



TRANSATLANTIC PLATFORM FOR ACTION ON THE GLOBAL ENVIRONMENT – T-PAGE

Climate Change and Energy Priorities – Transatlantic Opinions and Approaches

Discussions at Teleconference 13 November 2007

Summary and Conclusions

The second teleconference under T-PAGE brought together a core group of representatives of European and US environmental civil society to discuss three key areas of climate and energy policy which represent particular areas of contention within the environmental community. The three issues discussed were – cap and trade systems; biofuels for transport; and carbon capture and storage.

On **cap and trade**, participants highlighted the need to restrict recourse to JI and CDM to increase the price of carbon and thereby achieve real domestic emissions reductions. Participants discussed the inherent political dimension of a cap and trade system which means an independent, central overseeing body is essential. While the EU ETS was recognised as driving international negotiations on carbon markets it was also noted that this system does not operate in isolation and is part of a broader complex of policy measures aimed at reducing greenhouse gas emissions. Additionally, the EU ETS does not necessarily achieve the best possible results in terms of environmental protection and alternative policy measures, including carbon / fuel taxes should be considered where appropriate. Participants discussed the issue of linking different trading systems, and European participants expressed concerns about linking with US trading systems, which include potential leakage, price capping, deflation of the EU price and low levels of domestic reductions in US schemes. Participants emphasized the need for the development of mutually compatible systems and the importance of EU-US discussions on the development of a global trading system. It was also recognised that there is a need for improved understanding of what emissions trading systems on both sides of the Atlantic are trying to achieve.

Participants examined the different approaches in the EU and US to emissions from aviation, shipping and road transport and discussed some of the transnational issues that arise from trying to include emissions from international transport in a cap and trade system. European participants maintained that emissions from aviation would be easier to manage within the EU ETS as opposed to shipping which would require an international agreement. European participants also argued that extending the EU ETS to road transport would not achieve significant emissions reductions and would require complementary measures to force behavioural or modal changes in the private

transport system. Another key difference between EU and US approaches to cap and trade noted during discussions are the different base years being used by both sides. While US systems refer to a 2005 base year, the EU uses 1990 levels, this difference could prove to be a major issue of contention in any post-Kyoto negotiations; targets based on 1990 levels are likely to be tougher given the higher level of emissions overall.

During discussions on **biofuels**, participants acknowledged meta standards as a feasible approach to measuring sustainability and one that is currently being considered by the European Commission. Participants noted that European efforts to develop sustainability standards for biofuels need to take into account revisions being proposed under the fuel quality Directive. Regarding US approaches, it was suggested during discussions that the renewables identification numbers (RINs), currently used as a control measure under the renewable fuel standard, may be expanded to incorporate sustainability indicators. During discussions on measuring sustainability, it was emphasized that standards should quantitatively measure different aspects of sustainability to improve transparency, increase consumer choice and ultimately encourage investors to go beyond meeting the minimum stipulated requirements. It was also noted that one of the most important criteria for any system would be its enforceability and operability.

Participants also discussed some of the indirect impacts of increased biofuels production including the difficulty in monitoring land-use changes. One possibility suggested was for NGOs to aggressively target bad examples and thus scare people into greening the market while another possibility suggested was to use business initiatives currently under development as a basis for more advanced systems to trace land conversion. Most participants were also quick to point out that second generation biofuels are not necessarily the perfect solution and have their own set of potential shortcomings. During discussions, it became evident that NGOs lack a coherent position on biofuels and there is an urgent need for NGOs to decide what their messaging is going to be, what they are willing to promote, what they would ideally like to see or definitely not see and communicate this clearly to the public.

Discussions on **carbon capture and storage**, revealed the contentious nature of this issue and the clear divide on the topic within the NGO community. Certain participants argued that CCS remains the only means available to control emissions from coal, and while alternatives such as renewables remain more favourable, it will be impossible to completely eliminate the use of coal within a reasonable timeframe. Furthermore, they maintained that CCS will form an essential part of the solution for dealing with rising emissions from China. These claims were countered by other participants who accused CCS of diverting resources and efforts from renewable energy and efficiency. It was also noted that while there is a possibility that some CO₂ stored in geological deposits will be regurgitated into the atmosphere, this is significantly better than allowing 100 per cent of the emissions to be released unabated.

Concerning the financing of CCS, certain European participants argued that rather than financing CCS in the implementation phase, tough targets should be set within the ETS so that CCS can compete on the same playing field as other options. It was suggested that a tight cap or portfolio standard, which would become more stringent over time, be introduced to control emissions. Participants noted that while coal remains a cheaper option than renewables, by mandating the use of CCS the cost of

renewables would become more comparable and this could provide a more level playing field.

Purpose of the Meeting

T-PAGE was created as a forum to facilitate debate among members of EU and US civil society on climate and energy issues, with the aim of developing a better, common understanding of the debate on both sides of the Atlantic.

At the first meeting of the project, held in April 2007, representatives of EU and US civil society identified priority topics for further discussion and research. Cap and trade systems; biofuels and carbon capture and storage were identified as issues that are fundamental to future climate policy in both Europe and the US and represent particular challenges to the environment community.

The purpose of this second meeting was to discuss the identified priority areas in further detail, to highlight similarities and differences in opinion and approach in Europe and the US, to address some of the key questions and problems facing domestic action and to identify where Europe and the US can show international leadership in tackling climate change. These discussions are part of the ongoing dialogue between EU and US environmental civil society which will culminate in a conference in Washington in April 2008.

Value of T-PAGE

The T-PAGE dialogue provides an important opportunity to explore the pressing issues of the day on both sides of the Atlantic. This dialogue is well-timed given the recent surge in public interest in climate change and the rapidly evolving political context in both Europe and the US.

T-PAGE provides a forum for informed dialogue between European and US civil society actors on climate and energy issues. It does not intend to duplicate high level policy discussions, rather its aim is to help NGOs and civil society understand, coordinate and take action in the most pressing and challenging areas of climate and energy policy. Currently, there is a need for better coordinated channels for discussions between European and US colleagues, and having a formal discussion on specific issues and common challenges is valuable as there is much to be learnt from experiences on both sides of the Atlantic.

Discussions on Priorities

Participants discussed the three priority topics using the key issues identified in a series of research papers prepared for the meeting as a starting point. The following research papers were prepared for the meeting – [Cap and Trade in Europe](#); [Cap and Trade in the US](#); [Biofuels for Transport – European and US Approaches](#); [Carbon Dioxide Capture and Storage – European and US Approaches](#). The issues discussed by participants under each topic are summarised below. Please note this summary reflects comments made by participants during the discussions.

Cap and Trade Systems

The **EU Emissions Trading Scheme (ETS)** became operational in January 2005 and primarily applies to installations listed in Annex 1. The first operational period from 2005 to 2007 was a test phase, while the scheme was fully operation it allowed time for industry to prepare for the more important second period; operating from 2008 to 2012 this latter phase coincides with the commitment period under the Kyoto protocol. Although the results of the first phase of the ETS have been disappointing from an environmental perspective, it has been a steep learning curve that publicly exposed some of the major flaws in the system. It is hoped that these flaws will be ironed out in the upcoming review of the ETS which will review: the scope of the ETS; how to increase harmonization and predictability; how to ensure robust compliance and enforcement; and how to involve third countries. While it is generally recognised that the Commission has done a good job of reviewing the national allocation plans (NAPs) for the second trading period and forcing Member States to cut their allocations, NGOs are calling for larger emissions reductions ie 50-80 per cent reductions by 2050 and for a cap of the EU ETS that is consistent with the overall EU climate change target. During discussions, the need to restrict recourse to JI and CDM in order to increase the price of carbon was emphasized. It was noted that while CDM is a critical tool for transferring technology and investment at an international scale, CDM credits need to be reduced in order to achieve real domestic emissions reductions.

Participants discussed how the EU experience has revealed the inherent **political dimension** to cap and trade systems. These systems require political acceptance and a pragmatic approach to design to ensure their effectiveness. In the EU, having 27 Member States agree to undertake the necessary reforms to make the ETS operational has been a significant step. Once this initial step has been taken, and the required infrastructure is in place and accepted, it becomes easier to take further steps to increase the stringency and to expand, the system's nature and scope. This political dimension also poses a significant risk to the integrity of the cap and trade system. For example Member States tend to promote the best interests of their most powerful domestic industries, thus for example, should there be a drive toward coal expansion in any Member State this could significantly undermine that State's support for the ETS. Thus, the Commission has a vital role to play in upholding the integrity of the ETS and ensuring that all Member States meet their obligations under the system. Having this central, responsible overseeing body was seen as essential to the operation of the scheme. The EU ETS was recognised as currently driving international negotiations on carbon markets and an effective European system is important to get buy-in elsewhere in the world.

During the debate, participants expressed their concern that focusing on cap and trade may crowd out **other more appropriate policy measures**. One of the problems with the EU ETS is that it has become Europe's political flagship in terms of tackling climate change, even though it does not necessarily achieve the best results in terms of environmental protection. Although cap and trade provides an important policy option, it is by no means the only solution to all emissions-related issues; alternative policy tools, including carbon / fuel taxes and improved efficiency measures should be used where appropriate. There may also be a case for different systems in different sectors, such as combined heat and power (CHP). Participants also noted the fact that the ETS is itself part of an overall 'bigger system' of EU climate measures which includes legislation on integrated pollution prevention and control (IPPC), carbon

capture and storage (CCS), and large combustion plants (LCP) etc which should be taken into account in its design and when measuring its success.

In the **US**, cap and trade policy is still in the development stage. There are a myriad of initiatives currently being developed at state, regional and federal level as well as various voluntary and bottom-up approaches to reducing greenhouse gas (GHG) emissions. The majority of ongoing US initiatives were considered to be complementary, using more or less the same methodology and approach and moving in a similar direction. Should a federal vehicle pass within the next year, it may be possible that the regional and state initiatives continue as planned, falling under a similar federal policy, but with the ability to impose more stringent requirements.

The issue of **linking** different trading systems and the kind of system that can be promoted at the international level was discussed at length. European participants expressed their concerns over linking with US trading systems, which include concerns over price capping, leakage, deflation of the EU price, low levels of domestic reductions in US schemes and what the appropriate level (ie state or federal) of linkage would be. Regarding the issue of linking international emissions trading schemes, the [International Carbon Action Partnership \(ICAP\)](#) was recognised as an important starting point for this debate on the international front. Participants emphasised the need for the development of mutually compatible systems and the importance of EU-US discussions in terms of international cooperation and the development of a global ETS. It was recognised that there is a need for improved understanding of what emissions trading systems on both sides of the Atlantic are trying to achieve and what the systems being proposed can realistically achieve.

The debate on which **sectors** to include in a cap and trade system differs on both sides of the Atlantic. While the EU is eager to extend the ETS to aviation and possibly shipping, the US continues to resist any curbs on the aviation industry preferring to focus on road transport and the maritime sector. Some of the transnational issues that arise from trying to include emissions from international transport and different management approaches to the maritime and aviation sector were discussed. **Aviation** was seen to be easier to manage within the EU ETS compared to maritime transport. This is due to the limitations on route that an airplane can take once airborne ie an airplane tends to fly to and from specific locations not changing destination when on route. This makes it possible to identify ongoing activity, hence associated emissions. Under the EU ETS it has been proposed that European air traffic control, which is already responsible for monitoring all flights, play a key role in tracking emissions. The **shipping** industry does not face the same restrictions on activity and shipments can often change course numerous times during a voyage. It is, therefore, more problematic to monitor activity and emissions. It was commented that it is almost essential to have an international commitment to enforce any agreement in the maritime sector. Finally, it was commented that extending the EU ETS to cover road transport would be inappropriate and realistically not achieve significant emission reduction. A price of €30/40 per tonne of carbon was considered not to translate to a high enough price to force a behavioural or modal change in the private transport system. Thus there is a need for complementary policies to effectively achieve emissions reduction.

A key difference highlighted between EU and US approaches to cap and trade are the different **base years** being used. The base year in many US systems is 2005 whereas the EU uses 1990 levels. If the US were to propose a baseline and level of reductions

that differs significantly from ongoing EU efforts it would be a major issue of contention in any post-Kyoto negotiations. Although US NGOs may be happy with a 20 per cent reduction on 2005 levels, this is very different from the original Kyoto targets and is a long way behind EU positions. It is important to bear in mind that national circumstances in Europe and the US may limit the outcome of international negotiations.

Biofuels for Transport

While biofuels are a significant element of climate change policy packages in both the EU and the US, perspectives on biofuels differ across the Atlantic. There is an acceptance in the US that biofuels production is inevitable, while in Europe there is still much more of a debate. In **Europe** there are increasing concerns over the direct and indirect impacts of the rapid expansion of the biofuel sector, driven by ambitious uptake targets being proposed by the European Commission. During discussions, participants noted that European efforts to develop sustainability standards for biofuels need to take into account the revisions being proposed under the fuel quality Directive which seeks to ensure the progressive decarbonisation of transport fuels.

In the **US**, a range of market-based policy options have been introduced at the federal and state level to promote the production and consumption of biofuels. While there is wide public support in the US for the expansion in the use of biofuels, concerns remain regarding the impact of this expansion on biodiversity, habitats etc. The renewable fuels standard (RFS) is the current guiding policy for biofuels in the Energy Policy Act of 2005 and serves as a production mandate to stimulate the commercialization of technologies. As a control measure under the RFS, renewables identification numbers (RINs) have been introduced for all domestically produced and imported biofuels. During discussions, it was suggested that these RINs might be expanded to incorporate sustainability indicators, for example by including additional information in the bar code that would inform people of the sustainability of the biofuel being used. RINs are assigned to individual batches and follow the batch along the entire chain of supply. These quantitative indicators would improve market transparency and increase consumer choice. Participants suggested that this approach would encourage the progressive improvement of standards reached rather than a tick box exercise which would only focus on meeting a specified target and nothing further.

The **meta standard approach** is one method of developing indicators to measure sustainability in a feasible way. Participants noted that it is important that these standards do not just set limits but rather quantitatively measure different aspects of sustainability to increase transparency and allow investors the possibility of going beyond meeting minimum requirements.

Participants discussed the **indirect impacts** of increased biofuels production, in particular land use issues which appear especially difficult to address within a certification system. Given that it is inherently difficult to monitor land use changes, one possibility suggested during the discussions is for NGOs to aggressively target bad examples and thus scare people into greening the market. Another possibility suggested is to build on initiatives currently under development by the business community. One example highlighted during discussions was of businesses in Silicon Valley which have been looking at developing a global accounting system for carbon mainly for the CDM which includes the use of remote sensing and handheld devices.

This is an interesting business opportunity which in the future may be developed to set up more advanced systems to trace some of the issues related to biofuels such as land conversion. An ongoing Dutch initiative is also exploring similar possibilities.

Participants emphasised that the **broader context** which includes reducing the demand for surface transport, the design constraints of the current fleet of cars and the need to improve the fuel efficiency of existing modes of surface transport needs to be considered in any debate on biofuels. However, while it is important to take this context into account, one participant warned that linking the issue of fuel standards and vehicle efficiency standards too closely would not achieve the best results in both cases.

Other broader issues that were highlighted for consideration were **trade implications** of biofuels. The EU and US are currently in negotiations on fuel quality standards, the outcomes of these discussions will have a significant impact on producers on both sides of the Atlantic. Furthermore, one participant noted that future demand for biofuels in the north will to a large extent be met by production in the developing south, which gives rise to an inevitable trade-off between aiming for high standards of sustainability on the one hand and demonstrating to developing countries that biofuels offer an opportunity for them to improve their trade prospects. There is currently a North-South divide which will need to be addressed and developing countries will need to be brought on board to develop a sustainable and acceptable solution.

While some European NGOs are becoming more negative in their thinking on the first generation biofuels and are keen to bypass this generation and move EU targets firmly towards **second generation**; others are keen to push sustainability standards and 'green' oil usage now. Most participants were also quick to point out that second generation biofuels are not necessarily the perfect solution and have their own set of potential shortcomings.

Developing an operational and enforceable sustainability standard for biofuels is a complex task which needs to address a variety of issues and take into account a range of factors. However, meeting participants warned of introducing an overly complex system that may take into account all necessary dimensions but be impossible to implement and enforce in practice.

During discussions, it became evident that one of the main challenges facing NGOs is the **lack of a coherent position** on biofuels. There is an urgent need for NGOs to improve the way they communicate their position on biofuels and to ensure that this is conveyed in a way that the public can easily understand. The concept of GHG pay back time was cited as a useful example of how to illustrate the negative impacts of land conversion to the public. There is an urgent need for NGOs to decide what their messaging is going to be, what they are willing to promote and what they would ideally like to see or definitely not see.

Carbon Capture and Storage (CCS)

The issue of CCS is highly contentious and discussions during the meeting revealed the clear divide on the topic in the NGO community. Certain participants expressed their pragmatic acceptance of CCS as the **only means available to control coal emissions** given that it will be impossible to eliminate the use of coal in the US and emerging economies within a reasonable timeframe, and most importantly in China

and India. It was argued that policy priorities should focus on energy efficiency, renewables, coal with CCS and lastly coal without CCS. Participants emphasised that CCS will not eliminate the need to reduce emissions elsewhere but will be necessary to reduce emissions to a realistic level and meet the ambitious targets being set by governments. CCS will also be of strategic importance in terms of getting OPEC on board, it will form an essential part of the solution for dealing with rising emissions from China and will also be important if we want to evolve towards hydrogen based economies. Energy security issues were also driving the development of CCS and need to be taken into account.

Other participants expressed their hostility towards the technology, accusing CCS of **diverting resources and efforts from renewable energy and efficiency**, limiting thinking and undermining the development of more appropriate alternatives. Given that there are currently no safety or monitoring regulations for CCS, it appears to be the first time that NGOs are acting against the precautionary principle and certain participants expressed their caution in adopting CCS as a mitigation option given its potential environmental side effects. Other participants who had a more favourable opinion of CCS were quick to point out that while there is a possibility that some CO₂ stored in geological deposits will be regurgitated into the atmosphere, this is significantly better than allowing 100 per cent of the emissions to be released unabated.

Participants recognised the importance of **financing** CCS particularly in relation to the global effort and increasing political support in other parts of the world. However there was concern among US participants that certain bonuses provided to industry that take on CCS as a means of reducing the cost gap were too generous and equally explicit bonuses should be provided for other developments. European participants noted that issuing industry with additional allowances would be considered unlawful subsidies in the EU when compared to other technologies and would not be allowed. Certain European participants argued that rather than financing CCS in the implementation phase, tough targets should be set within the ETS so that CCS can compete on the same playing field as other options. It was also suggested that the revenues from the auctioning of permits under the ETS be used by Member States for CCS initiatives.

On the issue of whether to subsidize **research and development or deployment**, certain participants were of the view that R&D was complete and that it was now time for rapid deployment. Options for the large-scale deployment of CCS should be explored and the development of uncontrolled plants (ie those without CCS technology) should be limited and if possible halted. It was suggested that a tight cap or portfolio standard, which would become more stringent over time, be introduced to control emissions. In the near future, coal will remain a cheaper option than renewables, however by mandating the use of CCS the cost of renewables become more comparable and this will provide a more level playing field.

All steps of CCS technology have been trialed except for the **management of the carbon store**. This is a crucial issue which requires an international regulatory standard and will need to be addressed. Participants also noted some of the **barriers to technology transfer**. CCS is often viewed as a public good rather than a product being developed in the developed world. The transition from coal to CCS is by no means straightforward and requires significant efforts before it can be feasibly implemented.

CCS is a hot topic at the moment with a significant amount of political capital being invested in it. Although NGOs have divergent opinions on the issue, it is important to fashion a policy that does not necessarily provide explicit support or rejection of CCS but rather attaches auxiliary conditions on its development to move policy developments forward in a generally acceptable way.

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