COUNCIL OF
THE EUROPEAN UNION

Brussels, 29 September 2010

13941/10

LIMITE

ENV 603
ONU 158
DEVGEN 286
ECOFIN 545
ENER 248
FORETS 119
MAR 82
AVIATION 131

NOTE

from :	General Secretariat
to :	Permanent Representatives Committee/Council
No. prev. doc. :	13121/1/10 REV 1 ENV 551 ONU 151 DEVGEN 264 ECOFIN 496 ENER 238 FORETS 110 MAR 75 AVIATION 117
Subject :	Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage - Presidency report

Delegations will find attached a Presidency report on abovementioned subject.

Presidency report on the follow-up of the Communication « Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage »

Context

1. In June 2010, the Council has committed to revert to the issues tackled in the Communication. The European Council has also stated that it will revert to climate change in the autumn, in advance of the Cancún conference.

2. This discussion on a potential move to 30% takes place in a context where the EU is committed to an ambitious long-term emission reduction target of 80-95% by 2050 compared to 1990 in the context of necessary reductions by developed countries as a group and to the implementation of Low Emission Development Strategies. Furthermore, the conditional EU offer to move to 30% emission reductions by 2020 has been reaffirmed and the international negotiations will soon face an important step in Cancún.

Implications of the 20% target

3. Benefits related to the 20% target, in terms of innovation, government revenues, energy security, green jobs, financing through the carbon market, support for renewable energy targets and for carbon capture and storage, are reduced compared to what was expected two years ago, while the costs of meeting the 20% target as well as any move beyond that target have been reduced. At the same time, the economic crisis has put pressure on public and private finances and has decreased the capacity to raise capital in the short run.

Long-term perspective

4. Policy options for a possible step-up to 30% need to be coherent with the long-term target and strategy. In this respect, a number of questions are critical :
   (1) How can EU climate policy help to create a first-mover advantage in terms of competitiveness in new technologies?
   (2) How can we minimise costs over time (costs of delayed action *vs* costs of reductions over time), i.e., what is the optimal trajectory towards the 2050 target?
   (3) How can EU climate policy help to strengthen energy security and resource efficiency?

5. Even under no step-up beyond the 20% reduction target by 2020 compared to 1990, it will be necessary to start developing some policies that specifically target the long term. The reinforcement of electricity grids is one such example of policies that cannot be postponed and that need to be built up gradually. Similarly, considering the slow building stock renewal, refurbishments and new buildings should consider already now long-term carbon constraints.

6. The forthcoming 2050/long-term strategy to be proposed by the Commission in early 2011 is therefore a key element that can inform the policies required to reach the 2020 climate and energy targets and an optimal emission reduction trajectory that should take into account the costs and the benefits.

The EU step-up to 30%

7. Any step-up to 30% is a political decision. Besides the known conditions linked to the international negotiations process, such a move beyond 20% could also be driven by EU self-interest in the short- and long-term, taking into account both the lower than anticipated benefits related to the 20% target, the lower costs of moving beyond 20%, as well as the reduced capacity to raise capital in the short run.

8. It is necessary to discuss now the modalities of a possible step-up to 30% to be ready to move in due time. The EU cannot afford possibly lengthy discussions on the modalities of a step-up when a political decision is taken. Such discussions on the modalities also serve the purpose of further informing the political decision itself. Finally, making the offer operational constitutes an essential message on the international scene that reinforces the credibility of the EU strategy vis-à-vis developing and other developed countries.

Principles

9. The step up should be based on the principles of transparency, economic efficiency, cost-effectiveness and sustainable development, as well as fairness and solidarity in the distribution of all efforts and opportunities emerging from the implementation of the enhanced target between Member States. The translation of the new target into reduction targets for the ETS and Non ETS sectors should be based on the principle of cost-efficiency. The possibility to include land use, land-use change and forestry activities should also be looked at.

10. Member States expect that their specific national circumstances are taken into account. Any way forward should therefore be based on an analysis at Member State level. Equally, attention must be paid to sectoral impacts, including on agriculture, in order to assess the risks of carbon leakage and of adverse effects on energy systems in Member States with interconnections at the periphery of the EU, as well as on electricity prices and on potential benefits or co-benefits (such as green jobs, innovation, energy security, public revenues, health, etc…).

ETS sector

11. In the ETS sector specifically, two options are available. The set aside of allowances to be auctioned is a practical option, not requiring changes in the process of free allocation, allowing for fast implementation and investor certainty. A set aside based partly on allowances to be freely allocated is another option that would provide higher auctioning revenues and that should also be analysed. Moreover, practical and legal aspects of both options need to be further detailed.

Non-ETS sector

12. In the non-ETS sector, the option of setting new targets can benefit from additional analysis of measures that can be implemented or reinforced at EU and national level with a view to contributing to emission reductions in this sector. Moreover, a number of such critical measures – that also contribute to the achievement of a more resource efficient and innovative Europe – can be strengthened irrespective of a step-up to 30%. They should be addressed with very high priority in all EU policies, while taking into account the principle of subsidiarity.

13. Energy efficiency policies are key measures in the non-ETS sector (buildings, transport, waste, …) where the rate of capital turnover often is low or information barriers can be severe. A forthcoming initiative from the Commission in that field in early 2011 is of utmost interest. In particular, the setting – and, when already existing, the reinforcement – of energy efficiency and emissions standards is another area on which the action must focus.

14. Considering current budgetary constraints, future EU funds could be targeted to key EU objectives, such as energy and climate objectives. The Commission should consider how such objectives can better be integrated in the EU financial instruments, to enable convergence between EU Member States towards a safe and sustainable low-carbon economy.

15. In the ETS sector, emission reduction measures are driven by an explicit carbon price. The implementation of carbon taxes in the non-ETS sector is one instrument that would also set an explicit carbon price in that sector while generating public revenues that can be recycled into the economy and generate substantial benefits. The discussion that will take place under the foreseen revision of the Directive on energy taxation will give further insights in this respect.

International credits

16. International credit systems need to be improved for various reasons: to improve the environmental integrity of credits generated, to give better incentives for third countries to take on stronger climate action, and to reduce the risk of carbon leakage while ensuring the continuity of the global carbon market. Given that the greatest part of the demand for international credits comes from the EU, the EU has a key role to play in this regard. The communication lists options to address this issue that require further consideration, taking into account the need for clarity and certainty.