



## A week ahead of Poznan - where is Europe's climate leadership?

In a week's time Europe's Environment Ministers will go to Poznan to the United Nations Climate Change Conference (COP14), a crucial milestone in negotiations for a global deal to reduce greenhouse gas emissions beyond 2012. The EU's energy package is due to be finalised during the conference and will determine Europe's position at the international talks.

Texts drafted in Poznan will form the basis for the post-2012 agreement which must be finalised at COP15 in Copenhagen in 2009. A precondition of the agreement is a clear commitment by developed countries to significantly reduce their emissions in view of their historic responsibility for climate change and their financial ability to tackle the problem.

Europe is uniquely placed to play the leadership role necessary to galvanise other countries towards a strong post-2012 agreement. To have any chance of keeping global warming below 2°C and avoiding climate catastrophe, Europe must commit to reduce emission domestically by at least 30% by 2020 and in addition put considerable amounts of cash on the table to compensate for its historical responsibility for producing the emissions that cause climate change.

**Current negotiations between the European Parliament and Council on the climate and energy package offer the EU the opportunity to show leadership in these areas.**

**However, Climate Action Network Europe, Friends of the Earth Europe, Greenpeace, Oxfam and WWF believe that the EU is currently failing to adopt the correct level of emission reductions consistent with staying below two degrees Celsius and is reluctant to support developing countries in adapting to and mitigating climate change. EU Member States are paving the road for a disastrous outcome in Poznan and Copenhagen.**

**The most crucial issues for the EU energy package, which will determine Europe's credibility at the international negotiations, are:**

***1. Ambition of the overall target – at least 30% domestic emission cuts by 2020***

To respect its own commitment of striving to limit global warming to less than 2°C the EU must reduce its emissions by at least 30% by 2020 and additionally contribute to mitigation efforts outside Europe. As a minimum, the move to an EU target of at least 30% reductions in greenhouse gas emissions by 2020 must be made automatic after the conclusion of an international agreement if Europe is to be a credible player internationally.

Worryingly, many Member States, including Italy and Central and Eastern European countries, are attempting to delay the shift to higher reduction target.

**Science has made it clear that 'at least' 30% DOMESTIC emission reductions by 2020 are needed in the EU<sup>1</sup> to keep global warming below 2°C.**

<sup>1</sup> <http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter13.pdf>

**The EU should interpret the principle of ‘*common but differentiated responsibilities and respective capabilities*’<sup>2</sup> into an EU requirement for quantifiable obligations (on top of its domestic emissions reduction target) to assist mitigation in developing countries, through measurable, reportable and verifiable finance and technology transfer as well as capacity building.**

## ***2. Financing for adaptation and mitigation in developing countries***

The EU bears a large responsibility for causing climate change and its severe impacts on lives and livelihoods of poor people in developing countries. Consequently, the EU should provide new, additional (to Official Development Assistance commitments), grant-based, predictable and sustained financial assistance for developing countries to assist them in adapting to the inevitable negative consequences of climate change and mitigating greenhouse gas emissions. Adaptation in developing countries will cost in the range of €34-61bn (\$50-86bn) annually in new and additional finance. According to Oxfam's Adaptation Financing Index (based on relative responsibility and economic capability), the EU's contribution to adaptation financing in developing countries should be over 30% of the total needed.

It is alarming to see that the EU is calling for strong mitigation action<sup>3</sup> in countries such as India while at the same time being very reluctant to offer financial and other support – a principal of the Bali Road Map the EU signed up to. This incoherent position will have a negative impact on the upcoming UN negotiations in Poznan.

**The Council should therefore follow the European Parliament's proposal to earmark 100% of the Emissions Trading Scheme (ETS) auctioning revenues for climate related purposes. Half of the revenues should be used for adaptation, mitigation and forest protection activities in developing countries.**

## ***3. Access to external credits – quantity and quality (ETS and ES)***

In the Effort Sharing (ES) proposal Member States are doing their utmost to avoid any significant emission reductions. They want 65% of the target for non-EU ETS sectors (-10% compared to 2005 by 2020) to be realised through off-setting<sup>4</sup>. This represents a paltry 3.5% domestic emission reduction target and could easily be reached simply due to a warm winter. Member States cannot claim leadership on the international stage whilst at the same time avoiding almost any domestic action. The European Parliament proposed a higher ambition level that would permit about one quarter of the effort to be achieved externally.

Under the ETS, the European Commission proposed that around 45% of the emission reductions (from 2008 to 2020) can be achieved through external credits. Member States are fighting to increase this. The Parliament's position is that around 40% of the reductions can be off-set (in 2008-2020).

**Access to external credits, both under ETS and ES, serves to ward off necessary domestic measures and will not incentivise economies to develop the technologies needed for much steeper emission cuts. The levels of external credits proposed by the Parliament are still very high and do not constitute EU leadership in making domestic emission cuts.**

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<sup>2</sup> As stated in the United Nations Framework Convention on Climate Change.

<sup>3</sup> In its Poznan Council conclusions the EU asks developing countries on the road to industrialisation to reduce their emissions with 30% compared to BAU by 2020.

<sup>4</sup> Calculated as an amount equal to 3% from 2005 emissions, to be used every year from 2012 to 2020

External credits undermine Europe's response to climate change even more since many do not represent real and additional emission cuts and can perversely lead to negative social and environmental impacts in developing countries.

The European Parliament voted for the introduction of strong quality criteria to guarantee that external credits at least contribute to a global emission reductions and sustainable development. But Member States are resisting this. The legal texts (both under ETS and ES) need to introduce the principle that only credits which are additional and improve sustainable development can be accepted if the worst effects of off-setting are to be prevented.

#### ***4. Missing compliance regime in Effort Sharing***

In the Effort Sharing decision, the EU's credibility is massively undermined by the absence of a compliance mechanism to ensure that targets are actually met. So far the decision foresees annual emission reduction targets but no enforcement mechanism such as the financial penalties existing under the ETS. This means that there is no guarantee that Member States will realise their reduction targets.

The Parliament's position on compliance is strong and clear. It foresees financial penalties, similar to the ones under the ETS, strengthened by a mechanism to withhold ETS auctioning allowances if Member States do not pay. In addition, any underachievement of emissions reduction targets should be compensated by a correction factor of 1.3% in the following year. Here again Council is being counterproductive and does not accept the correction factor of 1.3 nor the financial penalties. Furthermore, Member States are in favour of more intra EU flexibility (trading between countries, banking credits), but this will only be possible with a regime clearly assigning responsibility and liability. Therefore, more internal flexibility would be disastrous without a strong compliance system in place.

A strong compliance mechanism is essential to set a good precedent ahead of an international agreement.

#### ***5. Auctioning in the ETS***

##### **Auctioning in the power sector**

The French Presidency appears to be prepared to compromise on this issue, giving in to public pressure particularly from Poland. It proposes abandoning the Commission's proposal for 100% auctioning for the power sector from 2013. Instead, the amount of auctioning would go up from 50% to 100% by 2016.

**However, to make the ETS an instrument that serves environmental interests and applies the polluter-pays principle (instead of generating windfall profits for industry), 100% auctioning for the power sector needs to be maintained as from 2013.**

##### **Auctioning in other sectors**

Other sectors' auctioning levels are strongly linked to the definition of carbon leakage criteria. One of the options is that the amount of allowances to be auctioned will be determined according to the risk of carbon leakage. High-risk sectors will get all allowances for free at least until 2020.

However, the Council proposes to define these sectors before an international climate agreement is in place, and therefore before it is known what sectors will be exposed to any potential competition issues. In the case of Germany this would exempt well over two thirds of industry.

This waters down the principle allocation methodology of 20% auctioning in 2013 up to 100% by 2020, proposed by the Commission. **At the minimum the Parliament's position on 15% in 2013 to 100% in 2020 auctioning needs to be accepted to ensure financing of reductions is available.**

EU governments should use an evidence-based approach towards 'carbon leakage'. Only after an international agreement is reached should the companies exposed to carbon leakage be independently identified and compensated in an appropriate way.

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