

The EU climate and energy package

23 June 2009

Damien Meadows
Deputy Head of Unit
DG Environment
European Commission

- ★ **EU's objective is to limit global temperature increase to 2°C (3.6°F) above pre-industrial levels**
- ★ **EU climate & energy package proposed January 2008:**
 - ↪ **Directive amending EU ETS to contribute to GHG emission reductions**
 - ↪ **Decision to share efforts outside EU ETS for emission reductions**
 - ↪ **Directive to reach 20% renewable energy by 2020**
 - ↪ **Directive on legal framework for carbon capture and storage**
 - ↪ **Regulation on CO₂ emissions from cars**
- ★ **Agreement between EP and Council in December 2008**
- ★ **Entry into force on 25th June 2009**

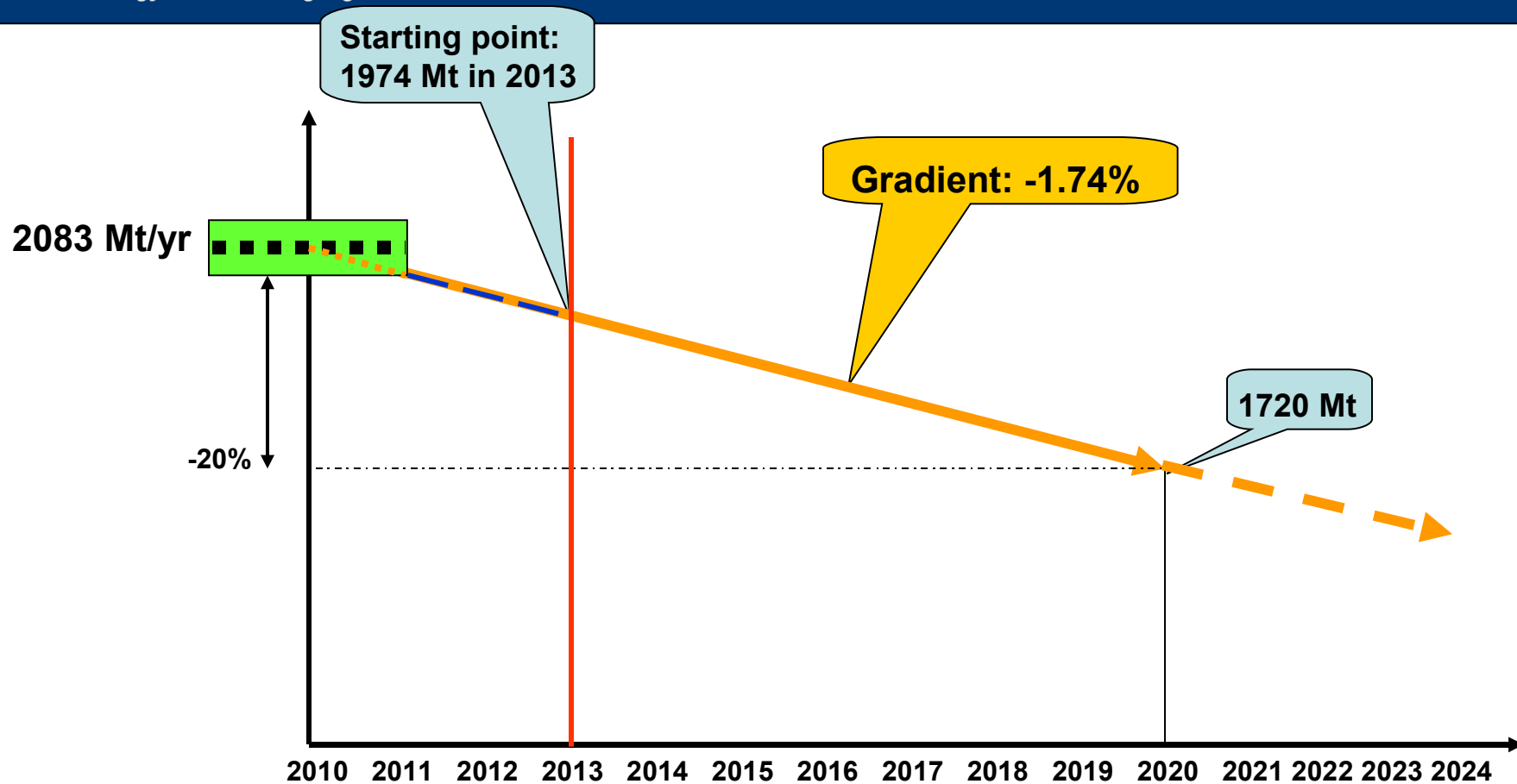
What are the benefits of the package?

- ★ **The ultimate goal – to avoid the cost of climate change impacts: 5-20% of global GDP (Stern report)**
- ★ **The right immediate and long-term market signals are essential. These are at the base of all sound private and public economic decisions.**
- ★ **The most efficient form of communication is by prices. Incorporating environmental externalities into energy and resource use gives incentives for innovation.**
- ★ **By moving to a low-carbon, resource-efficient economy, the EU can take a lead in the vast global markets for economic and environmental advantage**
- ★ **Energy security: reduction of oil and gas import of €50 billion per year (at 61\$ per barrel of oil)**
- ★ **Reduced air pollution giving significant health benefits**

Ways to price correctly

- ★ **All sectors of the economy should contribute to emission reductions (including shipping and aviation)**
- ★ **EU ETS covers around 50% EU CO₂ emissions, inc. aviation**
- ★ **Carbon taxes and charges**
- ★ **Environmental tax reform: moving the weight of taxation from labour and company profits to energy and resource use and pollution, raising finance and increasing efficiency of the economy**
- ★ **Removal of harmful subsidies: many subsidies send the opposite market signals, reducing the effective costs of energy, resources, pollution. Wasteful conflicting signals, reducing the economy's efficiency**

Inducing change: EU ETS puts a limit on emissions to 2020 and beyond



- The linear factor continues after 2020, and will be reviewed by 2025
- Aviation is also included in the EU's 20% reduction commitment, with a 5% reduction in 2013-20
- Disclaimer: tonnage figures are provisional and do not yet account for new sectors in third period

- ★ **Predictable emissions reduction trajectory fixed to 2020 and beyond**
- ★ **Auctioning is main allocation method, for more than 50% allowances in 2013**
- ★ **All free allocation will be on basis of ambitious *ex-ante* benchmarks for those sectors receiving free allocation**
- ★ **Specific provisions on ‘carbon leakage’**

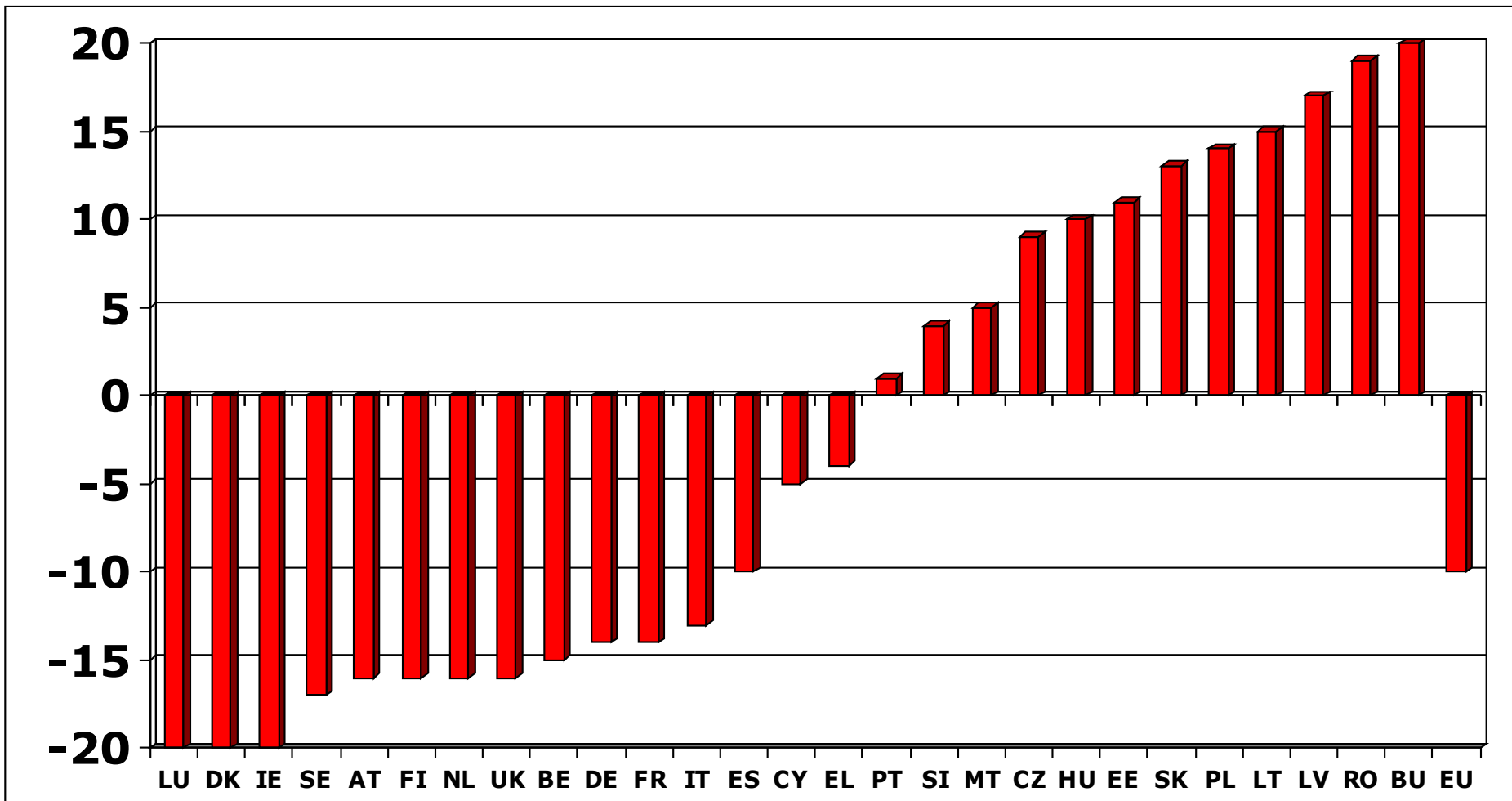
Building a global carbon market

- ★ **The EU ETS can now be linked to any mandatory and compatible GHG emission trading system with absolute emission caps, in any country or in sub-federal entity**
- ★ **A link to the future US federal trading system would create a transatlantic market**
- ★ **Emission trading being considered in OECD countries**
- ★ **Globally, a transition from offsetting to sectoral crediting**
- ★ **The EU ETS and Effort Sharing Decision both give incentives to third countries to ratify a Copenhagen agreement and be involved in emission reductions**

The Effort Sharing Decision (ESD)

- ★ **Covers diverse sectors including road transport, heating in buildings, services, agriculture and waste**
- ★ **Potential inclusion of land use, land use change and forestry in the Community's reduction commitment, and shipping if no international agreement including these emissions in reduction targets will be ratified by 2011**
- ★ **Binding annual targets in 2013-2020, with strict reporting obligations and annual compliance check, defined levels of flexibility and corrective action**
- ★ **National, regional and local action important**
- ★ **Complementary support from Community-wide measures (energy efficiency standards, CO₂ & cars, mobile air conditioning, energy labelling etc)**

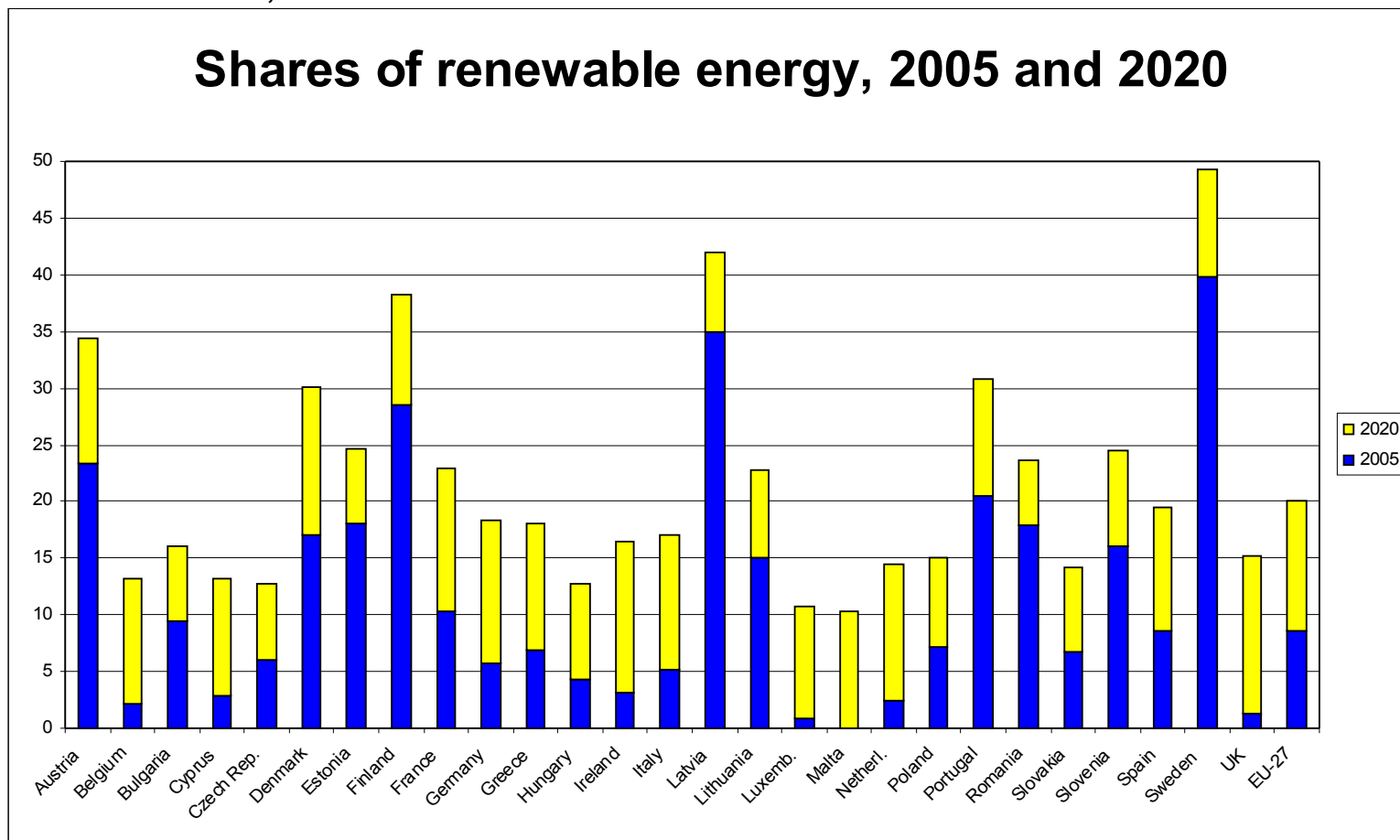
Inducing change: Member States' Effort Sharing targets for 2020



■ 2020 emissions compared to 2005

Inducing change: National renewables targets by 2020

- ★ Sets mandatory national targets for renewable energy shares, including 10% biofuels share, in 2020: from 8.5% to 20% for the EU overall.



- ★ **Carbon price signals as a key incentive**
- ★ **Heads of State and Government commitment to use at least half of all auction revenues for tackling climate change and adapting to its effects, including:**
 - ↪ Global Energy Efficiency and Renewable Energy Fund
 - ↪ Developing renewable energies
 - ↪ Avoided deforestation
 - ↪ Carbon Capture and Storage (CCS)
 - ↪ Low emission and public forms of transport
- ★ **National implementation for ESD and RES targets**
- ★ **Up to 300 million allowances available from the EU ETS specifically to support CCS and innovative renewable energy technology demonstration projects**

- ★ The financial crisis amplifies the known global and EU challenges of climate change, energy security and the expansion and refurbishment of the EU's power sector.
- ★ Technological solutions are known.
- ★ Implement and further improve EU regulatory framework: e.g. focus on correct price signals, energy efficiency, renewables, CCS, smart grid, transport, research.
- ★ Increasing investments in clean energy **now** will further stimulate the EU economy ('Green stimulus packages'). No need to delay investments in low emission infrastructure.
- ★ Copenhagen Climate Conference to agree global action and give basis to take EU's commitment further, from 20% to 30% below 1990 levels by 2020.

The EU climate and energy package

23 June 2009

Damien Meadows
Deputy Head of Unit
DG Environment
European Commission