EU Communication

CLIMATE CHANGE AGREEMENT

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cep Centrum für Europäische Politik

MAIN ISSUES

Objective of the Communication: The Communication sets out the EU targets for UN climate change negotiations at Copenhagen in December 2009.

Groups Affected: Entire economy, in particular energy supply companies and energy-intensive industries.

Pros: (1) Climate protection requires a global approach.

(2) Extending emissions trading to further states and including emissions from international aviation and maritime transport into an international agreement are appropriate.

Cons: (1) Financing development aid through EU funding is not transparent and represents a clear step towards a – hitherto rejected –right of borrowing in the EU.

(2) There is no reason why unused emission allowances should expire after 2012.

CONTENT

Title

Communication COM(2009) 39 of 28. January 2009 towards a **comprehensive climate change agreement in Copenhagen**

Introduction

- **Object of the Communication**
  - In December 2009, the UN Climate Conference will meet in Copenhagen in order to negotiate a global climate change agreement.
  - In its Communication and the accompanying background documents [SEC(2009) 101 and 102] the Commission provides information about its defined targets for the agreement.
- **Global Climate Change Targets**
  - The global average temperature increase should be constantly limited to not more than 2° C above preindustrial levels.
  - According to the Commission, global greenhouse gas (GHG) emissions must therefore be reduced to less than 50% of 1990 levels by 2050.
  - To this end, all developed countries and as many developing countries as possible should be integrated into the agreement.
- **Climate Change Targets for Developed Countries**
  - Developed Countries should reduce GHG emissions in the range of 24-40% by 2020 and 80-95% of 1990 levels by 2050.
  - If an international climate change agreement is concluded in Copenhagen for the period after 2012, the EU is willing to reduce its GHG emissions to 30% below 1990 levels by 2020 [cf. CEP Policy Brief on the Communication on limiting global climate change (in German only) COM(2007) 2].
  - The targets should be reached through a "fair" distribution of the overall reduction target and oriented along the following parameters [cf. SEC(2009) 101, Part 1, p. 48-54]:
    - Gross domestic product (GDP) per capita: the higher the per capita income, the more emissions must be reduced.
    - Emissions per unit of GDP: the higher GHG emissions per unit of GDP, the more emissions must be reduced.
    - Trend in emissions between 1990 and 2005: the higher the reduction reached, the less emissions must be reduced.
    - Population trends between 1990 and 2005: the higher the population growth the less emissions must be reduced.
  - Reductions do not necessarily have to be effected in developed countries themselves. Instead, developed countries may – to a limited extent - acquire credits recording emission reductions in third countries and have them offset against their own reductions (Clean Development Mechanism, CDM).
  - Some states that undertook reduction commitments under the Kyoto Protocol have meanwhile exceeded compliance. The Kyoto Protocol provides that these states may have additional reductions credited in the form of additional emission allowances for the period following 2012. The Commission on the other hand intends to have them expired, at least partially, after 2012.

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- **Climate Change Targets for Developing Countries**
  - Developing countries should reduce their increase in emissions by 15-30%.
  - Developing countries should in particular:
    - fully cease tropical deforestation by 2030 at the latest
    - and accomplish reductions in "key sectors", especially in the energy and transport sector, in energy-intensive industries and in agriculture and forestry.

- **Priority of Emissions Trading**
  - Existing emissions trading schemes should be pooled to form one global market for the trading of emission allowances.
  - The Commission intends to promote the creation of an OECD-wide market for emission allowances by 2015, which then might be extended to developing countries by 2020.

- **Inclusion of International Aviation and Maritime Transport**
  - Aviation and maritime transport have so far been left out of international climate change agreements, despite their representing a rapidly growing source of emissions.
  - Emissions from international aviation and maritime transport should be reduced to below 2005 levels by 2020, and below 1990 levels by 2050.
  - To this end, the international civil aviation organisation (ICAO) and the international maritime organisation (IMO) should develop global measures by 2010. Emissions trading might be an integral part of such measures.
  - If ICAO and IMO fail to find a solution, emissions from aviation and maritime transport will be included in the emission caps to be agreed upon in Copenhagen and be shared on a pro-rata basis by the starting and target states of transport.

- **Special Issue: Fluorinated Gases**
  - Since hydrochlorofluorocarbons (HCFC) deplete the ozone layer, they have been prohibited. However, they are often replaced by hydrofluorocarbons (HCF), many of which are aggressive greenhouse gases.
  - The Copenhagen agreement should prescribe that either only HCFs with low greenhouse effects are permitted or even just HCF-free alternatives.

- **Funding Needs in Developing Countries**
  - **Financing Climate Change Measures in Developing Countries**
    - The Commission assumes that by 2020 net global incremental investments to the amount of € 175 billion will be necessary in order to reduce emissions of greenhouse gases.
    - More than half of this amount will have to be invested in developing countries and the forestry sector.
    - According to the Commission, at least one third of these investments in developing countries can be financed via CDM, i.e. developed countries acquire climate change credits.
  - **Financing Adaptation Measures in Developing Countries**
    - Adaptation costs to climate change in developing countries will range from € 23 to 54 billion.
    - To this end, developing countries should receive yearly financial support stepping up from € 5 billion in 2013 to € 10 billion in 2020 [cf. SEC(2009) 101, Part 2, p. 122].
    - Besides, the aftermath of natural disasters resulting from climate change should be mitigated through a multilateral insurance pool to be newly established.

- **Financial Contributions from Developed Countries to Developing Countries**
  - Developing countries need additional financial support from developed countries in order to finance emission reductions and adaptation to climate change.
  - As regards the scale of financial contributions to be provided by developed countries, the Commission discusses two models. Both models are based on a global emission cap.
    - Model 1: The annual financial contribution is determined by way of a formula which is based on the total amount of emissions allowed in such state and its ability to pay (e.g. per capita income). If a state fails to comply with its funding commitment in due time, a corresponding amount of emission allowances might be withheld.
    - Model 2: Each developed country finances its contribution from auction proceeds of a certain percentage of its emission allowances. Such percentage of emission allowances to be auctioned for this purpose could increase progressively in line with the per capita income.
  - For the transition period between 2010 and 2014, "priority" climate and adaptation actions in an annual volume of € 1 billion should be accomplished in developing countries. They should be financed through "EU bonds" with a term of twenty years (Global Climate Financing Mechanism).
    - Member States should voluntarily promise to carry interest and amortisation.
    - The Commission deems it desirable that all EU Member States participate each according to their respective CO_2 emissions and per-capita income.
    - The bonds should be managed either by a newly established EU authority, the European Investment Bank or the Commission.

Changes Compared to the Status Quo

- To date, not all states which emit significant amounts of greenhouse gases participate in emission reduction. According to the Commission, the emission reduction commitments should apply to all developed country and "all OECD member countries and all current EU Member States, EU candidate countries and potential candidates".
- The European Council has consented in principle to a unilateral emission reduction commitment of 20% by 2020. This voluntary commitment was also approved by the European Parliament [cf. CEP-Monitor on the EU Climate Package (in German only)]. Under an international climate change framework the EU would be willing to reduce emissions by 30%.
- To date, international aviation and maritime transport has not been subject to any international agreements on emissions reduction. As of 2012, however, the EU will include flights starting or landing within the EU in emissions trading. Now these sectors are also to be included in an international agreement.
- To date, financial support to developing countries has not yet been an integral part of any climate change agreement. Now funding aid is to become binding.

Statement on Subsidiarity

The Commission does not address any questions on subsidiarity.

Political Context

In 1997, the EU undertook to reduce greenhouse gas emissions by 8% under the Kyoto Protocol. The Kyoto Protocol will expire in 2012. During the Bali climate change conference in December 2007, EU environment ministers demanded binding emission reductions and a global emission trading system. The follow-up conference in Poznan in December 2008 brought no significant new results.

Options for Influencing the Political Process

Leading Directorate General:	DG Environment
Consultation procedure:	No consultation procedure provided.

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The target to reduce greenhouse gas emissions by a certain percentage is set politically and thus defies ordoliberal assessment. However, this is not equally true for the proposed measures to pursue such a target.

The integration of further states under the framework of emission reduction, which is the aim of the Commission, **is to be welcomed**. Climate change can only be defeated if all states emitting significant amounts of greenhouse gases participate. Otherwise, there is a real danger that the success of participating states in reducing emissions be rendered void by the rest of the world. **The** aimed at **inclusion of the international aviation and maritime transport** into a global agreement **is to be welcomed, too**. However, in a background paper, even the Commission itself assumes that reduction targets for the aviation and maritime sectors are unrealistic by 2020, since the forecast figures for the growth of demand lie beyond the potential efficiency gain in both sectors [cf. SEC(2009) 101, Part 1, p. 43; Part 2, p. 94 ff.]. Therefore, it should be clarified that including these sectors must allow for the option to comply with mitigation commitments through reduction credits in line with the clean development mechanism (CDM) or through emission trading.

The Commission's proposed parameters for identifying quota, with which each developed country is to contribute to emission reduction, are in principle appropriate.

Providing financial support to developing countries is probably an indispensable requirement for the formation of an international climate change agreement. However, scaling such funding according to the individual emission volume of each developed country, as provided in both options suggested by the Commission, would not be appropriate. Though with a global emission cap the emissions scope of developing countries is directly dependent on the emission volumes of the developed country, according to the plans of the Commission, through the disproportionate allocation of emissions to the participating states these emission volumes should already have been drawn upon for reduction; such a double burden would be inappropriate. Therefore, **financial support to developing countries should be calculated according to per-capita income and population**.

The proposal to finance adaptation to climate change in developing countries through EU bonds is a clear step towards a right of borrowing in the EU, which hitherto has been dismissed by the Member States. **Besides, such bonds would conceal actual tax burdens** to be borne by EU citizens. Instead, development aid should be provided by the ordinary budgets of participating states. Furthermore, it is not comprehensible why only EU Member States should bear the costs, and not all developed countries.

Impact on Efficiency and Individual Freedom of Choice

As the Commission is striving for very ambitious reduction targets for the climate change agreement, the choice of tools allowing for cost-effective emissions reduction is of utmost importance. **The Commission's advocacy of emissions trading is to be welcomed**, since it reduces emissions in the most cost-efficient way. Extending emissions trading to further states is positive, too, as it helps lower overall global adaptation costs. The same is true for the inclusion of aviation and maritime transport.

Moreover, it is to be welcomed that credits for climate protection projects in developing countries remain an option to choose; however, it is not correct that these credits are limited in order to ensure that a large part of EU emission reductions is done domestically: for climate development it is not relevant where emission reduction is achieved.

In view of the ambitious targets of the EU, it would not be appropriate if unutilised emission allowances expired after 2012. Exceeding reduction targets would increase economic costs for climate protection in the EU and weaken public acceptance of the climate change agreement.

Impact on Growth and Employment

As a result of investments in climate protection, **the Commission expects the GDP** of the EU **to decrease by 1.2% and a decline in employment of 0.4% by 2020** if the climate change agreement is adopted with the aimed at contents [cf. SEC(2009) 101, Part 1, p. 54]. This has to be compared to (not quantifiable) less damages through climate change.

Impact on Europe as a Business Location

The more states participate in emission reduction, the less negative the impact of EU voluntary commitment to emission reduction will be on Europe as a business location.

Legal Assessment

Legislative Competence

Since the EU legislative competence for environmental policy measures is laid down in Art. 175 TEC, it has also the implied power to act internationally in this respect (cf. European Court of Justice, Case 22/70 – AETR; established case-law). Accordingly, Art. 174 section 4 TEC clarifies that the Community has the competence to conclude international environmental agreements. Pursuant to Art. 300 section 1 TEC, the Commission shall make recommendations to the Council, which shall authorise the Commission to open the necessary negotiations.

Subsidiarity

Unproblematic.

Proportionality

Currently not forseeable.

Compatibility with EU Law

Unproblematic.

Compatibility with German Law

Depending on the resolutions finally adopted in Copenhagen, the German Greenhouse Gas Emission Trading Act (THEG) will have to be amended.

Alternative Policy Options

Financial support to developing countries should be calculated on the basis of per-capita income and population of the pertaining developing country alone. The support of developing countries should not be financed through EU bonds. Any possible surplus in emission allowances should not expire after 2012.

Possible Future EU Actions

Currently not forseeable.

Conclusion

The Commission's commitment to an international climate change agreement is to be welcomed, but the ambitious greenhouse gas emission targets will burden the economy. To this end, it is all the more important to choose efficient tools, such as extending emissions trading and deploying reduction credits. The planned substantial payments to developing countries should not be financed through EU bonds but distributed to all developed countries in a transparent manner.