

CLIMATE & ENERGY
POLICY NEWS
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THE EU ♥ THE KYOTO PROTOCOL**WANTED:
visionary Council conclusions**

BY MATTHIAS DUWE, DIRECTOR, CAN EUROPE

When EU Environment Ministers and their political leaders meet at the next round of their respective Council meetings in June they will have a whole series of important developments to consider that

- On March 11th an earthquake triggered a tsunami that devastated parts of the Japanese coastline and caused a serious incident at Fukushima nuclear power station – setting off political debates over energy supply capacity in many EU Member States, most notably Germany.
- In early April, UN climate negotiations in Bangkok lost days arguing over the adoption of their agenda, failing to build on the sense of movement demonstrated at their last summit in Cancun.
- Later on in April, the price of Brent crude oil soared to a height of 125USD in early May, 80% up from its 2010 low, less than a year ago on the back of political turmoil in producer countries and increasing demand.
- Finally on May 10th representatives of over 190 countries adopted a new report by the IPCC on Renewable Energy showing that almost 80% of the world's energy can come from renewable sources by 2050.



To summarise: Getting out of expensive and finite oil imports is an economic imperative. Nuclear power is not a safe alternative, renewables can do the job and the international negotiations are in desperate need of some positive impulse. What does that mean for EU policy?

How fortunate that EU decision-makers have received input from the European Commission that they can use as a vehicle for pondering the implications, the "Roadmap for moving to a competitive low-carbon economy in 2050". The conclusions of the roadmap are clear:

decarbonisation of the economy means all sectors must bring down emissions – there are no free rides for, say, agriculture or transport. Such a development needs a regulatory framework and a strong set of policy instruments to bring it about – it just won't happen by itself. This also requires stronger climate action on the short term, from now until 2020. Not moving to a 30% target by 2020 will imply higher costs later on or even the inability to decarbonise our economy in time.

On top of this, additional economic research of amongst others the Potsdam Institute for Climate Impacts shows that the move to a 30% domestic 2020 target, if implemented correctly will lead to significant new investments, economic growth and job creation. This is consistent with the European Commission's view in the 2050 roadmap, it states that what we used to call costs for meeting targets are in fact additional investments for the race to the future.

One must wonder how much more real-world and scientific evidence is needed for key EU Ministers and Heads of State and Government to realise that the current set of climate targets is a losing economic strategy and not helpful for a UN process on the brink of collapse?

The thing is, time is running out to draw the right conclusions. The necessary legislative changes take time, the mills of political process grind so slowly even under pressure, so it is imperative that the June Councils must move this agenda forward. The Hungarian Presidency has shown a generally supportive stance but has not come up with a solution for the concerns over financing of investments less wealthy EU countries, a crucial issue for an EU level compromise. A sound concept could turn into a deal that also Poland cannot refuse. ■

EU POLICY FOCUS It's been a very busy spring in the EU's climate and energy arena and it looks like the summer ahead of us is going to be a very hot one.

In March, the EU Commission present its long awaited "Low Carbon Economy 2050 Roadmap". The document, despite the lack of clarity on the ways to achieve the 80-95% carbon emissions reduction target by 2050, represents a milestone in EU energy policies being the first long-term strategy marking a transition to a low carbon and resource-efficient economy.

An EU ETS Fairy Tale: the Good Ones in the Crock, the Bad Ones...

BY EVA FILZMOSER, PROGRAMME DIRECTOR, CDM WATCH

On 21 January this year EU Member States banned certain carbon credits from being used under the European Emissions Trading Scheme (EU ETS). This much-needed decision by the EU makes it official: carbon offsets are not to be trusted.

The EU ETS allows companies to achieve their respective emission reduction targets with the help of offsets. These offsets are mostly generated in developing countries under the Clean Development Mechanism (CDM) (a smaller number are also created under Joint Implementation). The use of carbon offsets is meant to make it easier for companies and countries to meet their climate obligations but it also leads to inaction 'at home,' since purchasing offsets is cheaper and easier than reducing ones' own emissions. Up to half of the companies' obligations can be met with the help of offset credits. Climate targets in sectors that are not part of the EU ETS (such as agriculture and transport) have to be met by EU governments themselves. There, the restrictions on the use of offsets are even more lenient: up to two-thirds of emissions reduction can be achieved through offsets.

EU climate targets (and those of all other industrialised nations) are far from being ambitious enough to actually protect the climate. Given these weak climate targets, we must ask an important question: can we trust offset credits to represent real and much needed emission reductions, or are offsets further watering down the already weak climate targets?

Lasts year a coalition of environmental NGOs led by CDM Watch took on major carbon market players over the question whether more than half of the carbon credits from the CDM are actually spurious. These credits come from CDM projects



Cinderella, selecting the good from the bad crop

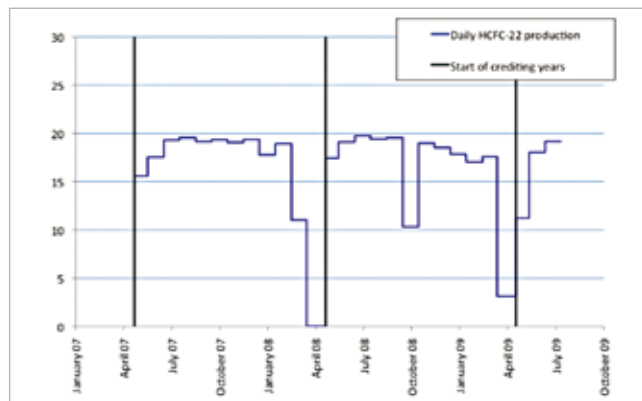
that destroy the potent greenhouse gas HFC-23, a by-product of the refrigerant HCFC-22. A scientific analysis commissioned by CDM Watch revealed the ugly truth that some production facilities increased the ratio of the waste gas in order to cash in on more carbon credits.

The graph on the top right shows that plants heavily reduced or even stopped their HCFC-22 production once the amount of HCFC-22 eligible for crediting was reached and started production again when the new crediting year started. This shows that HCFC-22 production is heavily influenced by when plant operators receive carbon credits and raises the question how much of the potent greenhouse gas is actually being produced for the mere purpose of being destroyed to generate cash?

But HFC credits are not the only ones of questionable value: Another CDM Watch study revealed that CDM adipic acid projects made so much profit from the sale of their credits that a significant shift of adipic acid production from plants in industrialised countries to CDM plants in China and South Korea occurred, leading to "carbon leakage" and adding to millions of phantom emission reductions to the market.

The European Commission confirmed our findings and banned carbon credits from HFC-23 and adipic acid destruction projects because they have been issued in breach of the European Union's international and domestic commitment to reduce greenhouse gas emissions as stated under Article 2 of the UNFCCC, the Kyoto Protocol and Article 1 of the ETS 2003/87/ EC Directive.

Banning the use of these credits under the EU ETS as of 2013 was endorsed by EU Member States in January this year. This was hailed as a historic move in recognising the need for action to fix the flaws in the current CDM but at the same time criticised as a baby step to address the millions of fake carbon credits currently on the market.



Daily HCFC-22 production during the crediting period for project Nr 767 (tons per day)

One glaring example is that the ban does not cover EU Member States' national targets in the non-traded sectors. This creates an irrational situation where European governments are allowed to keep buying these toxic credits with public money while prohibiting their use for companies covered under the EU ETS. CDM Watch and allies are therefore calling on EU governments to fix this duplicitous condition and to extend the ban to the non-traded sectors at the next Environment Council in June.

EU policy makers took an important first step by banning these credits. Yet to show leadership and to protect the credibility of the EU ETS, the EU cannot stop there. A comprehensive analysis of current CDM project types is needed so that other equally questionable project types can be identified and banned from the EU.

First and foremost we need a thorough assessment of the environmental, social, and human rights impacts of potentially harmful project types. For example, it is not acceptable that CDM credits from new coal fired power plants that would have been built anyway hamper domestic emission reduction actions in the EU. It is also not acceptable that large hydro dams under the CDM can violate the rights of indigenous people and still generate credits. The EU and the international community as a whole need to find ways to ensure that the fundamental human rights enshrined in international conventions are protected and that human rights violations linked to CDM projects are investigated and ended. ■

<< EU POLICY FOCUS (Continued from p.2) On May 24, the European parliament's ENVI committee voted in favor of a move to a 30% overall emissions reduction target by 2020¹. This was adopted by 36 votes to 27 with the EPP and ECR voting against. This month and the next are crucial for CAN Europe with a couple important events to take place in Brussels: European Council should give us a look ahead to what EU expectations will be for Durban. The plenary meeting of the European Parliament still needs to endorse the report adopted by the ENVI and ITRE committees. Then Environment Council should reflect moves towards 30% after the EP votes.

Energy Efficiency and Savings: The Mother of All Directives

BY ERICA HOPE, CAN EUROPE SENIOR POLICY OFFICER

Back in the heady days of 2008 when the Climate and Energy Package was being negotiated, one key area was conspicuously absent from the party: energy savings and efficiency. The raft of legislation agreed at that time included no dedicated Directive that would be the vehicle for delivering the target to cut energy use by 20% by 2020 - unlike the renewables and greenhouse gas emissions targets. Paralleling this was the fact that the efficiency target remained staunchly "indicative", in contrast to the other targets which were made legally binding.

Now, however, there are rumblings in the world of energy efficiency. In March of this year the European Commission published its new Energy Efficiency Plan (EEP): a long-delayed update to the 2006 Energy Efficiency Action Plan¹. The major legislative follow-up is to be a new Directive on Energy Efficiency and Savings, which will encompass a revision of both 2006's Directive on Energy End-Use Efficiency and Energy Services, and the 2004 Directive on Combined Heat and Power. DG Energy wants to publish its proposal for this new 'Mother of All Directives' - which will cover both end use and supply side efficiency - already before the summer break.

This is a rare legislative opportunity which must be seized if we are to close the gap in progress towards the 20% energy saving target. The EEP confirmed that we are currently on track to make only 9% savings by 2020 - even as the Roadmap to a Low Carbon Economy, published on the same day as the EEP, confirmed how crucial achievement of the 20% target is if we are to succeed in making 80-95% emissions cuts by 2050.

CAN-Europe and our colleagues in the Coalition for Energy Savings - not to mention a majority in the European Parliament - strongly believe that the 20% target should be made legally binding, for reasons previously set out in these pages. Unfortunately however, the Commission does not plan to propose this "yet". The draft will be explicitly presented in the context of 20% energy savings by 2020, quantified as a saving of 368 Mtoe² by 2020, or a total primary energy use of 1474

Mtoe. But it will rely on measures and indicative national targets, chosen by Member States themselves, to deliver this. Only in 2013, if the results of a Commission assessment prove it necessary, will a proposal for binding national targets be put forward.

Clearly we would like to remove this unnecessary further delay, and make the most of the investment that will go into negotiating the Directive to introduce targets already. But at an absolute minimum, should the Commission and co-decision process fail to heed these calls, the Directive must be "target-ready" in 2013. This means having clarity over the benchmarks against which progress will be assessed, putting in place a robust measurement and reporting methodology for energy use, and planning ahead already as to how the 20% would be effort shared between Member States.

A central plank of the Commission's proposal will be obligations on energy suppliers and distributors to deliver and promote energy savings. This is a good idea in principle, provided the schemes put in place will learn the lessons of previously implemented schemes (in the UK, Denmark, France, Italy and Flanders) - but we will need to work hard to ensure that the ambition levels and quality control measures set out for the schemes are strong enough. In particular, the savings required must be absolute cumulative reductions, rather than an amount of negawatts to be delivered on top of business as usual energy sales.

Experts concur that one of the best forms of such obligation is payment by energy companies into a fund, which can then be accessed by any energy service company (large or small) to provide the upfront financing for high quality energy savings measures. The cost of these measures would then be reimbursed to the fund from the savings on energy bills. In principle, such a fund could be linked to a regional portfolio management system, whereby



particular areas would be targeted for building renovations - thus capitalising on the 'peer pressure' effect. Regrettably the Commission has made no such proposals, claiming that nothing relating to financing can be included before there is more clarity on the 2014-2020 multiannual financial framework. This makes little sense: first, surely financing structures distinct from the budget can already be included - and second, the discussions around this Directive should be coordinated with a bid for as much money to support energy efficiency as possible.

Other proposals which must be defended and in some cases strengthened include a 3% renovation rate for public buildings, a requirement for legal obstacles to renovation in the residential sector to be removed, mandatory energy audits for large industry, improved metering and billing, and measures to promote cogeneration.

Finally, an important related issue is the impact that the implementation of this Directive - and "thus" delivery of the energy savings target - will have on the ETS (see Tomas' article). No-one would contest that delivery of the 20% energy savings target is in Europe's best interests, for a whole range of economic, social and environmental reasons. However it is increasingly clear that for this to be complementary rather than detrimental to the ETS, some recalibration of Europe's climate policies will be required... and CAN-Europe believes the European Commission would be well-advised to confront this head-on. ■

1 Remarks on the title edit politely withheld.
2 million tons of oil equivalent



The EU ♥ the Kyoto Protocol

BY ULRIKKA AARNIO,
CAN EUROPE SENIOR POLICY OFFICER

The Kyoto Protocol is the only international legally binding instrument that the international community has to cut greenhouse gas emissions. Its first commitment period is coming to an end in 2012 and the negotiations under the UNFCCC still have not managed to find a solution for a new legally binding instrument. Therefore ensuring the continuation of the current legally binding regime in Durban is more important than ever.

Without the EU there would be no Kyoto Protocol. Today, when the future and survival of the Kyoto Protocol is not certain, the eyes have turned to the EU again. The EU can save the Kyoto Protocol, and it is even quite easy. Much easier than getting the treaty ratified over 10 years ago.

In Cancun, governments agreed that during 2011, in the run-up to Durban, they will be discussing how to ensure that there will be no 'gap' between the first and second Kyoto Protocol commitment periods and on the legal options of the future agreement. In theory there are a number of options to deliver legally binding commitments. In practice however, and considering the domestic situation in the US, real options are scarce. Arguments rotate thus: for developing countries they see the push for a single legal outcome to replace the Kyoto Protocol as an attempt by the developed countries to back out of their commitments. The US on the other-hand will not sign on to any legally binding commitments for the time being. This was confirmed when the Major Economies Meeting in Brussels recently concluded



that a legally binding deal in Durban is not likely.

The EU's ambiguity around its stance on the Kyoto Protocol has already caused great difficulty for its relationship with many countries. The EU claims to prefer a single legally binding framework, but would be open to sign on to a second commitment period if its conditions are fulfilled. The EU's internal debate on the conditions is still ongoing.

While the international community is still debating over the ultimate legally binding agreement the Kyoto Protocol could serve as the mitigation centerpiece to ensure that there will be no gap in legally binding commitments of the developed countries. In Durban Kyoto Parties could adopt amendments to establish a second commitment period and developed countries would subscribe to a new emission reduction target in the Annex B for a period after 2012. Technically there would be no obstacles to also find a way to recognise developing countries' actions via a separate Annex or referencing a document. Technically there are no obstacles to differentiate the legal nature of developed countries' targets and the listed actions of developing countries.

The other half of the coin would be an agreement in Durban that there will be a complementary legally binding agreement, latest at COP17, for the US, developed country finance commitments and other elements now under the LCA track.

Placing mitigation targets under the Kyoto Protocol would not only ensure the legally binding nature of the targets, it would also guarantee common accounting rules and an assessment of the targets.

Developing countries are now keen to find a solution together with the EU. The EU has always had the most impact in international climate negotiations when it has led from the front. The EU must take the first steps on to the two tracks now. ■

Hotspot

Published by Climate Action Network (CAN) Europe, the European office of CAN – a global coalition of over 600 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 140 organizations in 27 European countries including most EU member states.



CAN Europe gratefully acknowledges support from the European Commission

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CALENDAR

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

June 5 - 17, 2011: UNFCCC Climate change conference, Bonn, Germany

June 21, 2011: Environment Council

June 23, 2011: European Parliament Plenary Vote on beyond 20% Report

June 24, 2011: European Council

July 1, 2011: Start of Polish Presidency

HOTDOCS

IPCC Special Report Renewable Energy Sources (SRREN)

http://www.engineeringnet.be/check.asp?site=http://www.ipcc.ch/news_and_events/docs/ipcc33/SRREN_FD_SPM_final.pdf

CAN-Europe "Energy Efficiency and Savings - Clearing the fog"

http://caneurope.org/index.php?option=com_docman&task=doc_download&gid=1827

"Why Europe should strengthen its 2020 climate action"

http://caneurope.org/index.php?option=com_docman&task=doc_download&gid=1819

S.O.S. Climate Policy

Will Barroso II sink its own Climate Action flagship?

BY TOMAS WYNS, CAN EUROPE POLICY TEAM COORDINATOR

It has all the appearance of a classical Greek or Shakespearian tragedy, and something, which a few years ago would have seemed outrageous even to suggest. But now, with a growing list of research-based evidence, Climate Action Network Europe must conclude that the Barroso II commission is on the verge of sinking its own much vaunted climate action flagship: the EU Emission Trading System (ETS).

The irony is that this possible demise of the EU ETS will not happen by a deliberate act of evil, nor the appetite for more climate destruction. Rather, the root cause is a structural miss-alignment of Europe's climate and energy policies, coupled with the basic incompetence and unwillingness of Europe's executive powers to intervene.

The stark truth is that without intervention to strengthen Europe's 2020 climate targets, it is very likely that the EU ETS carbon price will soon fall for a third time in as many trading periods - shattering all remaining belief that this instrument will lead Europe into a low carbon economy.

In December 2009 CAN-E member organization Natuur en Milieu published a groundbreaking report in which they calculated the impact of the 20% 2020 EU renewable energy target on the emissions covered by the EU ETS. Their conclusion was that the fulfillment of the 20% renewables target will lead to no less than 72% of the reductions required under the EU ETS compared to a business as usual scenario. If we take into account the offsets allowed under phase III of the EU ETS and the implementation of a meagre 5% energy savings by 2020, they calculated that 93% of the reductions under the EU ETS would be met by measures outside of the EU ETS.

At the end of 2009, Natuur en Milieu's report did not stir much reaction at the

highest political levels in Europe. However with more recent reports by respected institutes ECOFYS and the OEKO institut now coming to a similar conclusion, rumbles are starting to be felt. Even within the European Commission, there are internal worries that the stability of the EU ETS is under threat. As Hotspot went to press a leaked impact assessment prepared by Commission services showed that the EU ETS carbon price can collapse to 0 EUR/tonne if moderate to weak energy savings measures were to be implemented.

To those architects of the 2008 EU climate and energy package, who assumed that the EU ETS would be the powerhouse of Europe's climate and energy policies until 2020 (and beyond), this is understandably embarrassing. The expectation was that the EU ETS would drive the 20% renewables target home; yet the analyses of Natuur en Milieu, Ecofys and Oeko institut all show that in fact, it may well be the opposite which is true. In other words, the renewables target will be achieved regardless of what happens under the EU ETS. Recent assessments of Member States' National Renewable Action Plans and research by for example the European Wind Energy Association offer further proof for this scenario.

Political embarrassment is one thing - but does it actually matter if the EU ETS is redundant, if the 2020 targets are nevertheless met? Here we have to take the long view. If most of the reductions under the EU ETS will come about naturally through other policies, then there will be no or a very limited shortage of allowances under the EU ETS at least until 2020. This will exert a structural downward pressure on the EU ETS carbon price. This in turn will imply that quite some reduction measures for EU ETS installations, especially in the non-power sector, will be postponed or even cancelled.



In effect this lost decade of climate action risks derailing the low carbon trajectory for industry towards 2050. A secondary effect of a lower carbon price is that European governments risk losing about half of the expected revenues coming from the auctioning of allowances under the EU ETS, at the tune of 70 billion EUR in the period 2013-2020. Again those revenues are expected to be a crucial tool in supporting innovative technologies to take us to -95% reductions by 2050.

The conclusion is clear - and it is certainly NOT to avoid taking the measures that will drive renewables and energy efficiency, as a means of 'protecting' the EU ETS! The European Commission and in particular its president, as the shepherd of effective EU legislation, needs to intervene and recalibrate the post 2012 EU ETS by creating more scarcity. This means implementing a 30% domestic emission reduction target. Failing to do so will make the EU ETS a weak and even superfluous policy instrument. But more significantly it might kill the opportunity to implement a climate roadmap leading to 95% reductions by 2050. As such, José Manuel Barroso might be on the verge of destroying his climate legacy.

External links:

Consistency of policy instruments. How the EU could move to a -30% greenhouse gas reduction target, Ecofys, 13 April 2011.
http://www.ecofys.org/com/publications/ecofysreport_Consistencyofpolicyinstruments.htm

Greenhouse gas emissions trading and complementary policies. Developing a smart mix for ambitious climate policies, Öko-Institut, June 2010.
<http://www.oeko.de/oekodoc/1068/2010-114-en.pdf>