Procedure file

Basic information

INI - Own-initiative procedure	2011/2012(INI)	Procedure rejected

Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage

Subject
3.70.02 Atmospheric pollution, motor vehicle pollution
3.70.03 Climate policy, climate change, ozone layer
3.70.20 Sustainable development

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ENVI Environment, Public Health and Food Safety		05/10/2010
		Verts/ALE EICKHOUT Bas	
	Committee for opinion	Rapporteur for opinion	Appointed
	ITRE Industry, Research and Energy (Associated committee)		29/09/2010
		PPE JORDAN Romana	
Council of the European Union	Council configuration	Meeting	Date
	Transport, Telecommunications and Energy	3080	31/03/2011
European Commission	Commission DG	Commissioner	
	Environment	POTOČNIK Janez	

Key events

26/05/2010	Non-legislative basic document published	COM(2010)0265	Summary
20/01/2011	Committee referral announced in Parliament		
20/01/2011	Referral to associated committees announced in Parliament		
31/03/2011	Debate in Council	3080	Summary
24/05/2011	Vote in committee		Summary
01/06/2011	Committee report tabled for plenary	A7-0219/2011	
22/06/2011	Debate in Parliament		
05/07/2011	Results of vote in Parliament		
05/07/2011	Decision by Parliament		Summary

Technical information

Procedure reference	2011/2012(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
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Stage reached in procedure	Procedure rejected
Committee dossier	ENVI/7/03759

Documentation gateway

Non-legislative basic document		COM(2010)0265	26/05/2010	EC	Summary
Committee draft report		PE460.597	23/02/2011	EP	
Amendments tabled in committee		PE462.566	31/03/2011	EP	
Amendments tabled in committee		PE462.704	01/04/2011	EP	
Amendments tabled in committee		PE462.703	02/05/2011	EP	
Committee opinion	ITRE	PE458.835	12/05/2011	EP	
Committee report tabled for plenary, single reading		A7-0219/2011	01/06/2011	EP	

Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage

PURPOSE: to launch a debate on the possible options of moving beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage.

BACKGROUND: the EU agreed a 20% cut in greenhouse gas emissions from 1990 levels by 2020, together with a 20% renewable energy target. It has always been clear, however, that action by the EU alone will not be enough to combat climate change and also that a 20% cut by the EU is not the end of the story. EU action alone is not enough to deliver the goal of keeping global temperature increase below 2°C compared to pre-industrial levels. All countries will need to make an additional effort, including cuts of 80-95% by 2050 by developed countries. An EU target of 20% by 2020 is just a first step to put emissions onto this path.

That was why the EU matched its 20% unilateral commitment with a commitment to move to 30%, as part of a genuine global effort. Despite the disappointment of failing to achieve at Copenhagen the goal of a binding international agreement to tackle climate change, the most positive result was that countries accounting for some 80% of emissions today made pledges to cut emissions, even though these will be insufficient to meet the 2°C target.

CONTENT: the purpose of this Communication is not to decide now to move to a 30% target: the conditions set are clearly not met. To facilitate a more informed debate on the implications of the different levels of ambition, this Communication sets out the result of analysis into the implications of the 20% and 30% targets as seen from today's perspective. It also covers the issue of carbon leakage, in the context of the Directive 2009/29/EC on the Emissions Trading System.

1) The economic crisis and the 20% reduction target: the Communication sets out how changed global circumstances have impacted on the targets set in 2008, with particular reference to the financial crisis. It notes that verified emissions in the ETS in 2009 were 11.6% below 2008 emissions. This one-off reduction in emissions meant that in 2009, the EU emitted around 14 % less greenhouse gases than 1990. But, of course, as production recovers in energy-intensive industries like steel, this rate of reduction cannot be simply extrapolated into the future.

However, the absolute costs of meeting the 20% target have fallen. In the analysis presented in 2008 underpinning the climate-energy package, based on the expectation of continued economic growth, the costs of reaching the target were estimated as at least EUR 70 billion per annum in the year 2020. Today, the analysis also takes account of the recession. The price tag is now estimated at EUR 48 billion (0.32% of GDP in 2020). This represents a reduction of some EUR 22 billion, or 30% less than expected 2 years ago. Nevertheless, this reduction in absolute costs comes in the context of a crisis which has left businesses with much less capacity to find the investment needed to modernise in the short run, and great uncertainty over how long it will take to recover. The lower cost of the climate and energy package today is due to the interplay of several factors:

- lower economic growth has effectively reduced the stringency of the 20% target;
- the rise in oil prices proved an incentive to improve energy efficiency: energy demand has fallen;
- the carbon price is likely to remain lower as allowances not used in the recession are carried forward into the future.

While the absolute costs of meeting a 20% target have been reduced, representing a welcome relief for businesses facing a battle for recovery, it also represents a risk that the effectiveness of the 20% target as a motor for change diminishes. This all comes at a time of severe

economic constraint, both for Governments and businesses.

2) Possible move to a 30% target: the Communication considers possible options for reaching the 30% target, including options inside the ETS, technological options, carbon taxes and Using EU policies to drive emission reductions, such as encouraging Member States to step up low-carbon investment by directing a greater volume of cohesion policy funding towards green investments. It also considers using the leverage of international credits. The paper notes that the fact that the 20% is now more in reach than was assumed in 2008 has an obvious knock-on effect on the challenge of meeting a 30% target.

In absolute terms, the EUR 70 billion price tag in 2020 as estimated in early 2008, would be sufficient today to take the EU more than half way towards stepping up from 20% to 30%, although in a situation where the EU economy is more constrained. The additional total costs for the EU to step up from the current 20% to 30% are estimated to be around EUR 33 billion in the year 2020, or 0.2% of GDP.

In order to achieve this 30% reduction, it is estimated that the carbon price in the EU ETS would amount to some EUR 30 per tonne of CO2, which is similar to the level estimated to be necessary to meet the 20% reduction target in 2008. Domestic emissions would reduce to -25% compared to 1990 with the remaining being covered by banked allowances and international credits. The total cost of a 30% reduction, including the costs to go to 20%, is now estimated at EUR 81 billion, or 0.54% of GDP.

Recalling that in early 2008, the cost of the climate and energy package was estimated to be EUR 70 billion, or 0.45% of GDP in 2020. Therefore, going to the 30% reduction target represents an increase of EUR 11 billion compared to the absolute costs of the climate and energy package in 2020, as projected in 2008.

While costs clearly have decreased, the reduced profitability of companies, spending power of consumers, and access to bank loans has reduced the ability of the EU economy to invest in low carbon technologies: a legacy of the crisis which can only be offset by the return of growth and proactive policies to prioritise growth in these sectors. In terms of sectors, the analysis suggests that the greatest potential for emissions reductions comes from the electricity sector through a combination of improved demand-side efficiency and a reduction of carbon-intensive supply-side investments.

3) Carbon leakage: one of the important considerations in EU climate policy is avoiding "carbon leakage". The main issue for carbon leakage is the competitive difference between the EU and third countries. There are, therefore, broadly three ways in which carbon leakage could, if it can be demonstrated, be tackled: i) by giving further support to energy-intensive industries through continued free allowances; ii) by adding to the costs of imports to compensate for the advantage of avoiding low-carbon policies; or iii) by taking measures to bring the rest of the world closer to EU levels of effort.

The most obvious way to provide further help to level the playing field by action inside the EU is to maintain the free allocation of allowances. There would also be an option of including imports in the Emissions Trading System.

A political decision to move to the 30% s target cannot be taken without consideration of the international context. At present the conditions set for stepping to 30% have not been met. In addition, such a decision also needs to be taken in full consciousness of the economic consequences at home. Both the international context and the economic analysis suggest that the EU should maintain the option for moving to a 30% target: we should be ready to act whenever the conditions are right to take this decision.

In the meantime, we need to strengthen efforts to work with our international partners, to encourage them so that we can achieve the level of ambition needed to put global efforts on track to secure the real limitation of climate change to which we are all committed.

The Commission will continue to monitor the situation, including the competitiveness of EU industry vis-à-vis its main international competitors, particularly those which have not yet taken convincing action to combat climate change. Furthermore, in the light of the evolving economic situation and the international negotiations, the Commission will further update its analysis to inform the continued discussions in the Council and the European Parliament on the content of this Communication.

Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage

The Council took note of information provided by the Commission on the state of play within the International Maritime Organisation (IMO) concerning the reduction of greenhouse gas emissions from shipping. The Commission highlighted the need, on the one hand, to achieve a positive vote at the IMO on an Energy Efficiency Design Index for newly built ships and, on the other, to seek progress on market-based measures, such as an emissions trading scheme for ships and a greenhouse gas fund, which however are still opposed in particular by developing countries.

Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage

The Committee on the Environment, Public Health and Food Safety adopted the own-initiative report by Bas EICKHOUT (Greens/EFA, NL), in response to the Commission Communication ?Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage?.

Members welcome the 2010 Commission Communication concluding that stepping up to a 30% target, which would be more consistent with the developed countries? target of reducing greenhouse gas emissions at the high end of the 25-40% range for 2020, would be technically feasible and economically affordable.

Internal reduction by 25% : the report notes that according to the Commission Communication ?A Roadmap for moving to a competitive low-carbon economy in 2050?, the EU could decrease its emissions internally by 25% or more by 2020 by fully implementing renewable energy and the energy efficiency target. It notes however that the roadmap does not set a new target and stresses that attention needs to be paid to the economic and social consequences in Member States.

The committee welcomes the roadmap for moving to a competitive low-carbon economy in 2050 setting long-term targets reconfirming the

EU?s objective of reducing greenhouse gas emissions by 80-95% by 2050 in order to keep climate change below 2°C. It takes note of the fact that 80% of the reduction by 2050 has to be provided internally within the EU and that a linear reduction makes economic sense. Members call for the Commission to come forward, as soon as possible and before the end of 2011, with proposals to achieve a 25% internal greenhouse gas reduction by 2020 consistent with a cost effective pathway to the 2050 objective as outlined in the 2050 Roadmap, and to move to a 30% overall target for 2020.

Options and tools: the committee calls for the application of a general principle that the EU should follow the most cost-effective pathway to reducing CO2 emissions while supporting the timely deployment of promising innovative technologies and investments which are in line with the EU?s long-term climate target. It stresses that a comprehensive range of measures, such as incentives for additional investment, growth-oriented fiscal policy and public procurement, is necessary to ensure that economic growth and the reduction of both unemployment and greenhouse gas emissions reinforce each other.

The Commission is asked to analyse regularly and ensure that the cost-effective sharing of the additional effort between ETS and non-ETS sectors remains the same as under the climate package. Members call therefore for Member States to enhance their efforts in innovative investments and the implementation of provisions in existing energy savings directives to achieve more ambitious targets.

The report stresses the need to :

- curb CO2 emissions in the transport sector through the provision of standardised European infrastructures for electric vehicles and more incentives to use sustainable second-generation biofuel as an alternative to fossil fuels. Members call for the use of public transport to be increased;
- ensure public financing mechanisms to facilitate a transition to a cleaner energy mix in Member States;
- develop a policy structure that makes climate policy an opportunity for industry instead of a threat;
- specific targets, that are not linked to ETS or the effort sharing, for EU land use, land use change and forestry (LULUCF), ensuring the permanence of emission reductions and the environmental integrity of the sector?s contribution to emissions reductions;
- to ensure that EU agricultural policy instruments incorporate incentives for reducing the climate impacts of agriculture, including through support under the first pillar.

Further opportunities and challenges: Members consider that potential changes in labour and energy costs as a result of EU climate change policies should not lead to social dumping or carbon leakage, and they call on the Commission to investigate any such risks. The Commission is asked to support, on the one hand, measures to meet labour market requirements arising from the change to a low-carbon economy and, on the other, restructuring measures covering workers who become available in the new sectors.

The report stresses that according to the IEA?s World Energy Outlook 2010 the 2°C goal can only be achieved if current commitments are vigorously implemented in the period to 2020 and by much stronger action thereafter. It calls, therefore, on the Commission, the Council and the European Council to push for more rapid, internationally coordinated implementation of the abolition of fossil-fuel subsidies agreed by the G20 and to present corresponding proposals at EU level. Members also emphasise that the EU must maintain and even reinforce the necessary pressure on third countries to deliver their share of global greenhouse gas reductions in the future.

The Commission is asked to take the following practical measures:

- assess the effects of domestic emissions-reduction policies on employment, including job opportunities, and promote the improvement of low-carbon literacy, energy-related reskilling and upskilling needs and education and training, in particular for SMEs;
- analyse to what extent Member States meet their commitment to spend at least 50% of the auction revenues on mitigation and adaptation measures, and propose measures, if necessary;
- analyse the impact of the EU?s increased emissions reduction targets at Member State level, as indicated in the Environment Council Conclusions of 14 March 2011;
- provide proper financing for the SET-Plan;
- promote the efficient use of the Structural and Cohesion Funds by the Member States, in particular for energy-efficiency measures, whilst taking full account of the principle that such investments must be regional and reduce economic and social disparities within the EU;
- introduce innovative financing mechanisms (such as revolving schemes);
- earmark additional funds for weaker and disadvantaged regions to cover measures in non-ETS sectors (buildings, transport, agriculture);
- give priority to climate and energy research under the Eighth Research Framework Programme, including energy efficiency, and to research into the causes of climate change and adaptation to it;
- analyse what impact a unilateral move by the EU beyond 20% greenhouse gas emissions reductions could have on other countries? willingness to join an international agreement;
- investigate the potential impact in terms of green jobs? leakage and reduced investments and competitiveness in green sector.

Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage

The European Parliament rejected in plenary the draft resolution on the analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage.

In the final vote, the amended resolution received 258 votes to 347, with 63 abstentions.