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SCENARIOS****Climate policy still on the front burner**

BY ERICA HOPE, CAN-E SENIOR POLICY OFFICER

At the end of March, just six weeks into its five-year term, the new European Commission adopted its Work Programme for 2010, which includes 34 priority initiatives for this year. The programme also includes a (non-exhaustive) list of other proposals to be considered after this year, setting the policy direction for the Commission's full five-year mandate. The Work Programme will be reviewed each year to set new annual priorities and adjust longer-term plans as circumstances change.

It seems the new Directorate General (DG) Climate Action and DG Energy will both be very busy this year. CAN Europe welcomes the Commission's continued urgency in putting forward strong, forward-looking EU climate policy proposals, especially in light of the failure in Copenhagen to achieve an international agreement. Naturally, a point of particular interest for us is the Commission's consideration of legislation to increase the EU's 2020 greenhouse gas emission reduction target from 20% to 30%. Such a move is especially relevant now, not only because of the impasse in Copenhagen but also as a result of the lowered costs of achieving such a goal created by the economic crisis.

The first stage of the process of moving to 30% will be a Communication (to be released end of May) to assess its policy implications, something that DG Climate Action Commissioner Hedegaard has already branded as "technically feasible and economically affordable." CAN-Europe will engage closely on all the work related to this exciting initiative, starting with a written statement describing our view of how emissions reductions of at least 30% may be reached (see article p. 3).

Another Commission proposal that cuts across all of CAN-Europe's work is the planned Communication on a pathway for Europe to become a low-carbon economy by 2050.[1] Intermediate milestones will be set

for all key emitting sectors. The flurry of roadmaps and scenarios being published by CAN-Europe members and colleagues are intended to feed into this process (see article p. 4). Key findings of all scenarios stress the importance of strategic policy decisions over the next few years.

With energy saving moving rapidly up the European policy agenda, it is fitting that the Commission intends to finally issue the long-awaited review of the 2006 Energy Efficiency Action Plan by early 2011, hopefully with another Communication in the interim which assesses the achievements and failures of the last Plan. Not only is the review long overdue, but it is also a prerequisite for the many important improvements that need to be made to EU energy saving policy, not least a review of the poorly-performing Energy Services Directive. A separate Energy Action Plan (2011-20) will also be published this year. Within this framework, CAN Europe will continue to push for a binding energy saving target as a cornerstone of EU energy policy.

A new White Paper on transport policy will address sustainable transport, one of the sectors where we can achieve a large proportion of the energy savings we need. The Commission will also release an energy infrastructure package to include a policy paper on offshore grids and a report on smart grids, i.e., the application of 'intelligent' technology to grids to help ensure optimal integration of demand and supply. Planned revision of the Energy Taxation Directive must also be pushed, as it has already been delayed numerous times. This Directive represents a very important complement to the EU ETS as another means of internalising environmental costs, which is one of the fundamental changes needed to get the economy on sustainable ground.

Although we have yet to see what will actually come of all these good intentions, we are encouraged that the Commission is aiming so high in the breadth and depth of its policy coverage for the next year.

The Commission's 2010 Work Programme is available at [http://ec.europa.eu/atwork/programmes/index\\_en.htm](http://ec.europa.eu/atwork/programmes/index_en.htm) ■



[1] Latest Commission estimates put the release of the 2050 decarbonisation roadmap in early 2011.



## EU ETS

The EU ETS currently limits CO<sub>2</sub> emissions from approximately 12,000 facilities in the 27 EU Member States. Launched in 2005, the ETS covers power plants and five major industrial sectors (oil, iron and steel, cement, glass, pulp and paper) that together produce nearly half the EU's CO<sub>2</sub> emissions. An initial "learning phase" (Phase I) ran through 2007; a second phase coincides with the Kyoto Protocol compliance period (2008-2012); and a third phase is planned for 2013-2020.

## Sandbag reports on Carbon Fat Cats: Which companies profit most from the EU ETS?

BY BRYONY WORTHINGTON, SANDBAG DIRECTOR

The EU Emissions Trading System (ETS) was set up 'to promote reductions of greenhouse gas emissions in a 'cost-effective and economically efficient manner' as a centrepiece of European efforts to tackle climate change. However, Sandbag's recent report into how companies are faring under the ETS uncovered a number of worrying trends, which have serious implications for the short- and long-term future of the ETS.

### Carbon Fat Cat Companies

For Phase 2 of the EU ETS (2008 - 2012), companies receive free allocations of emission permits, each equivalent to one tonne of CO<sub>2</sub>. As a result of generous allocations, compounded by the impact of the global recession, many companies now find themselves in a position where they have far more permits to pollute than they require. Whether or not these companies choose to sell the permits to generate windfall profits, they have been effectively handed significant assets by Member State governments across the EU.

The top ten Carbon Fat Cats in our report shared between them 35 million surplus permits in 2008, equivalent to the annual emissions of Latvia and Lithuania combined. The permits are worth an estimated €500 million at current carbon prices.

Looking ahead to 2012 the Carbon Fat Cats will share an estimated 230 million surplus permits, worth €3.2 billion, a sum far greater than the investment in renewable and clean technology for the same period, or indeed the EU Commission's total environmental budget.

These companies are not required to make cuts to their CO<sub>2</sub>. As EU ETS rules allow permits to be banked for use in future phases of trading, they are likely to be insulated from the need to make cuts to their CO<sub>2</sub> emissions going forward. Our findings run strongly counter to recent claims from industry groups that stronger climate change targets would 'be fatal' or physically impossible to meet.

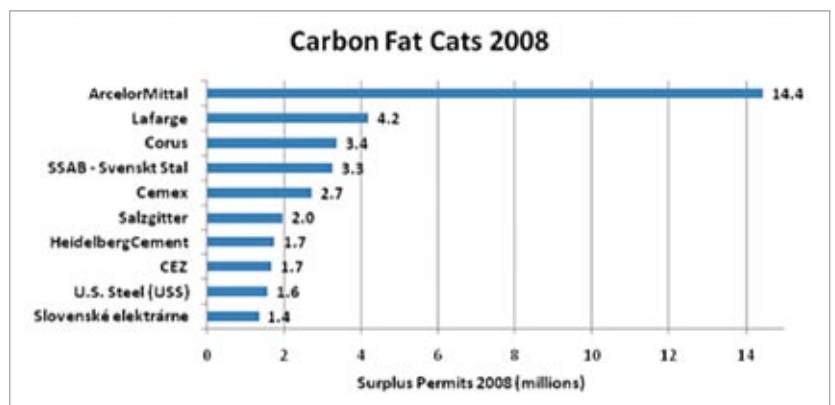
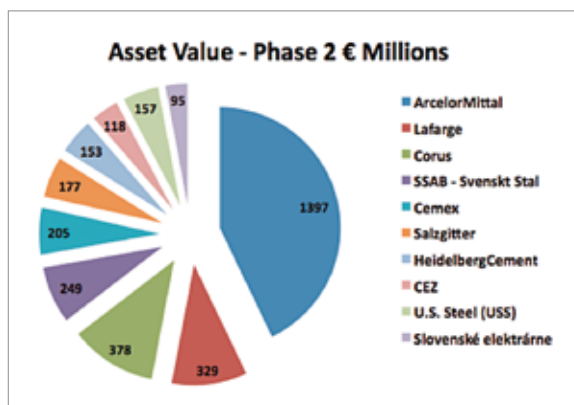
### Sectoral Analysis

Within key industrial sectors covered by the EU ETS we found that the majority of companies were over-allocated and top companies in the cement sector were, for example, universally over-allocated. However, although many large steel companies were considerably over-allocated, most notably steel giant ArcelorMittal, some companies did not have enough permits to cover their emissions. The findings raise questions as to whether EU companies are operating within a level playing field and whether assessments of competitive distortions have been properly carried out[1].

The power sector, on the other hand, is acting as a powerhouse for CO<sub>2</sub> reductions with analyses showing how a very small number of companies are required to deliver the majority of emissions reductions for the EU ETS as a whole to compensate for the industrial surpluses in other areas.

However, with power companies buying spare permits to comply with the ETS and passing the cost of compliance on to EU power consumers, it is likely that EU citizens are unwittingly paying what amounts to a subsidy to industrial companies without any genuine cuts to CO<sub>2</sub> emissions taking place. ■

[1] Competitive distortion refers to inefficiency in the allocation of resources or inequity of starting conditions.



## HOTDOCS

Greenpeace: Dealing in Doubt – the climate denial industry – a brief history of attacks on climate science and the IPCC  
<http://www.greenpeace.org/international/press/reports/dealing-in-doubt>

FoE Europe: Lobbying in Brussels – how much do the top 50 companies spend?  
[http://foeurope.org/corporates/pdf/Lobbying\\_in\\_Brussels\\_April2010.pdf](http://foeurope.org/corporates/pdf/Lobbying_in_Brussels_April2010.pdf)

Sandbag: The Carbon Rich list: the companies profiting from the EU ETS  
[http://www.climnet.org/resources/member-publications/doc\\_download/1551-sandbag-report-the-companies-profiting-from-the-eu-emissions-trading-scheme-febr-2010.html](http://www.climnet.org/resources/member-publications/doc_download/1551-sandbag-report-the-companies-profiting-from-the-eu-emissions-trading-scheme-febr-2010.html)

Peoples Agreement - from the People's Word Conference on Climate Change, Bolivia, April 2010  
<http://pwccc.wordpress.com/2010/04/26/peoples-agreement/#more-1584>



Based on current carbon pricing, surplus ETS permits from 2008 are worth more than half a billion Euros... by 2012, this figure will rise to EUR3.2 billion.

## Fix the EU climate package!

BY TOMAS WYNS, CAN EUROPE SENIOR POLICY OFFICER

There are several key areas in which CAN Europe would like to see the shortcomings of the 2008 EU Energy/Climate Package rectified. Firstly, based on the preceding article, it should be obvious that if the EU wants to have a credible and effective EU ETS carbon price post-2012 (i.e., for the next phase of trading), significant policy interventions will be required. Secondly, for the non-EU ETS sectors (e.g., transport, housing, agriculture), we view the weak targets under the Effort Sharing Decision taken under the climate package and the huge number of allowable offsets as major impediments to the implementation of ambitious measures in those sectors. A revision of those policies and targets and the introduction of new legislation for the non-EU ETS sectors must become focal issues for EU policy makers.

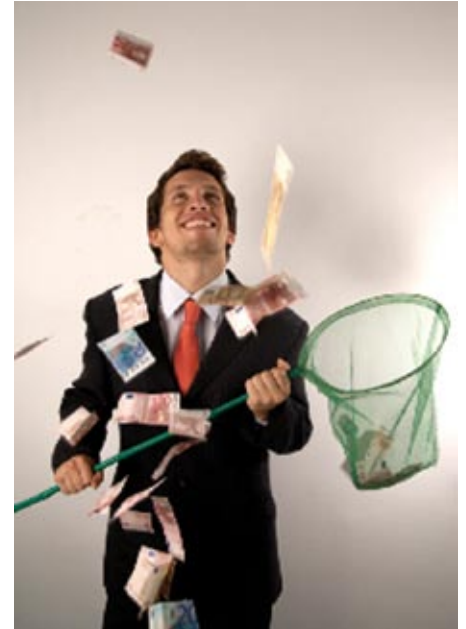
The current economic crisis and the generous allocation for the period 2008-2012 will create a surplus of allowances that can be carried over to the third period (2013-2020) of the EU ETS. This action will lead to a lower carbon price in the EU and hence lower domestic emissions reductions. CAN-Europe envisions a list of measures that can be implemented in the short term to mitigate this condition, including the restriction of banking of allowances between 2012 and 2013 through cancellation of unused reserves from new entrants to the current phase. Such new entrant reserves must also be curtailed during Phase III of the EU ETS. Stronger rules with regard to closures of installations under the EU ETS, allowing the cancellation of allowances for installations in the process of closure, must be considered too. Finally, strong quality criteria supporting the environmental integrity and additionality of external credits used for compliance under the EU ETS, will facilitate more domestic emission reductions in the EU.

For the non-EU ETS sectors the prime-focus has to be on finally using the full potential of energy savings. A framework for intelligently managing and combining power supply and demand must be developed. Member States must oversee ambitious implementation of the Energy Performance of Buildings Directive including in relation to the renovation of existing buildings - which represent over

90% of building stock, yet are the subject of no specific EU targets. Alongside the adoption and concerted implementation of top ambition-level eco-design measures for energy-related appliances, rigorous efficiency standards need to be adopted for vehicles extending beyond passenger cars to vans and trucks. Speed management, spatial planning and public transport development will also help to reduce energy consumption by the transport sector.

Political priority, financing and clear delivery mechanisms are all key to ensuring the great potential of energy saving is tapped. CAN-Europe believes that a community-wide, legally binding energy savings target of -20% by 2020 must be implemented to support and promote the achievement of these objectives. It will be important to review the Energy Services Directive so that the possibilities inherent within this framework for delivering such a target are more successfully exploited, including the option of obliging distribution network operators and energy retailers to deliver certain savings.

Finally, the inaction of the International Maritime Organisation (IMO) with regard to reducing greenhouse gas emissions from shipping now requires the implementation of unilateral EU action. In the absence of international legislation for the reduction of greenhouse gases from aviation, the EU introduced aviation in the EU ETS in 2007. CAN-Europe believes this example has to be expanded to (international) shipping and asks the European Commission to propose the appropriate legislation before the end of this year. ■



## EU POLICY FOCUS

As noted in our front page article, the European Commission has a busy year ahead if all is to be believed in its recently released Work Programme 2010. The new DG Climate has hit the ground running, with proposals for new climate policy in a number of areas. Coming up very soon, the Commission will release a Communication on the policy framework for a EU move to a **30% emissions reduction scenario**. Shortly thereafter a paper will examine feasibility and sources for the **fast track climate finance** promised in 2009, including as part of the Copenhagen Accord. These two Commission products promise to be the subject of much discussion at the next UNFCCC session in Bonn in June...

...Later in the year a plethora of other Commission proposals await, including papers on Flourinated greenhouse gases (**F-gases**), **mainstreaming climate adaptation and mitigation policies**, reaching the EU's **20% energy efficiency target** and a **carbon leakage** study. With such a packed agenda in the pipeline, it's no wonder that the word on the street is that the review of the Energy Efficiency Action Plan (EEAP) and the EU's 2050 decarbonisation roadmap will likely be pushed back to 2011.

## HOTGOSSIP

CAN-Europe recently received a postcard from V. Ree Fatte, CEO of ACME Steel, from his new tropical home. "I'm enjoying the weather here at my beach house in the Cayman Islands, courtesy of European taxpayers via the EU ETS, and am eagerly awaiting the arrival of the rest of my industry colleagues from Europe. In the meantime, feel free to drop in before hurricane season sets in - it gets worse all the time, people tell me!"



## Decarbonisation scenarios: the new black

In preparation for the European Commission's publication of a pathway for decarbonising Europe's economy by 2050, environmental groups have been offering up their own visions for transitioning to a low- or no-carbon society. Here's a sampling of some of these decarbonisation visions, which represent proposals for continent-wide as well as national schemes. All of these proposals emphasize they are demonstrating one possible pathway amongst many for achieving such sustainability goals.

Specifically regarding an energy sector focus, in addition to the scenarios presented below, keep an eye out for an update of Greenpeace's 2005 *Energy Revolution*.

### EUROPE WIDE SCENARIOS

#### FoE Europe and the Stockholm

**Environment Institute: the 40% study**  
[http://foeeurope.org/climate/FoEE\\_SEI\\_40\\_study\\_summary\\_Dec09.pdf](http://foeeurope.org/climate/FoEE_SEI_40_study_summary_Dec09.pdf)

The climate mitigation scenario that the Stockholm Environment Institute prepared for Friends of the Earth Europe envisages significant changes to the way we live our lives and organise our communities to put wellbeing in the centre. It envisions a highly-efficient economy powered by renewables. Flying less, eating less meat and reducing consumption in general are all part of this transformation, allowing Europe to reduce its carbon and resource footprint without compromising on happiness - to be measured in terms of life satisfaction rather than GDP. This study also gives an estimate of the finances needed to pay back the EU's 'climate debt' to developing countries.

#### European Climate Foundation (ECF) Roadmap 2050

<http://www.roadmap2050.eu/>

The mission of Roadmap 2050 is to provide a practical, independent and objective analysis of pathways to achieve a low-

carbon economy in Europe, in line with the energy security, environmental and economic goals of the EU to 2050. The project illustrates why a zero- carbon power sector is required and how that can become a reality. The project is based on extensive technical, economic and policy analyses conducted by leading organizations in the field: Imperial College London; KEMA; McKinsey & Co; Oxford Economics; Office for Metropolitan Architecture; Energy Research Centre of the Netherlands (ECN); E3G; and ECF, with the involvement of leading utilities, transmission operators, manufacturers, academics and NGOs.

### NATIONAL SCENARIOS

#### WWF Germany: Blueprint Germany – A strategy for a climate safe 2050

[http://climnet.org/index.php?option=com\\_docman&task=doc\\_download&gid=1553&Itemid=55](http://climnet.org/index.php?option=com_docman&task=doc_download&gid=1553&Itemid=55)

This policy programme is based on concrete measures and instruments up to the year 2030 that put the target first, which is seen as the only way to protect stability, security, prosperity and jobs. 'Blueprint Germany', which has been prepared by Prognos, Öko-Institut and Ziesing on behalf of WWF, shows that the transformation from a high-carbon to a low-carbon economy is possible and affordable. 'Blueprint Germany' identifies one pathway that, together with intensified innovation, could become a model for other countries and lead to reaching decarbonisation goals on a sustainable basis.

#### Czech NGOs: Smart Energy

*In Czech:* [www.chytraenergie.info](http://www.chytraenergie.info)  
*Based on a study by Wuppertal Institute, in English:* [http://www.hnutiduha.cz/publikace/wuppertalsky\\_institut\\_scenare.pdf](http://www.hnutiduha.cz/publikace/wuppertalsky_institut_scenare.pdf)

This study represents a concrete plan from Czech NGOs on how green innovations and new industry could gradually transform the energy structure of the Czech economy to reduce pollution, fuel imports and energy bills. It presents a combination of measures to ensure the economy would produce more renewable energy with less energy input. The calculations show that oil and gas imports could be halved and CO<sub>2</sub> emissions could drop by 88% while the economy is freed from dependency on coal and nuclear. The proposal was produced by Czech environmental organizations Hnutí DUHA (Friends of the Earth), Calla, Greenpeace, Veronica and Centre for Transport and Energy in collaboration with the Wuppertal Institute. ■

## Hotspot

Published by Climate Action Network (CAN) Europe, the European office of CAN – a global coalition of over 500 NGOs working to halt the most dangerous effects of climate change.

CAN Europe promotes action to limit human-induced climate change to ecologically sustainable levels. It represents over 125 organisations in over 25 European countries including most EU member states.



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### CALENDAR

*For more details on these events check out our calendar on our website*

- 22 May:** International Biodiversity Day
- 31 May – 11 June:** UNFCCC negotiating session, Bonn, Germany
- 1-4 June:** EU Green Week, Brussels
- 3-4 June:** Klimaforum, Bonn, Germany
- 17- 18 June:** EU Council
- 21 June:** Environment Council
- 1 July:** Belgian EU Presidency begins
- 11 July:** the Big Jump (European day for living rivers)

## HOTLINKS

The Climate Desk: A journalistic collaboration  
<http://theclimatedesk.org/>

Financial transaction tax: turning a crisis for the banks into an opportunity for the world  
 The Robin Hood Tax:  
<http://robinhoodtax.org.uk/>  
 Make Finance Work:  
<http://www.makefinancework.org/>