiveness considerations.

Several research and dialogue activities have been organised by research institutes in the EU (see FIACC 2004). The most far-reaching is the „South-North-Dialogue - Equity in the Greenhouse“ jointly co-ordinated by the Wuppertal Institute, Germany, and the Energy Research Centre, South Africa. Fourteen climate researchers from all world regions met several times for an intensive dialogue which led to “A Proposal for an Adequate and Equitable Climate Agreement”. The proposal outlines equitable approaches to mitigation – including both deep emission cuts in the North, and differentiated mitigation commitments for four groups of developing countries. It further contains recommendations for adaptation policy to address the needs of the most vulnerable to the impacts of climate change. And finally, it outlines a leadership strategy that could pave the way for such an agreement. Expansion of the dialogue to the political level is envisaged in a second stage.

On behalf of the German Federal Environmental Protection Agency, the Dutch consultancy Ecofys analysed different options for future international action on climate change from June 2003 to August 2004. Besides developing the FIACC website, the project assessed concepts and proposals for the design of future commitments, including calculation of impacts of different approaches on emissions of key countries.

The “Helping operationalise Article Two (HOT)” project supported by the Dutch Government is done by the National Institute of Public Health and Environment (RIVM) and the Free University of Amsterdam, Institute for Environmental Studies (IVM). It wants to assess the meaning of Article 2 UNFCCC through a science-based policy dialogue among the various stakeholders. Four regional scoping workshops were held worldwide in 2003 to start a first regional dialogue on Article 2, in preparation of a global dialogue during the second phase of the project.

In January 2002, the German Institute for International and Security Affairs (SWP) started the “International Network To Advance Climate Talks (INTACT)”, funded by the German Marshall Fund of the United States. The aim was to promote the climate change issue on the transatlantic agenda through high-level meetings. An extension of the network to include countries of the South will follow in the second stage of the project which is scheduled to run until 2008.

The four UK-based institutes FIELD, Tyndall Center, IIED and CSERGE are developing a framework to assess the equity and justice implications of adaptation which will be tested by analysing adaptation needs and activities in three Least Developed Countries: Tuvalu (a Pacific small island state), Bangladesh (an Asian low-lying country), and Tanzania (an African country). The researchers will use the results of these studies to extend the framework to facilitate the analysis of the fairness for vulnerable communities of adaptation decisions made under the FCCC, as well as decisions made as part of national government plans and adaptation by individuals.

The Royal Institute of International Affairs coordinated a project on the Kyoto-Marrakech system and future prospects with Müller (2003) as an interesting outcome.

Sweden has been one of the first countries launching the post-2012 debate (SEPA 2002) and providing a huge amount of research funding for post-2012 policy options through the MISTRA foundation.

### **3. EU strategies for post-2012**

Some EU member states have announced indicative targets for dates beyond 2012. In its Energy White Paper (DTI 2003), the UK government announced a -60% CO<sub>2</sub> target for 2050. An interim target of approximately -25% until 2020 was also set in that document. There was considerable public discussion of the assumptions and policies needed to achieve such deep

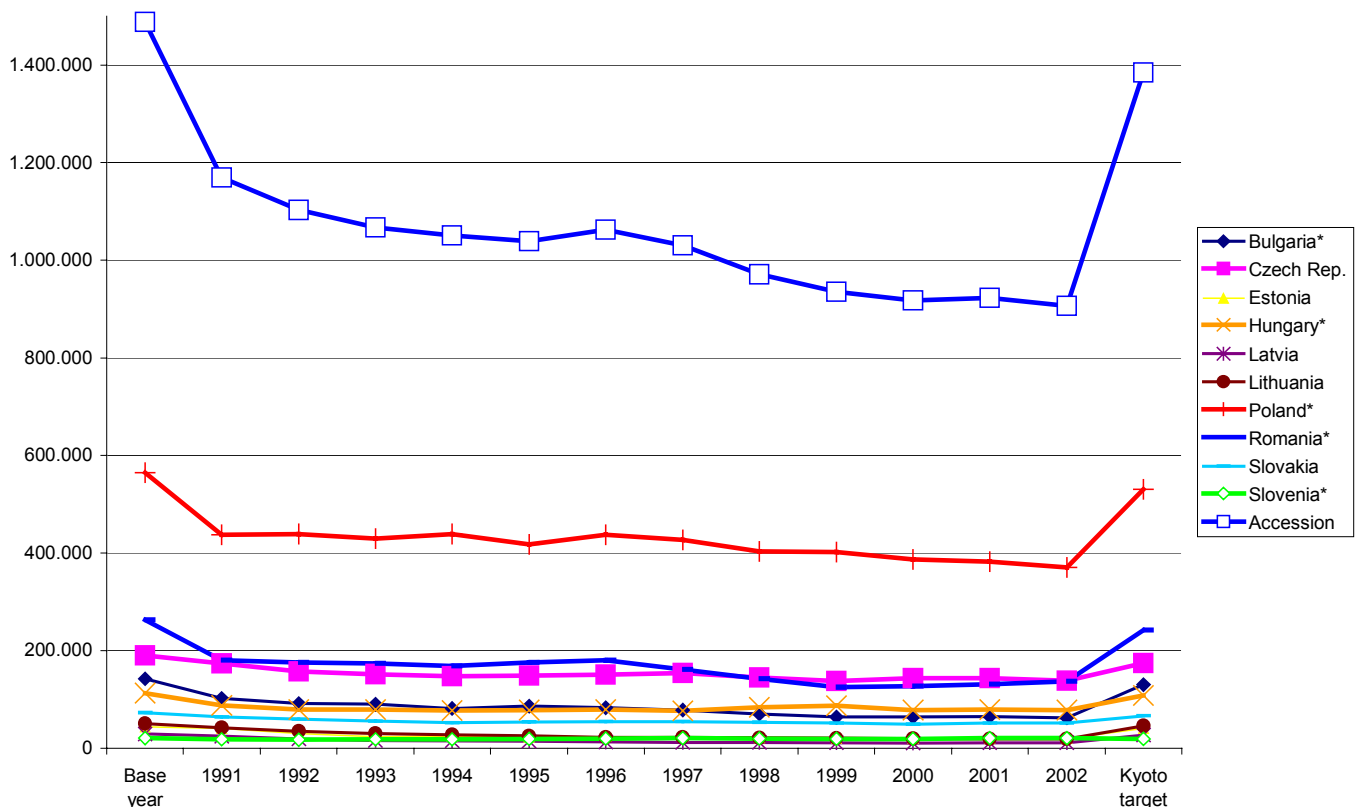
reductions. The German government specified in its coalition agreement of 2002 that Germany would aim for  $-40\%$  in 2020 if the EU committed to  $-30\%$ . Wisely, it was not specified to which size of EU this refers. However, the minister for economic affairs consistently fought against this target that he found constraining for the economy and the commitment has not been discussed publicly to any extent. A Swedish parliamentary committee (Klimatkommittén 2000) defined a  $-50\%$  target for 2050 on the basis of a stabilisation target of 550 ppm for all six GHGs covered by the Kyoto Protocol. The French climate plan (2004) mentions the need for a four- or fivefold reduction by 2050.

Beyond these general announcements, the Dutch EU presidency stated in July 2004 that the basic aim of long-term EU climate policy was to limit the rise in temperature to a maximum of  $2^{\circ}\text{C}$  above pre-industrial levels and set out for a  $-30\%$  target for 2020, echoing the German proposal. However emitters' lobby UNICE immediately denounced an EU "going it alone" policy.

The strength of the "grey forces" is also shown by the fact that in early 2004, industry lobbying managed to bully the Spanish government into trying to reopen the EU burden sharing under the Kyoto Protocol. However, the conservatives' defeat in the general election led to a re-endorsement of the Protocol by the incoming socialist government.

Any EU post-2012 strategy can utilise the "bank" remaining in the new member states (see Fig. 4). Despite the strong economic growth in the past years, emissions keep declining. The bank amounts to 2.5 billion t over the first commitment period, i.e. 2.5 times the EU's current Kyoto gap. If untouched, for the commitment period 2013-2017, it could still allow a target strengthening by 7.5 percentage points for a 28-member state EU bubble.

**Fig. 4: Emissions levels of new member states**



#### 4. Conclusions

The EU is a leader when it comes to long-term target setting and driving of the international climate policy process. Its performance is somewhat less impressive when it comes to concrete action on the ground. There, the institutional achievements such as the setup of the emissions trading scheme obfuscate the fact that the reductions achieved will be very small. Emitters' lobbies still play a strong role in the EU. Nevertheless, it is the largest buyer of Kyoto mechanisms credits and also the largest provider of capacity building funds. The EU is preparing the negotiations on post-2012 climate policy seriously and a 30% target for 2020 has been proposed by both Germany and the Netherlands. In that context, the EU has an underestimated trump card – the availability of a large bank of “hot air” in its new member states.

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