



# Overview Paper

**Clingendael European Studies Programme (CESP)**

**Netherlands Institute of International Relations ‘Clingendael’**

**‘EU Policy Perspectives’ seminar series**

**EU policy seminar : *The Commission’s ’08 climate action and renewable energy package: options for flexibility regarding the emissions trading scheme and renewable energy proposals***

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This paper accompanies the seminar on the Commission’s ’08 climate action and renewable energy package. The seminar, and hence this paper, focuses on two of the legislative proposals that the package consists of, namely the revision of the EU Emissions Trading Scheme and the directive on the promotion of Renewable Energy. The purpose of this paper is to provide a clear overview of these two proposals. Its purpose is, furthermore, to provide the seminar with a clear focus. This is achieved by means of the inclusion of sections on flexibility in each proposal and the posing of issues for discussion. The objective is to analyse whether the market-based mechanism, as chosen policy instrument, and the way targets are set in the proposals allow for sufficient flexibility in achieving the targets. This refers to whether they can be expected to lead to cost-effective reductions, and whether the target-setting is perceived as fair and accommodating to economic growth projections. Important in this respect, is whether the proposals accommodate the emission reduction and renewable energy potential, as well as the investment capabilities of member states. The content of this paper is the responsibility of the authors.

## **1 Introduction**

Climate change and energy policy have already long been of great importance to the European Union (EU). Internationally, the EU played a leading role in negotiating the Kyoto Protocol, in which it committed itself, through a burden sharing agreement, to legally binding

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Greenhouse Gas (GHG) emission reductions<sup>2</sup>. The spearhead of EU climate policy is the European Emission Trading System (EU ETS) as it covers about 40 per cent of the EU's emissions and ensures private sector participation in emission reduction. While currently the challenge of meeting the Kyoto targets continues, it was already long recognised that far deeper reductions and innovative action are needed to transform Europe into an energy efficient and low GHG-emitting economy. As Europe is a large importer of energy (mainly fossil fuels), it is also important to further promote renewable energy (RE) and to improve energy efficiency in order to strengthen the EU's position with regards to its security of energy supply.

The Spring European Council of March 2007 was crucial, as it set further ambitious EU goals to tackle climate change and to achieve secure, sustainable and competitive energy. European Heads of State and Government set three key targets for GHG and RE. For GHG, a reduction in the EU's overall level of emissions of at least 20 per cent below 1990 levels by 2020 was decided – rising to 30 per cent in case of a future international climate agreement. For RE, a 20 per cent share in the EU final energy consumption by 2020 was decided. As part of this target, a specific norm was set for biofuels utilisation – a minimum of 10 per cent in transport by 2020.<sup>3</sup>

The long-awaited Commission's 'climate action and renewable energy package' of 23 January 2008 forms a first step towards implementation of the ambitious goals set at the Spring Council of 2007. In addition to the proposals for revision of the ETS and RE directives, it contains proposals for a decision on effort sharing in the non-ETS sectors, a directive on carbon capture and storage; and, revised environmental state aid guidelines. This paper proceeds with discussion of the following elements - first with regard to the proposed ETS revision and then with regard to the proposed RE directive: what is new about the proposal?; what options for flexibility does the proposal offer?; and, key issues for discussion. The sections on 'flexibility' are subdivided into the following key parts: flexibility in the burden sharing calculation; flexibility for member states in achieving their target, and flexibility with regard to issues not yet addressed or determined. The paper concludes with a brief analysis of synergies in the Commission's overall package and beyond, and an outlook of how negotiation on the package can be expected to continue in procedural terms.

## **2 The EU Emissions Trading Scheme Directive**

The European Emission Trading Scheme (EU ETS), established by Directive 2003/87/EC of the European Parliament and the Council, has been in operation since January 1, 2005. It is the cornerstone and one of the most important instruments of EU climate policy as a result of its ability to achieve absolute emission reductions in a cost-effective way by means of a cap-and-trade system. Phase 1 of the EU ETS (2005 to 2007) established free trade of emission allowances across the EU and set up the necessary infrastructure for monitoring, reporting and verification. The EU ETS has developed into the world's largest single carbon market, also indirectly connecting 147 countries to it by its linkage with credits from JI/CDM projects, a

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<sup>2</sup> 8% below 1990 levels by 2008-2012 for the EU-15 and for all new member states, except Poland and Hungary, which have a 6% reduction commitment). The EU-15 target is distributed through the burden sharing agreement.

<sup>3</sup> Three conditions to be met would be that these biofuels are produced in a sustainable manner, that second generation biofuels become commercially available and that the Fuel Quality Directive would be amended to allow for adequate levels of blending. A revised version of this Directive is currently subject to negotiations between the Council and European Parliament.

result of the so-called “Linking Directive”<sup>4</sup>. Experience of Phase 1 and an assessment of National Allocation Plans (NAPs) for Phase 2 (2008-2012), however, led to a strong belief that the overall functioning in terms of environmental and economic effectiveness of the EU ETS could be improved. The subsequent review of the EU ETS Directive contributed to the current Commission proposal for the form the ETS will take post-2013.

## ***2.1 New in proposal***

- **The replacement of a system of national cap-setting with a single EU-wide cap.** Total EU industrial and energy emissions in 2020 will be capped at 21 per cent below 2005 levels<sup>5</sup>. To achieve this, the EU-wide quantity of allowances issued each year will decrease in a linear manner, starting from the mid-point of the 2008-12 period average annual total quantity of allowances issued by member states. The linear decrease in emissions allowances leads to a predictable trend-line to 2020, and can be adjusted to stricter targets if needed (notably in the case that an international climate agreement would be reached in which the EU would commit to deeper cuts). Installations covered by the scheme will have the obligation to surrender an amount of allowances equal to their annual emissions. The total number of allowances in the market is limited by the EU-wide cap. Installations that were not included in the 2008-2012 trading period can submit independently verified emissions data and thereby obtain an increased quantity of allowances. This provides new entrants with the opportunity to slowly adjust to the constraints.
- **Expanded scope of GHGs and sectors covered by the EU ETS.** The ETS will be expanded in scope to include also CO<sub>2</sub> emissions from petrochemicals, ammonia and aluminium. N<sub>2</sub>O emissions from the production of nitric, adipic and glyoxalic acid production and PFC emissions from the aluminium sector will also be covered. All of these emissions can be monitored, reported and verified reliably. It is also assumed that the aviation sector will be included following political agreement on the aviation proposal reached by the Council and the European Parliament<sup>6</sup>. Small industrial, installations emitting less than 10000 tonnes of CO<sub>2</sub>, will be exempted from the system, provided that alternative reduction measures are in place.
- **Auctioning of allowances.** The new proposal seeks to reverse the current practice, whereby 90 per cent of emission allowances are allocated to installations free of cost, to a system of complete auctioning of allowances. Two main reasons behind the choice for complete auctioning are that, firstly, with the previous system over-allocation of auctioning allowances led to the undermining of the carbon price. Secondly, and relatedly, the past system led to the generation of wind-fall profits for electricity companies, as they received their allowances for free but still passed on costs to their consumers. The Commission proposes that, from 2013 onwards, auctioning should be the rule for the power sector. For most other industry<sup>7</sup>, a more gradual transition is advised, starting with an amount of free allowances, which decreases each year to arrive at zero free allocation by 2020. This would give these industries more opportunities to

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<sup>4</sup> Directive 2004/101/EC of the European Parliament and of the Council of 23 October 2004 amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanisms.

<sup>5</sup> This 21 per cent is derived from the EU's target to reduce total emissions by 20 per cent in 2020 compared to 1990, based on a cost-effective sharing of effort between the ETS and non-ETS.

<sup>6</sup> In December the Commission adopted a proposal to include aviation in the EU ETS which is now under review in Council and Parliament. It is generally expected that aviation will be included in the EU ETS.

<sup>7</sup> See section on ‘carbon leakage’ for possible exceptions.

adjust to the practice of auctioning. New entrants to the market that carry out industrial activities will initially receive a certain amount of free allowances.

- **Auctioning by the member states.** The auctioning rights will be distributed by the Commission to the member states. 10 per cent of the total quantity of allowances to be auctioned will be redistributed to member states with lower income levels per head and higher growth prospects, and will be used to compensate countries where the direct costs of the overall package are expected to exceed 0.7 per cent of GDP (see box 1). The Commission estimates that at a price of € 40 per allowance in 2020 auctioning revenues would represent some 0.5 per cent of GDP, or € 75 bn in 2020 (for the EU as a whole). In some new member states, revenues could even exceed 1 per cent of GDP. Auctioning must be non-discriminatory, open to everybody, and will be carried out by the member states on the basis of harmonised rules<sup>8</sup>. 20 per cent of the revenues generated from auctioning should be used to adapt to combating climate change, promote REs and address social impacts.
- **More harmonised rules on monitoring and reporting of emissions.** These harmonised rules will be decided upon in the climate change committee, by means of the comitology (regulatory) procedure.
- **Non-compliance** penalties will be set at € 100 per allowance, to be increased by the inflation rate in order to keep the deterrent effect.

#### **Box 1 – Method of distribution of auctioning allowances to member states**

Of 100 % auctioning allowances:

- 90 % = distributed according to member states' relative shares of 2005 emissions.
- 10 % = redistributed, according to:
  - member states' levels of GDP per capita
  - member states' growth prospects(lower level of GDP per capita and higher expected overall GDP growth = more allowances)
- Member states with an average level of GDP per capita > 20 per cent higher than the average in the Community will contribute to this distribution, except where the direct costs of the overall package are estimated to exceed 0.7% of GDP (according to the calculations made in the impact assessment of the proposal).

## **2.2 Flexibility in the proposal**

### **2.2.1 Flexibility in the burden sharing calculation (the 'solidarity mechanism')**

- **The redistribution of 10 per cent of total auctioning allowances for the purpose of solidarity and growth in the Community** (see Box 1). The redistributed allowances are to be used by the member states concerned to reduce emissions and adapt to the effects of climate change. The process of allocating auctioning allowances hence

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<sup>8</sup> These will be set in the climate change committee (comitology committee) where the member states can use Qualified Majority Voting (QMV) for decision-making (regulatory procedure).

addresses the concerns of less prosperous EU member states, by ensuring that they will be allocated an increased quantity of auctioning allowances through redistribution on the basis of GDP per capita. This redistribution offers compensation for the higher costs to their national business sectors as a result of their (expected) higher growth figures.

### *2.2.2 Flexibility of member states in achieving their targets*

- **Emissions trading in itself is a flexible instrument.** Operators will have to achieve a balance between buying allowances on the market and taking measures to achieve reductions in their installations, depending on the price of allowances and the costs of emission reduction measures. This means that companies with more potential for emission reduction will reduce their emissions further than others, leading to the most cost-effective measures being taken across Europe.
- **The auctioning process.** The auctioning process works by allocating allowances for auctioning to each member state, with the auction being open to any EU operator to buy allowances in any member state. The auctioning process will lead to the generation of significant revenues for member states. These revenues can contribute to the process of adjustment to a low carbon economy.
- **The expanded scope.** The expanded scope of the EU ETS, by inclusion of new sectors and gases, has the potential to lower overall costs as it introduces new and additional abatement opportunities to the system.<sup>9</sup>
- Industrial GHG emissions prevented from entering the atmosphere through the use of **carbon capture and storage (CCS)** technology will be credited as not emitted under the EU ETS.
- **A linkage with other emission trading schemes** could further expand the range of cost-effective reduction options.
- **The use of CDM and JI credits.** EU operators are allowed to meet obligations under the ETS by investing in projects to reduce emissions outside the EU. A limit for the use of these credits has already been allocated in the National Action Plans (NAPs) of phase II (2008-2012) and operators can use that part of their limit that they have not used up in phase II for the next phase. This would amount to about one third of the required reduction effort by 2020 within the EU ETS. In case of a future international agreement, substantial additional use of credits will be allowed (50% of the additional effort), in order to meet a stricter emissions reduction target. In general, allowing the use of more CDM and JI credits to reach the target decreases the costs of GHG emission reductions and is likely to improve relations between the EU and the suppliers of CDM and JI credits. On the other hand, it could lead to less incentives for innovation into clean technologies in the EU (including RE technologies) and thereby reduce energy security and air pollution benefits.

### *2.2.3 Flexibility concerning items not yet addressed/determined*

- **Combating loss of competitiveness of firms and “Carbon Leakage”<sup>10</sup>.** The risk that European companies, especially those more vulnerable to international competition (notably the energy-intensive industries), will be put at a competitive disadvantage

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<sup>9</sup> See Final Report of the 1<sup>st</sup> meeting of the ECCP Working Group on Emissions Trading on the Review of the ETS on the Scope of the Directive, [http://ec.europa.eu/environment/clima/emission/review\\_en.htm](http://ec.europa.eu/environment/clima/emission/review_en.htm)

<sup>10</sup> “Carbon leakage” refers to the situation whereby companies move their activities to third countries in order to keep prices down.

compared to industries in countries with no similar climate change objectives, causing “carbon leakage”, must be mitigated. By 30 June 2010 at the latest and every 3 years thereafter, the Commission will determine (by comitology) which sectors are exposed to significant carbon leakage and these will be allocated allowances free of charge (up to 100 per cent) (*Article 10a*). By June 2011, the Commission will, in the light of the outcome of negotiations on an international climate change agreement, submit an analytical report assessing the situation with regard to sectors that are found to be exposed to significant risks of carbon leakage (*Article 10b*). The proposal cites a number of possible measures to be taken, including higher levels (up to 100 per cent) of free allocation to industries particularly vulnerable to international competition and a ‘carbon equalisation system’ to neutralise any distorting effects of imports from countries with less stringent climate laws.

- **Linkage with other emission trading systems.** The precise form this will take could be influenced by the form that a future international agreement on climate change will take and by how other emissions trading schemes are administered. For example, it will not be possible to link with a scheme (national, sub-federal or regional) where the target can be adjusted by political decisions during trading periods or where the monitoring, verification and reporting system is weak.

### 2.3 Key issues for discussion during the seminar

On the basis of the above overview, we have identified the following issues:

- Emissions trading as the instrument to reduce emissions
- Auctioning and allocation of the EU allowances
- Relationship with the flexible mechanisms of the Kyoto Protocol (CDM, JI and International Emissions Trading)
- Possibilities for future adjustments of the scheme
- Relationship EU ETS directive with effort sharing non-ETS sectors, CCS proposal and other EU climate change and energy policies

## 3 The Renewable Energy Directive

The increased use of energy from renewable sources constitutes an important part of the package of measures needed to comply with the Kyoto Protocol to the UNFCCC, as well as with further European and international GHG emission reduction commitments beyond 2012. Moreover, it contributes to the diversification of energy sources and improves energy security and the transition to a low carbon economy. The *Renewable Energy Roadmap*<sup>11</sup> demonstrated that a 20 per cent target for the overall share of energy from renewable sources and a 10 per cent target of RE in transport are appropriate and achievable objectives, and that a framework that includes mandatory targets would be desirable. The Brussels European Council of March 2007 reaffirmed the Community’s commitment to the EU-wide development of renewable energies beyond 2010 and endorsed the targets. Moreover, the European Parliament (EP), in its *Resolution on the Roadmap for Renewable Energy in Europe*<sup>12</sup>, called on the Commission to present a proposal for a RE legislative framework, referring to the importance of setting targets at both EU and member state level. The current Commission proposal builds upon existing legislation in the field of RE, namely Directive 2001/77/EC of the EP and the

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<sup>11</sup> COM(2006)848

<sup>12</sup> P6\_TA-PROV(2007)0406, 25 September 2007.

Council on the promotion of electricity produced from RE sources in the internal market<sup>13</sup> and Directive 2003/30/EC of the EP and the Council on the promotion of the use of biofuels or other renewable fuels for transport<sup>14</sup>, and seeks to establish a common framework for the promotion of energy from renewable sources beyond 2010.

### **3.1 New in proposed directive**

- **The setting of mandatory national targets for the overall share of energy from renewable sources in energy consumption and in transport in 2020.** The proposed directive sets a binding EU-wide target of producing 20 per cent energy from renewable sources by 2020. Currently only about 8.5 per cent of EU energy consumption stems from REs, meaning an 11.5 per cent increase is needed to reach the 2020 target. Three sectors are concerned: electricity, heating/cooling and transport. For the transport sector, the proposed directive sets a 10 per cent target for the use of biofuels. This is a significant increase from the previous (indicative) target of 5.75 per cent. Overall targets for each member state for 2020 are stated in the proposed directive and are set according to a complex formula that is to distribute action as fairly as possible across the member states, taking into account economic growth projections and GDP per capita levels (see box 1). 2005, the latest year for which reliable data on national RE shares is available, is taken as the base year. In contrast, for RE targets concerning the use of biofuels in transport the same level (10 per cent) is proposed for each member state to ensure consistency<sup>15</sup>.
- **The requirement of national action plans.** To ensure the overall targets are achieved, it is proposed that member states work toward a series of interim targets and establish national action plans outlining their strategies. The directive states that a member state should take appropriate measures to achieve 25 per cent of the difference between its 2005 consumption of renewables and its 2020 target by 2012, 35 per cent by 2014, 45 per cent by 2016 and 65 per cent by 2018. Ultimately, the Commission can start an infringement procedure in case of non-compliance.
- **The standardisation of ‘Guarantees of Origin’.** Member states will be responsible for issuing ‘guarantees of origin’ (GOs) to producers of heat and electricity originating from RE sources. A GO regime was already established by Directive 2001/77/EC in order to facilitate domestic or international trade in renewable electricity. The Directive established certain minimum requirements, but their use was voluntary. The current proposal is new in that it allows for the *standardisation* of information requirements, issuing, transfer and cancellation procedures. The current proposal also makes the GO regime applicable to more sectors, including the large scale heating sector. Member states must assure that a GO is issued (electronically) in response to a request from a producer of RE. To undertake this task each member state should, according to the proposal, establish an independent competent body to manage GOs. In 2014 the Commission will publish a report on whether a truly harmonised support scheme should be considered.
- **The possibility of intra-EU Trading of Guarantees of Origin.** Member states must recognise GOs issued by other member states and GOs may be transferred between

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<sup>13</sup> The Directive sets a 21 per cent indicative share of electricity produced from renewable energy sources in total Community electricity consumption by 2010.

<sup>14</sup> The Directive sets a target of 5.75 per cent of biofuels of all petrol and diesel for transport placed on the market by 31 December 2010.

<sup>15</sup> Biofuels can, moreover, more easily be traded between countries and, therefore, national biofuels targets do not directly depend on the national potential for biofuel production.

persons (companies) in the Community. This provision already features in existing EU renewables legislation but has hardly been utilised. Member states meeting their trajectory may transfer extra GOs to other member states. Member states may create a system to require government approval prior to transfers. Under the system, member states may hence invest in RE production in another member state in exchange for GOs, which can be counted towards the renewables target.

- **Possibility for exclusion of already subsidised renewable energy.** Green power certificates can be cancelled, and hence made unfit for trading, in cases where the energy concerned already receives/received a form of government support. This allows for the safeguarding of existing national support schemes, and also of EU competition law – it prevents firms from taking ‘double advantage’ of the system by, after having produced RE by means of a subsidy, also making a profit from selling it. Thereby it prevents the situation whereby member states support renewable energy generation in their own country, which will subsequently count towards another member state’s target.
- **Establishment of environmental sustainability criteria for biofuels.** Biofuel production is required to deliver a minimum level of 35 per cent GHG savings compared to traditional fuels. Further conditions are that biofuels should not be produced from raw material cultivated on land converted from high-carbon-stock or high-biodiversity uses. Moreover, all EU biofuels must meet ‘cross compliance’ environmental rules. This requirement applies to both EU produced and imported biofuels. To verify compliance is the responsibility of member states. However, to reduce the administrative burden, the Commission can decide that “certification schemes” give reliable proof of compliance.
- **The harmonisation of hydropower accounting.** The proposal specifies criteria for counting RE from hydropower.

#### **Box 2 – The calculation of the RE target**

**RE target in 2020 =**

- 2005 RE share
- Minus 1/3rd of national GDP growth between 2001 and 2005 (for member states whose growth over this period exceeded 2%).
- Plus 5.5 %
- Weighted by a GDP per capita index
- < 50 %

### **3.2 Flexibility in the proposal**

#### **3.2.1 Flexibility in the burden sharing calculation (solidarity mechanism)**

- **Modulation in calculating national targets (see Box 2).** This provides member states with a lower GDP per capita and higher growth rates with more flexibility to reach their

target and creates more opportunities for additional production of RE that can be sold to other EU member states.

### *3.2.2 Flexibility of member states in achieving their target*

- **A renewable energy trading regime.** The transfer of GOs gives member states flexibility in meeting their targets. Trade in GOs will allow countries that can develop renewables relatively cheaply to sell “surplus” to countries where energy generation from renewables is more expensive. This will create new investment streams towards countries with a high renewables potential and with a lower renewables target. Overall, the transferable GO scheme should allow member states to achieve their objectives in the most cost-effective manner possible. Member states will face the choice of either producing the energy at home (which could generate new jobs), or subsidising production in other member states where it would be cheaper.
- **Safeguarding of national support schemes already in place.** The proposed directive stipulates that member states may, in order to safeguard the viability of national support schemes, impose objective, transparent and non-discriminatory limits on the transfer of GOs to or from other member states. This system avoids interference with support schemes granted to existing installations and prevents overcompensation of RE producers. The proposal hence contains flexibility in that the choice of whether to have a national-based support scheme, or to trade on the basis of “virtual” GOs is left entirely up to each member state.
- Overall, the proposed directive provides member states with flexibility by allowing them to retain discretion with regard to the mix of the three energy sectors that they use to reach their national target.

### *3.2.3 Flexibility in items not yet addressed/determined*

- The proposal leaves open whether in the future **RE credits from third countries** could qualify as GO credits on the EU’s market.

## **3.3 Key issues for discussion during the seminar**

On the basis of the above overview, we have identified the following issues:

- Solidarity and effectiveness in RE target setting
- GO trading as instrument to stimulate RE production
- Possibility for continuation of national support schemes
- Possibilities for future adjustments of the scheme
- Relationship RE directive with other EU climate change and energy policies

## **4 Synergies in the package and beyond**

Although this seminar focuses on only two of the proposals of the Commission’s climate and energy package, it is essential that these proposals are considered in light of the package as a whole. With regards to flexibility, the package as a whole offers member states more flexibility than do any of the individual proposals. Notable is that in the EU ETS, RE and effort sharing in the non-ETS sectors proposals, GDP per capita is used as the key for differentiation between member states. The ETS and RE directives are themselves also interrelated to a considerable extent. For instance, it is expected that a significant share of the

RE target will be achieved in the sectors covered under the EU ETS, but this will evidently also depend on whether the price incentive will be sufficient to ensure innovation. Moreover, the costs and flexibility options, to a large extent, will be influenced by other EU policies (for instance those on energy efficiency standards in the transport and building sectors, support for research and development into low carbon technologies) and by GHG reduction and RE policies in non-EU countries.

The Commission's package of proposals is strongly linked with the negotiations on an international climate change agreement for the post-2012 period and the future of the CDM (and JI) within such an agreement. In addition to the GHG reduction target being dependent on whether or not a future international climate agreement is achieved, key elements of the current Commission proposals may also be considered as signals with regard to the EU's position in the negotiations on a post-2012 international climate agreement. A first element is the introduction by the proposals of 2005 as the baseline for emission reductions. This could indicate a preference for the use of this baseline also in the international negotiations (instead of the current 1990 baseline). Indeed, it may even be seen as a gesture towards the US, whose emissions have increased tremendously compared to 1990 levels and who may hence have a preference for using 2005 as a baseline. A second element is the usage of relative GDP per capita figures as a mechanism for differentiating reduction efforts between countries. Using a GDP per capita index in the international negotiations in the same manner as it is done in this proposal between the EU member states, would still provide certain countries, such as India and China, with quite some scope for emission increases. A third element is the forecast of a considerable increase in the use of CDM credits in case an international agreement is signed. This is a clear signal towards the countries in which CDM credits are obtained. A fourth element is the introduction of the possibility for the installation of a carbon equalisation system. This could have a deterrent effect on countries that are reluctant to commit to GHG emission reduction commitments in an international regime (either at country level or for specific industry sectors operating in their country). On the other hand, putting a carbon tax adjustment mechanism in place, in case of failure of negotiations on an international climate change agreement, could lead to considerable pressure on the trade relationship between the EU and third countries.

Finally, there are also considerable questions with regards to possibilities for bilateral linkages of trading schemes with non-EU countries. The EU ETS could become linked to other emissions trading schemes, but one could also consider allowing in GO credits from RE produced in third countries. Such expansion of the scope of the trading schemes could greatly increase options available for reaching the targets. However, they could also make the system even more complex than it already is and may affect incentives for innovation inside the EU.

## **5 Outlook and procedural questions**

It is expected that the rest of 2008 will be filled with intense negotiation on the Commission's 'climate action and renewable energy package' of January 23. Ideally, agreement will be reached by the end of 2008 because in June 2009 European Parliament elections will take place and in the autumn of 2009 a new college of EU Commissioners will commence work. Agreeing on the package is moreover of vital importance for the EU's credibility towards its citizens and international negotiation partners. It is expected that the 2008 Spring European Council will give a positive reaction to the Commission's proposed package and that by the June European Council significant progress will have been made on identifying issues arising

from the proposals. In the second half of 2008, under the French presidency of the EU, final negotiations on the package are expected to take place.

Procedurally, within the Commission, the proposals have been prepared by DG Environment (ETS, Effort Sharing non EU ETS sectors, and CCS proposals), DG Energy (RE proposal) and DG Competition (State Aid guidelines). In line with the preceding directives on the EU ETS and on RE, the proposed legal basis is article 175(1), supplemented by article 95 in the case of the RE Directive, meaning the co-decision procedure will apply in combination with Qualified Majority Voting for decision-making in the Council. Within the Council, it is expected that the RE proposal will be discussed in the Transport Telecom and Energy (TTE) Council and the remaining three proposals in the Environment Council. Political involvement and possibly brokerage is expected from the European Council. Preparations will take place in the Environment Working Party and in the Energy Working Party respectively. There are currently also discussions about handling the complete package in only one Council formation, most likely Environment. Within the European Parliament, the proposed RE directive will be discussed in the Industry, Research and Energy committee (ITRE), with Claude Turmes as rapporteur. The proposed ETS directive will be discussed in the Environment Committee. At the time of writing, it was not yet known who the rapporteur would be. The Temporary Committee on Climate Change (CLIM) is expected to keep a close eye on the positioning of the EP.

## 6 List of Key EU Documents

Commission of the European Communities *Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading system of the Community*, Brussels, 23.1.2008, COM(2008) 16 final; 2008/0013 (COD).

Commission of the European Communities *Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources*, Brussels, 23.1.2008, COM(2008) 19 final; 2008/0016 (COD).

Commission of the European Communities *Proposal for a Decision of the European Parliament and of the Council on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020*, Brussels, 23.1.2008, COM(2008) 17 final; 2008/0014 (COD).

Commission of the European Communities *Proposal for a Directive of the European Parliament and of the Council on the geological storage of carbon dioxide and amending Council Directives 85/337/EEC, 96/61/EC, Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC and Regulation (EC) No 1013/2006*, Brussels, 23.1.2008, COM(2008) 18 final; 2008/0015 (COD).

Commission of the European Communities *Community Guidelines on State Aid for Environmental Protection*, Brussels, 23.1.2008.

Commission of the European Communities *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: 20 20 by 2020, Europe's Climate Change Opportunity*, Brussels, 23.1.2008, COM(2008) 19 final; 2008/0016 (COD).

Commission of the European Communities *Joint impact assessment on the package of implementation measures for the EU's objectives on climate change and renewable energy for 2020*, Commission Staff Working Document, 23.1.2008, COM(2008) 19 final; 2008/0016 (COD).

Council of the European Union *Presidency Conclusions of the Brussels European Council 8/9 March 2007*, Brussels, 2.5.2007, 7724/1/07.

## **Annex with data supplements**

**Table 1: Auctioning rights distribution key on the basis of GDP**

**Basic allocation rule:**

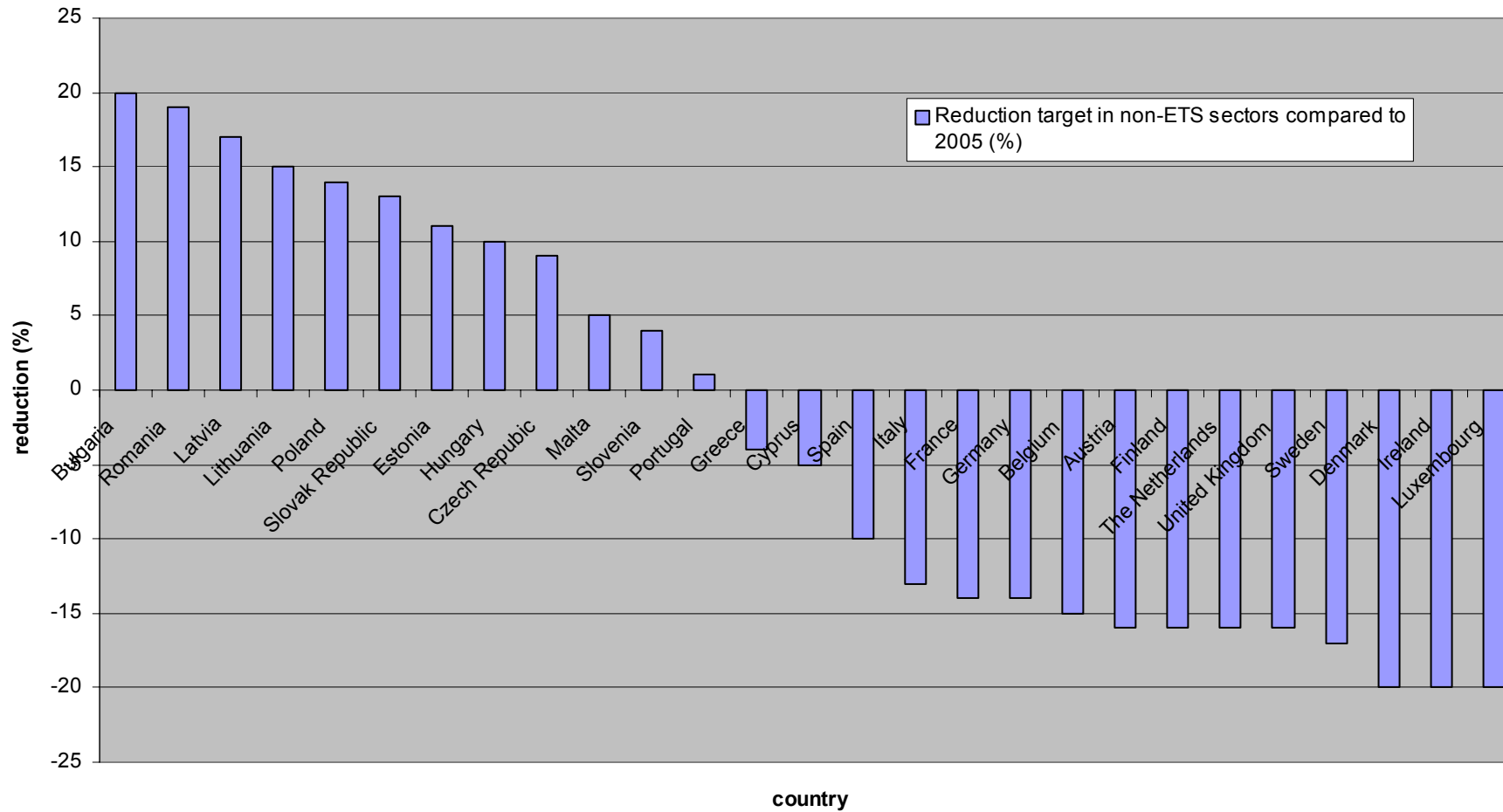
90 % of auctioning cap is distributed according to the proportional 2005 emissions in the EU ETS.

**10% redistribution:**

10% of the auctioning cap is redistributed, increasing the amount that can be auctioned by a member state under the basic allocation rule with the % listed in the table.

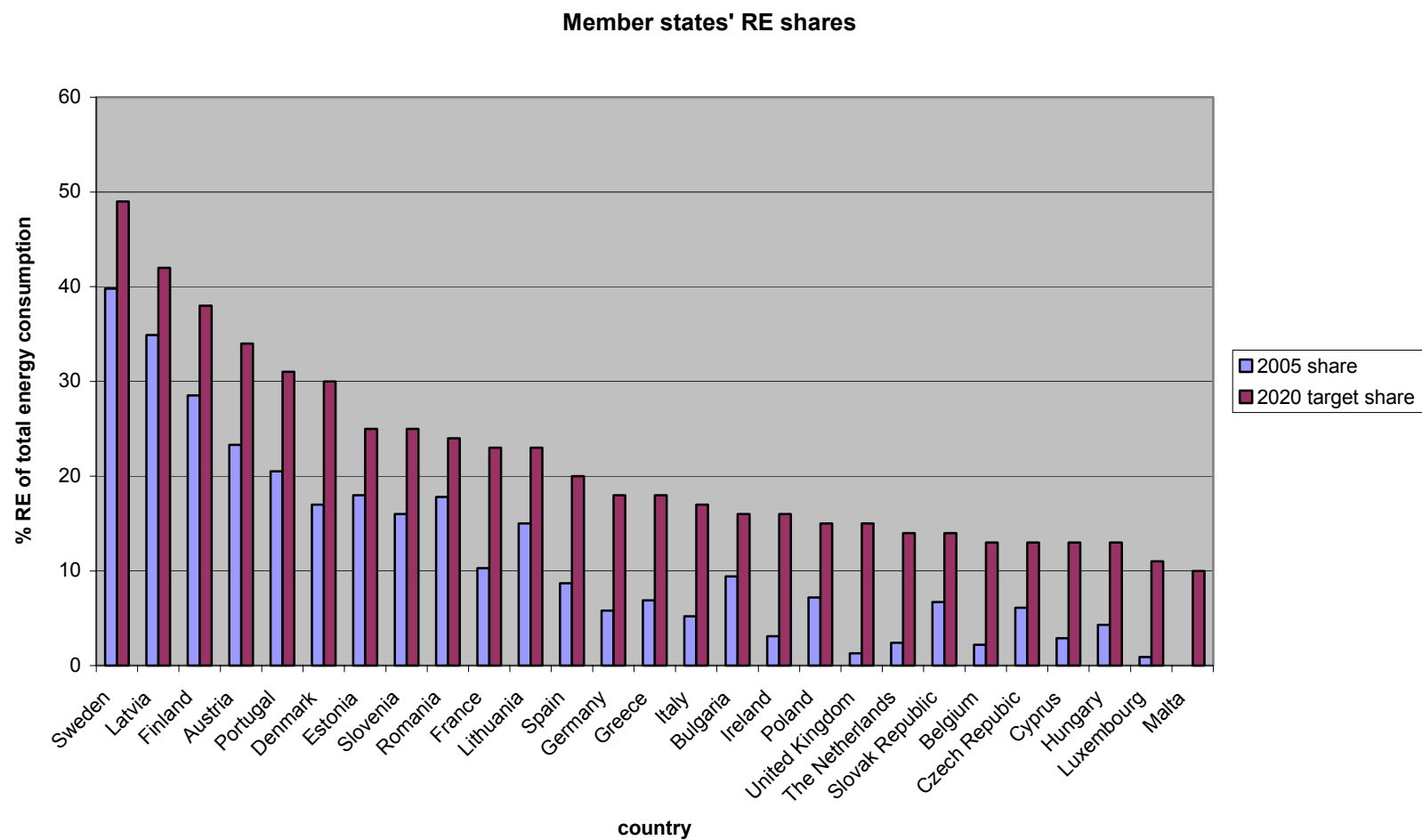
<i>Member state</i>	<b>% achieved from redistribution of auctioning allowances</b>
Belgium	10
Bulgaria	53
The Czech Republic	31
Denmark	0
Germany	0
Estonia	42
Ireland	0
Greece	17
Spain	13
France	0
Italy	2
Cyprus	20
Latvia	56
Lithuania	46
Luxembourg	10
Hungary	28
Malta	23
The Netherlands	0
Austria	0
Poland	39
Portugal	16
Romania	53
Slovenia	20
The Slovak Republic	41
Finland	0
Sweden	0
United Kingdom	0

Reduction target in non-ETS sectors compared to 2005 (%)



**Figure 1: Member states' reduction targets in 2020 in non-ETS sectors**

**Note:** Effort sharing target in 2020 compared to 2005 = -10 % weighted by relative GDP/capita EU member states, corrected by a boundary of between -20% and +20%



**Figure 2: Member states' Renewable Energy targets**