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Future Climate Change Policy: Looking beyond 2012

**International Workshop
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Chairman's Summary

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Introduction

On 11 and 12 October 2006, representatives from EU Member States, Candidate and Accession Countries and the European Commission met in Ljubljana for a two-day international workshop on future EU climate change policies. Slovenia's Minister of Environment and Spatial Planning, Janez Podobnik, opened the Workshop, which was attended by about 40 participants from governments, business, non-governmental organisations (NGOs) and academia. Elliot Morley, Former British Minister of Environment and the UK Government's Special Representative on the Gleneagles Dialogue, gave a presentation on "Scenarios and Options for a Second Commitment Period: International Discussions and Negotiating Context".

A consortium, led by Ecologic – Institute for International and Environmental Policy (Berlin) – organised the workshop, which was sponsored by the European Commission. The workshop was part of a series of events. The first day of the workshop focused on the specific circumstances of Cyprus, Hungary, Malta and Slovenia. Ongoing international negotiations for a second commitment period from the perspective of the new Member States (NMS) and the Acceding (AC) and Candidate Countries (CC) were discussed at the second day.

R. Andreas Kraemer, Director of Ecologic, chaired the event. A press conference with Minister Janez Podobnik, Elliot Morley, Outi Berghäll (Ministry of the Environment, Finland EU Presidency), Lars Müller (DG Environment) and R. Andreas Kraemer was attended by representatives of the Slovenian press and TV. The following chairmen's conclusions do not constitute a binding or exhaustive summary of the discussion.

The workshop addressed a wide range of issues pertaining to future EU climate change policies and the implications for the NMS, AC and CC. The discussions were extensive and sometimes controversial. The workshop's discussions benefited from various introductory presentations and brief kick-off statements, which were given by representatives from business, government agencies, academia and NGOs.

Participants agreed that climate change poses a threat. Damages caused by the 2005 and 2006 floods demonstrated the vulnerability of the NMS, AC and CC to extreme weather events. Small island states will face particular challenges if sea levels rise. In this respect, more effort must be dedicated to adaptation, which in particular requires strategies at the local level.

Concerning the second commitment period, there was consensus that the EU should continue to take the lead in the global efforts to fight climate change. There was general agreement that the EU should be prepared to accept further cuts in greenhouse gas emissions while taking into account the different reduction potentials, capacities and socio-economic circumstances of individual Member States. Participants concluded that the architecture of the future climate protection regime should be discussed and agreed first, with reduction targets coming as a second step.

Participants voiced concerns that NMS will be confronted by larger Member States with individual and specific reduction targets at the 11th hour, making it difficult to react adequately. Workshop discussions made limited references to the suggested reduction

pathways as adopted by the European Council and submitted to the processes under the Kyoto Protocol and the UNFCCC. To allow for active participation of the NMS, AC and CC in these negotiations, it seemed agreed that there is an urgent need for reliable analysis of the economic and social costs of greenhouse gas reductions and adaptation to climate change. Participants apparently agreed that EU policies sometimes contradict efforts to fight climate change, e.g. structural funds support to a large extent unsustainable road infrastructure and the Lisbon Strategy focuses on jobs and growth, sometimes in conflict with efforts to protect the climate.

In more detail, the main points of discussion included the following issues:

1. EU position in further climate negotiations

It was agreed that **EU action** will have a very significant impact on future climate change negotiations. It was generally expected that EU action will be closely and critically observed by other actors of the climate change negotiations. In this context, it was said that the EU position must be based on the following criteria: future climate regime should be (1) environmentally effective, (2) inclusive, (3) fair, (4) feasible and practical. Mitigation should be the corner stone of EU efforts, but – in light of recent scientific findings – adaptation must play an increasingly important role. The structure of a future agreement is currently not foreseeable as various options are being discussed among scholars and negotiators. Participants made limited references to the suggested reduction pathways as adopted by the European Council and submitted to the processes under the Kyoto Protocol and the UNFCCC. One participant called for emission reductions of 15-20 % by 2015 and 30-35 % by 2020 (compared to 1990 levels). It was also suggested that the second commitment period should be longer than the first one. Long term goals will provide more security for investments.

Concerning the negotiations on future commitments, the **EU should continue to take the lead in fighting climate change**. The EU should lead through giving a good example, building bridges between contesting positions and providing new ideas. It was noted with satisfaction that other major players, such as South Africa and some US States, have joined the EU efforts and positions. In general, there currently seems to be more manoeuvring space, although it will take little to destroy recently emerged trust and confidence in the negotiations. Participants agreed that the EU will not be in the position to fight climate change effectively alone. Climate change will require the involvement of all major emitters, such as the US, China and India. There was also agreement that Annex I countries will have to take the lead.

It is hoped that the current two-track approach on negotiating future commitments will be concluded next year. There is apparently an agreement that it should be concluded by 2009 at the latest to allow for ratification without creating a gap between the first and second commitment period. It is also expected that the 4th IPCC Assessment Report in early 2007 will give additional momentum to the negotiations.

It was argued that the EU should be prepared to face controversies, in particular with major developing countries, over historical responsibilities of the EU when calling for a broader participation in a second commitment period. In this context, it was stressed that a detailed

and objective **understanding of the position of major players** will be a prerequisite for success. It was also stressed that the EU will only be able to lead climate change negotiations if it **speaks with one voice**. Contradicting views of Member States have the potential to undermine the EU position and potentially the entire process. Participants referred to existing differences between the positions of EU Member States, which exist not only between the old and new Member States but also between cohesion countries and non-cohesion countries.

Participants generally agreed that **EU policies sometimes contradict efforts to fight climate change**, e.g. structural funds supports to a large extent unsustainable road infrastructure. It was said that in Slovenia spending of **structural funds** on roads is twice as much as on trains. At the same time, it was argued that poor transport infrastructure could increase greenhouse gas emissions through congestion, a view which was contested by other participants who argued that new roads generate new traffic. Participants stated that the **Lisbon Strategy** focuses on the promoting competitiveness, sometimes at the expense of climate change policies. It was argued that climate change policies need to be better integrated into the Lisbon process, National Reform Programmes and EU funds. In this context, it was argued that prices have to reflect environmental impacts which is currently not the case. Participants referred to existing environmentally harmful subsidies in this context.

2. New Member States and Negotiations on further Commitments

Participants stated that the **NMS have the potential to be a positive show case**, given the potential gains through improved energy efficiency often considered to be a low hanging fruit. Given the length of the investment cycles in the energy sector, gains from improved energy efficiency should be harvested now. It was also argued that the NMS should contribute their experiences as economies in transition to the process. There are various opportunities, even for small countries, to have an impact on climate change negotiations if a clear and convincing case is made. Concerning internal EU negotiations and consultations, it was said that the **EU is generally a consensus seeking body**, enabling all Member States to make a case if well prepared. Participants noted the difficulties of some EU 15 Member States to meet the current reduction targets under the Kyoto Protocol and considered this to be an indication of challenges in fulfilling further reduction targets.

On the other hand, participants also argued that the **EU should take equity requirements into account**. In this context, per capita incomes should be taken into account, seeing that they are partly deemed as important as energy intensity. Participants highlighted that it is at the core of policies in the NMS, AC and CC to achieve a GDP similar to the one in the poorer old Member States as soon as possible. There were concerns that the specific situations of NMS will not be fully taken into account when developing the EU positions. Given limited negotiation capacities of the NMS, some participants were concerned that the NMS will be confronted by larger Member States with individual and specific reductions at the 11th hour, making it impossible to react adequately. It is currently unclear what mechanisms will be applied to come to an agreement on individual targets. Previous experiences in Kyoto, when individual reduction targets were tabled at a very late stage, give reason for concern. It was argued that the individual Kyoto target were the result of horse trading rather than the outcome of the application of objective criteria, such as economic performance or historical

responsibility. Participants argued that this procedure should not be repeated, partly because the NMS lack the capacity and political weight to take an active part in such negotiations.

Concerns were voiced that **emission reductions will put a burden on economic development of the NMS**. In particular, NMS with a high share of coal in their energy mixes will face economic and social difficulties when required to cut emissions significantly. In addition, the costs for adaptation have to be taken into account, an issue which has received only limited attention in the political debate of the NMS. It was stated in a working group that even limited reductions in the range of 5 % would be a great challenge for the NMS, AC and CC. In addition, it was said that , while Portugal, Ireland and Greece were allowed to increase greenhouse gas emissions, the NMS are expected to reduce their emissions further, although they are in a situation similar to the cohesion countries.

3. Joint Fulfilment of Commitments

It was felt that the term “burden sharing” is not adequate, since it obscures the benefits of climate change policies and could hamper efforts to fight climate change effectively. It was generally preferred to refer to “joint fulfilment” of commitments. It was also argued that **internal discussions on joint fulfilment of commitments are premature** as even the rough frame of a future agreement is not in sight. In addition, it is not a given that a new agreement will provide for the possibility of joint fulfilment of commitments as emission trading could render such arrangement obsolete. Emission trading in the EU will continue beyond 2012. A future agreement on joint fulfilment of commitments will probably differ significantly from the current arrangement, given the dimension of the problem and technological progress. Such internal discussions should be held when appropriate. There were also concerns that discussions within the EU on joint fulfilment of commitments could weaken the EU negotiation position as it would undermine the credibility of the EU’s leadership in the climate change negotiations.

In light of projected increases in greenhouse gas emissions from the NMS, participants also argued that **the NMS should agree to further reductions in emissions** and should not refrain from further action, although most NMS are currently in compliance with the reduction commitments of the Kyoto Protocol. Involvement of all relevant stakeholders will be essential for the further discussion in the NMS.

It was said that a clear and **concrete analysis of socio-economic costs of possible reduction targets as well as reduction potentials of the NMS is essential** for active participation in the negotiations over a post-2012 regime. In addition, adaptation costs must be closely analysed, an area which has only received very limited attention in the recent past. The analysis of costs should also take account relevant political debates, such as the negotiations of the financial perspective and the Lisbon strategy. As meaningful participation in complex international negotiations requires an involvement at an early stage, such analysis needs to be carried out urgently. In this context, it was suggested , in line with the findings of the previous workshop of the project, that setting up a working group on future commitments would be helpful.

4. The Challenge of Broader Participation

Participants underlined the fact that the **current Annex I-countries cannot alone address the challenge of climate protection**; therefore, broader participation by more countries and deeper participation with more ambitious reduction targets is necessary. Strategies for broadening and deepening participation would need to consider the barriers to extending participation as well as a range of possible approaches to addressing the obstacles. In that context, the workshop's discussions highlighted the potential in the Russian proposal to enable non-Annex-B Parties to be more effectively involved in the Kyoto Protocol by voluntarily taking up binding commitments, including GHG emission reduction targets.

One of the options for creating additional and stronger incentives for broader participation would be to couple international emissions trading with **Green Investment Schemes (GIS)**. GIS would provide long-term financing and transfer revenues for environmental and energy efficiency measures and provide assurance to buyers. GIS currently have no legal basis in the UNFCCC or the Kyoto Protocol, so that one would need to be created. This should allow different "greening activities" to be included in GIS, provide for flexibility in the crediting period, and establish adequate monitoring and reporting requirements. Within the right framework, which would include long-term quantified GHG emission reduction (or limitation) targets and a fair and feasible burden-sharing, GIS would promote strategic approaches to carbon management, allow flexibility to advance country-specific measures, and provide resources for capacity-building in the fields of mitigation and adaptation.

Participants considered **"league tables" of countries** based on different criteria and combinations of criteria to see which ones would need to be brought into or kept in the circle of participants with reduction commitments under the international climate protection regime. The criteria – historical and current emissions, economic activity (GDP) and population, natural circumstances – might form a basis for an objective or "scientific" setting of country-specific reduction targets, or they might help structure political bargaining processes. The discussions showed some variety in the relative importance of some countries depending on the criteria used. This indicates that the choice of criteria or weighting will be important in the political negotiations regarding the allocation of emissions and emission reduction targets to various countries. At the same time, the discussions showed considerable consistency in that essentially the same countries would have to participate no matter which criteria is used.

Concerning the international negotiations, participants concluded that **the architecture of the climate protection regime should be discussed and agreed first, with reduction targets coming as a second step**. It was noted that there are three exceptionally strong players, Russia, the United States, and China, and one player with a particularly strong commitment that may leave it vulnerable to exploitative negotiation tactics: the European Union.

It was found that the reasons for wanting to participate and accept deep reduction commitments are likely to be different for each country, so **incentives must therefore be considered on a country-by-country basis**. The debate about further differentiation has gained momentum among G77 countries already. International carbon markets and (private)

investment in projects is creating new momentum and also creating possibilities for the trading of allowances among governments.

5. Future of Flexible Mechanisms

Participants noted that **emission trading** has turned climate change policies partly into a financial issue, making it a concern of strategic business planning of the top management. NMS have to put into place registers and monitoring system for an adequate implementation of the EU-ETS. It was expected that carbon markets will operate on a global level in due course. It was argued that the EU has successfully shown that emission trading can work and that reduction of emission will not necessarily stifle economic development. The continuation and extension of carbon markets will require a stable and predictable frame. Such frame will require a legally binding agreement with the participation of other major countries, notably the US and Australia who were expected to join in due course.

6. Specific circumstances in Cyprus, Hungary, Malta and Slovenia

On the first day, the specific circumstances in Hungary, Malta and Slovenia were discussed. Discussions referred extensively to the case of Malta as well as to Hungary and Slovenia. The case of Cyprus was not discussed, as no experts from this country were present at the workshop. Participants noted the **great differences between these countries** in terms of economy, energy structure or legal status under the Kyoto Protocol.

Participants referred to the challenges **Malta** will face when temperature raises. Sea level raises and water stress will cause significant problems for Malta. Participants, however, noted that Malta has a great potential to identify solutions for small and densely populated islands, a fact which is not always fully appreciated by the European Commission. Malta has improved the energy efficiency of its economy although some companies refrain to publish progress over fears of losing competitive advantages. Malta was considered to be too small to attract or invest in CDM. In addition, it is technically not possible for Malta to be involved in JI or Emission Trading projects in the first commitment period of the Kyoto Protocol given the Non-Annex-I Status of the country. Malta continues to search for oil and explores the potential of off-shore wind farms (a public tender for wind farms has been launched recently). There is interest in a natural gas pipeline, although such pipeline is probably not economically feasible.

Participants stated that **Hungary** is one of the few EU Member States allowing auctioning of emission allowances. However, it was criticised that Hungary lacks transparent and credible energy policies as well as an energy strategy. It was also alleged that Hungary does not provide sufficient support for renewable energies and improved energy efficiency. It was said that energy demand in Hungary will fall by 30 % in 2050, partly because population is expected to decrease to 8.5 Million (from current 10 Million).

Slovenia is struggling to meet its targets under the Kyoto Protocol. Slovenia's growth in energy consumption outpaces the GDP growth, i.e. decoupling energy consumption and economic growth remains a challenge. Slovenia has, however, considerable carbon sinks (forests) and plans to invest in CDM and JI projects. The success of these projects will partly depend on stable and predictable carbon prices. Like the other two countries addressed above, Slovenia struggles with substantial increases in traffic emissions.