



*EU Environmental Policy Briefing**

European Parliament Adopts Climate and Energy Package

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Following agreement between EU leaders last week, the European Parliament formally adopted six legislative proposals considered to form part of the broader climate and energy package during its last Plenary session of the year. Ahead of the Parliament's first reading vote, the French Presidency had reached informal agreements on each of the proposals with the Parliament's delegations, led by the respective Rapporteurs of each report.

Revision of the EU ETS

MEPs adopted a legislative resolution¹ on the proposed Directive amending Directive 2003/87/EC to improve and extend the EU's emission trading system (COM (2008)16). The compromise agreement was adopted with 610 votes in favour, 60 against and 29 abstentions. The agreed text allows several derogations related to the auctioning of emissions allowances in certain sectors and Member States. In particular, a transitional free allocation of allowances will apply to certain power plants in new Member States from 30 per cent auctioning in 2013 increasing to 100 per cent in 2020; auctioning in the manufacturing sector will be phased in gradually - in 2013 the sector will be subject to 20 per cent auctioning, increasing to 70 per cent by 2020, 'with a view to' reaching full auctioning in 2027; a broad exception is inserted for industrial sectors at risk of carbon leakage which may be eligible to receive up to 100 per cent of their allowances for free from 2013. The Commission is to identify sectors at risk of carbon leakage by December 2009, and by June 2010 the Commission is to report on the carbon leakage implications of an international agreement and put forward proposals accordingly. While the report adopted by the Environment Committee in October had sought to ring fence all auction revenues towards climate action or research and development, this requirement was toned down in the final agreement to state that 'at least 50 per cent' of the proceeds from auctioning will be used for climate related adaptation and mitigation purposes.

In terms of future action, the legislation calls on the Commission to put forward a proposal to include emissions from international maritime transport in the EU reduction commitment from 2013, should the International Maritime Organisation (IMO) fail to agree an appropriate method by December 2011. The text also states

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that the EU should seek to establish an internationally recognised system for reducing deforestation, increasing afforestation and reforestation, supporting the development of appropriate financing mechanisms within the context of a post-2012 international agreement on climate change.

Parliament's Rapporteur Avril Doyle has said that the final agreement was a 'very good result and a balanced outcome between preserving the environmental integrity of the proposal and ensuring a level playing field for European industry'².

Reducing Emissions in Non-ETS Sectors

The Parliament adopted a legislative resolution³ on the proposed decision 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 (COM(2008)17). The resolution was adopted with 555 votes in favour, 93 against and 60 abstentions. The compromise text agreed the national reduction targets originally proposed by the Commission (under which the UK is required to reduce its GHG emissions by 16 per cent relative to 2005 levels) however it allows Member States to transfer part of their allowed greenhouse gas emissions allocation to subsequent years and to other Member States. The agreed text could permit over two-thirds of total national reductions to be met by international project credits. These credits must 'represent real, verifiable, additional and permanent emission reductions and have clear sustainable development benefits and no significant negative environmental or social impacts'. The implementing sanctions for countries that fail to meet their targets, as proposed by the Environment Committee in October, were not incorporated in the final text. However a new article on corrective action was included which applies when a Member State exceeds its annual greenhouse gas emissions limit.

In terms of future action, the Decision calls on the Commission to put forward a proposal to include emissions and removals related to land use, land use change and forestry in the EU's reduction commitment should an international agreement not be in place by December 2010. By June 2011, the Commission should assess the modalities for including emissions and removals from such activities, including consideration of how this will affect the distribution of Member States' emission reduction efforts, and put forward a proposal with the aim of its entry into force from 2013. The text also calls on the Commission to propose strengthened or new measures to accelerate energy efficiency improvements by December 2012. Furthermore, in the context of an international agreement on climate change, the Commission will put forward proposals to amend the Decision on how to share the effort of adjusting to a higher 30 per cent reduction target among Member States. The final allocation will in turn be approved through the co-decision procedure between the Parliament and the Council.

The Parliament's Rapporteur, Satu Hassi called the agreement on emission reductions targets a 'historical achievement', however expressed her dissatisfaction that the 'deal allows outsourcing of over half of EU emissions reductions to other countries'².

Enabling the Development of Carbon Capture and Storage (CCS)

MEPs adopted a legislative resolution⁴ on the 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 (COM (2008)18). The resolution was adopted with 623 votes in favour, 68 against and 22 abstentions.

The Environment Committee's amendments, adopted on 7 October, called for the creation of a funding mechanism that set aside 500 million carbon allowances from the ETS new entrants reserve to co-finance the construction of CCS demonstration plants; whereas the Council had initially proposed to reserve only 100 to 200 million allowances for CCS projects. The compromise text calls for 300 million ETS allowances to be awarded to large scale CCS projects in the EU. The value of this support depends on the price of CO₂ at the time, however could approximately amount to between € 6 – 9 billion. Under the agreed text, operators of new power plants with an output of more than 300 Megawatts are required to assess whether suitable storage sites and transport facilities are available and if it is technically and economically feasible to retrofit the power station for the capture of CO₂. If these conditions are met, authorities in Member States are required to guarantee that 'suitable space on the installation site for the equipment necessary to capture and compress CO₂ is set aside'.

Boosting Renewable Energy

The Parliament adopted a legislative resolution⁵ on the proposed Directive on the promotion of the use of energy from renewable sources (COM (2008)19). The resolution was adopted with 635 votes in favour, 25 against and 25 abstentions following an informal agreement between the Council and Parliament which was reached in early December. The agreed text notes that the Commission's evaluation of the implementation of the Directive, scheduled to take place by 2014, will not affect the overall 20 per cent target. The review will also assess whether the 10 per cent transport target can be reached. The agreed text maintains the Commission's proposed national target for the UK - which is for 15 per cent of its energy to be generated from renewable sources by 2020.

Regarding the 10 per cent target for renewables in the transport sector, an important amendment proposed in the report adopted by the Parliament's Industry Committee in September which set an interim target for a 5 per cent share of energy from renewable sources in road transport by 2015 was left out of the final agreement. However, the compromise text does state that second generation biofuels will be double credited towards the 10 per cent target. While green electricity for trains will count only once towards the target, renewable electricity consumed by electric cars will be counted at 2.5 times its input. The agreed text also backs the Council's position with regards to the greenhouse gas saving from the use of biofuels, which should be a 35 per cent reduction initially, rising to 50 per cent from 2017. By 2010 the Commission is also to develop a methodology to measure the greenhouse gas emissions caused by indirect land use changes, however this exclusion merely postpones the debate on this issue and in the meantime may result in the production of biofuels that have an overall carbon impact that exceeds that of fuels derived from fossil sources.

Reducing CO₂ Emissions from Passenger Cars

MEPs also adopted a legislative resolution⁶ on the proposed Regulation setting emission performance standards for new passenger cars (COM(2007)856). The resolution was adopted with 559 votes in favour, 98 votes against and 60 abstentions

following final negotiations between the Parliament and the Council which reached a conclusion on 1 December. The strong line previously taken by the Parliament's Environment Committee was significantly watered down, with the resulting deal labelled a 'poor compromise' by green groups. The average CO₂ emissions limit for new cars is set at 130 grams per kilometre (g/km) by means of improvement of vehicle motor technology. This target will be gradually phased in: limits will apply to 65 per cent of a new fleet in 2012, increasing annually to 100 per cent of the fleet by 2015. Additional measures corresponding to CO₂ emission reductions of 10 g/km will be part of the Community's integrated approach. Fines for carmakers that narrowly miss their targets have also been reduced. One strengthening of the new legislation is the specification of a longer-term target of average emissions of 95g/km by 2020; however details on this target will only be discussed during the review of the legislation in 2013.

Fuel Quality

The Parliament adopted a legislative resolution⁷ on the proposed Directive amending Directive 98/70/EC as regards the specification of petrol, diesel and gas-oil and introducing a mechanism to monitor and reduce greenhouse gas emissions from the use of road transport fuels (COM (2007)18). The legislative resolution was adopted with 670 votes in favour, 20 against and 25 abstentions and follows informal agreement reached between the Parliament and the Council on 25 November. The agreed text sets a binding target of reducing greenhouse gas emissions produced throughout the life cycle of transport fuels of 6 per cent by 2020, relative to 2010 levels. In order to achieve this target, Member States may require fuel suppliers to set interim targets of 2 per cent by the end of 2014 and a further 4 per cent by the end of 2017. A non-binding additional 2 per cent reduction is to be achieved through the use of electric vehicles or greenhouse gas saving technologies in the production process; while a further indicative 2 per cent reduction is to be achieved through the use of credits from the Kyoto Protocol's Clean Development Mechanism.

Conclusions

The agreement between the Parliament and Council has been hailed as a considerable success of the French Presidency, which started its term with the explicit objective of concluding negotiations on the package by the end of the year. The agreement on the climate and energy package is in many respects unprecedented, not least because of the time frame in which it was agreed (a mere 11 months since the legislative proposals were presented by the Commission) and the method through which the majority of the negotiations took place (following the adoption of reports in the Parliament's Environment and Industry Committees in September/October, informal dialogue discussions between the French Presidency, the Parliament and the Commission began in November with the aim of reaching an informal agreement before the December Plenary vote). While much credit is due to the French Presidency, for its lustrous negotiating skills, certain observers have been critical of the quality of the final agreement, arguing that too much has been compromised along the way. During the Parliament's debate on the package on 16 December, several MEPs criticised the 'blizzard' of concessions granted to certain Member States, in particular those in central and eastern Europe with large industry and heavily coal-dependent economies. MEPs have warned against such speedy decision-making procedures becoming standard practice given the intensity of the process and the compromises that have had to be made along the way. These industry concessions

have also been the subject of significant criticism from the environmental lobby, some of whom maintain that the EU has compromised its international credibility on climate change action.

The agreed texts now have to be rubber-stamped by the Council before their publication in the EU's Official Journal early next year.

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