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# **Future Climate Change Policy: Looking beyond 2012**

**International Workshop  
11-12 April 2007, Prague**

## **Chairman's Summary**

**Ecologic – Institute for International and European Environmental Policy**

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On 11 and 12 April 2007, representatives from new EU Member States and Candidate Countries, the German EU Presidency and the European Commission met in Prague for a two-day international workshop on future EU climate change policies. Czech Deputy Prime Minister and Minister of Environment, Martin Bursík, spoke at the Workshop, which was attended by about 50 participants from government agencies, business, non-governmental organisations (NGOs) and academia. Czech Deputy Environment Minister Rut Bízková opened the workshop.

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 the Czech Republic, Poland and Slovakia. Ongoing international negotiations for a second commitment period from the perspective of the new Member States (NMS) and Candidate Countries (CC) were discussed at the second day.

R. Andreas Kraemer, Director of Ecologic, chaired the first day of event; Nils Meyer-Ohlendorf, Senior Fellow at Ecologic, chaired the second day. A press conference with Minister Martin Bursík, Karsten Sach (Ministry of the Environment, Germany, EU Presidency), Artur Runge-Metzger (DG Environment) and Nils Meyer-Ohlendorf was attended by representatives of the Czech press, radio and TV. The following 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 and CC. After the Stern Report, the partial release of the 4<sup>th</sup> Assessments Report of Intergovernmental Panel on Climate Change (IPCC) and the Conclusions of the European Council of March 2007, the workshop took place in a political environment that was considerably different from the one of the last workshop in Ljubljana (October 2006). The discussions were extensive and well informed. The Chatham House rule applied to this workshop.<sup>1</sup> 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 great threat and requires urgent and comprehensive action by government, business and society alike. There was also agreement that climate change policies provide an opportunity for economic and technological innovation and modernisation. It was considered very likely that the most efficient economies will be the most competitive ones in the future. Europe – as a first mover – is well positioned in this context and has a competitive edge in the area of environmental technologies, one of the fastest growing markets in the world. The projected increases in fossil energy prices will make renewable energies and energy efficient measures even more competitive. The overall economic, health and security benefits are considered to outweigh by far the investments required to combat climate change effectively. It was argued that these investments are essentially an insurance premium that needs to be paid to avoid the far greater costs of inaction. The notion that climate change policies and economic growth exclude each other

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<sup>1</sup> Under Chatham House rule, the content of discussions may be made public, provided it does not refer to a specific discussant

was rejected as a myth, which oversimplifies and underestimates the innovation potential of climate change policies.

Workshop discussions, however, revealed some uneasiness as to whether climate change policies will pose a burden on the fragile economies of the NMS. It was argued by a few participants that economic growth in the NMS will inevitably come hand in hand with increases in greenhouse gas emissions. It was observed that mainstream thinking in the NMS is that reductions in emissions come with a hefty social and economic price and that – consequently – further reductions should be achieved in the EU 15. Participants voiced concerns that NMS will be confronted with individual and specific reduction targets under a future burden sharing agreement in the 11<sup>th</sup> hour, making it difficult to react adequately.

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. Meeting the reduction targets under the first commitment period of the Kyoto Protocol will be essential for maintaining European leadership as well as a successful outcome of the current negotiations on a second commitment period.

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

## **1. The EU and Further Climate Negotiations**

Workshop discussions referred extensively to the conclusions of the European Council of March 2007.<sup>2</sup> The targets adopted by the European Council were considered to be the critical benchmark for future climate change policies. The Council conclusions, adopted unanimously by all 27 Member States, were called a breaking point in European policies. There were generally welcomed as they set or indicate a medium to long-term framework, which helps create investment security. It was said that this summit, in addition to recent reports by Sir Nicholas Stern and the IPCC, has given the climate change discussions an unprecedented momentum, which should be utilised to achieve a comprehensive mandate for the international negotiations on a second commitment period. Also, the November 2006 mid-term elections in the US have added new momentum, as have many initiatives in the US at state level.

It was agreed that the first commitment period under the Kyoto Protocol is an important but insufficient first step. Further reductions are required and the negotiations on future action should lead to commitments that would allow to reach the 2°C target of the EU, i.e. much deeper reduction targets than adopted under the first commitment period. It was also agreed that a new regime should include other countries, such as China and India, and other sectors, notably aviation, shipping and, if possible road transport. A new climate regime should also make stronger reference to technologies and adaptation.

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<sup>2</sup> Among the main decisions of the European Council are: a unilateral EU commitment of 20% reduction of greenhouse gas emissions by 2020, in comparison to 1990 levels, which will be implemented via a new burden sharing agreement among EU Member States; a conditional target of a 30% emission reduction for that period, depending on comparable commitments to be made by other developed countries and adequate efforts from economically more advanced developing countries; a binding target of a 20% share of renewable energies in overall EU energy consumption by 2020, which will be translated into differentiated national targets reflecting the specific conditions in different Member States. The last one but not least, a 20% target for improvements in energy efficiency.

In this context, there was agreement that the EU will only maintain a position of credible leadership if current reduction targets under the first commitment period are being met and if effective measures are adopted. The experience from the first commitment period provides invaluable lessons for designing the regime of the second commitment period. In this context, there was discussion on whether “soft” instruments such as the voluntary agreement with the European car industry, or the formulation of indicative targets for renewable energies, have been successful or whether the lessons from these measures would be to introduce binding instruments. The lessons from the emission trading scheme and other binding instruments have demonstrated that pressure helps companies and their engineers identify solutions quickly and effectively. It was also emphasised that policies and measures usually lead to measurable reduction effects only some time after they have been introduced, a fact that needs to be taken into account when designing and implementing the second commitment period.

There was consensus that the issue of adaptation will play a greater role in the future. While calculations of mitigation costs have become more detailed and precise over the last few years, there is only little information to date on the exact costs of adaptation. The EU will have little means to support adaptation efforts, thus the bulk of the adaptation measures will have to be taken by member states and private entities. However, it must be taken into account that some member states, notably Malta and Cyprus, will need support from the EU to adapt, given their particular vulnerability to the impacts of climate change. As the result of a “first screening exercise” for adaptation issues at the EU level, a communication from the Commission is expected in June 2007.

## **2. Future Climate Policies within the EU and its Member States**

There was discussion on whether the former socialist countries among the NMS should be considered as economies in transition. Participants referred to high unemployment and lower standards of living compared to the EU-15, on the one hand, but made reference to high growth rates on the other hand. It was agreed that the level of public debate and awareness related to climate change issues is considerably lower in the EU-12 than in the EU 15. There was consensus that NMS governments should improve consultations with all relevant stakeholders on climate change policies and their implications. In this context, it was emphasised that these consultations must be an exercise driven by the NMS and not the European Commission. However, some participants also maintained that input was needed from outside their countries to give more weight to climate change considerations in national public debates.

Out of those NMS that have reduction targets under the first commitment period of the Kyoto Protocol, all but one are currently on track to meet these commitments. The discussions made extensive reference to the high energy intensity of NMS’s economies, which was widely considered to be an opportunity to reduce greenhouse gas emissions cost-effectively. In this context, participants agreed that changes on the energy demand side will be particularly crucial to achieve greater cuts. It was said that ecological tax reform is a good tool to induce changes in the economy that are required to meet the challenges of climate change. Guaranteed feed-in tariffs for electricity from renewable energy sources were also discussed as a valuable tool. In general, the need for differentiated incentive structures was

highlighted, which take into account the variety of sectoral contributions and structural changes required to achieve mitigation targets. This implied that a whole set of policy instruments was needed to be put in place, rather than relying on just one instrument (such as the EU Emissions Trading System).

### **3. Joint Fulfilment of Commitments**

Given the conclusions of the European Council of March 2007, there was general agreement that a new burden sharing agreement will probably come in force sometime in the near future. Such agreement would have to reflect the specific needs of the member states but would also have to take into account that the EU will act as one, and therefore will accept one target. The principle of cost effectiveness and EU solidarity will allow only this approach.

Attention was drawn to the fact that - while the EU target was set in relation to 1990 emission levels - several NMS had adopted base years other than 1990. It is clear that burden sharing commitments of individual Member States must add up to meet a common target, but it is less obvious in which way the conversion of base years will be effected. For Poland, for example, a 20 % reduction target in relation to 1990 would translate into a 41 % reduction commitment when counted from its current base year of 1988.

It was said that some Member States, Germany for example, will have to accept deeper cuts, perhaps in the range of 40 % by 2020, than other countries, like the NMS. Participants referred to various criteria that could be used when designing a new burden sharing agreement, such as transparency, cost-effectiveness, historical reductions, current and projected trends of economic and social development, as well as energy supply structures. Caution was expressed against “playing on numbers”. For instance, a ranking of countries according to emissions per GDP produces very different results from a ranking on the basis of per capita emissions.

Some participants said that NMS are waiting for the European Commission to table their proposal on a future agreement, which – in turn – caused some participants to voice their concern over a passive approach of the NMS towards the preparatory work of the Commission. It was also argued that the term “burden sharing” is misleading, because it disguises the economic opportunities of mitigation efforts. It was suggested that the term “joint fulfilment of commitment” be used instead. A few participants also questioned the principle of burden sharing as such, because in their view it leads to a culture of irresponsibility, with each Member State expecting the others to take action.

### **4. Future of EU Emission Trading and the Kyoto Flexible Mechanisms**

There was consensus that the current flexible mechanisms should continue. Participants welcomed promotion by the Commission of the EU emission trading scheme (EU-ETS) in the rest of the world. It was agreed that the first phase of the EU-ETS should be considered as a learning phase, which has yielded only mixed results. The first phase of EU-ETS has shown that markets can function and that the amount of allowance is crucial for the mitigation and innovation effect of any trading scheme. It was said that emission trading in Europe has a big market for the beginning. The principle of grandfathering was questioned by some

participants. According to these participants, it should be replaced – at least in parts – by benchmarking. There were many voices calling for auctioning of a greater amount of allowances; and there were suggestions to task the European Commission with allocating allowances. The use of revenues from auctioning requires a harmonised approach.

It was agreed that the flexible mechanisms will only be successful in the future if clear emission reduction targets provide for long-term investment security. While there was consensus that all big emitters need to be included in a future global climate regime, some participants strongly rejected the recommendation that they be offered loose reduction targets in order to encourage participation. The concessions made to certain transition countries in the Kyoto Protocol negotiations were cited as a bad precedent. Instead, incentives for participation should be provided by offering other benefits, such as enhanced technology transfer. In this context, the question was raised as to whether the paradigm of global competition among economies (including searching for competitive advantages in environmental industries) is compatible with the notion of shared global responsibilities and solidarity.

The characteristics and potential of project-based flexible mechanisms (Joint Implementation, JI, and the Clean Development Mechanism, CDM) were compared to International Emissions Trading (IET) as an allowance-based flexible mechanism. JI, at present, has an insecure future for two main reasons: JI potentials in EU Member States have been severely reduced because of the interference with the EU-ETS (double counting problem), and credits generated from JI can only be traded until 2012 if no new legal basis is agreed upon. IET, in contrast, has not yet proven its potential but could come to play a more important role in the future, albeit with its very different associated problems and opportunities. The future development of IET will largely depend on whether Green Investment Schemes (GIS) can be successfully implemented, a concept that means that revenue from sold surplus allowances under the Kyoto Protocol (so called Assigned Amount Units – AAUs) is reinvested in mitigation measures. The World Bank is currently assisting a number of NMS in developing GIS via “options studies” and other activities; it is possible that pilot transactions will start in 2007. Under most scenarios, it is anticipated that there will be a much higher supply than demand for AAUs, which would imply that buyers will be in a strong position to shape the conditions for transaction. It was agreed that GIS should function on the basis of flexible bilateral agreements; a rule book negotiated at the UN-level (analogous to the project-based mechanisms) was considered too onerous to negotiate and would probably render results only at the lowest common denominator. It was, however, also said that some guidance or standards for GIS on the UN-level might be helpful to negotiate bilateral agreements.

## **5. The Relationship between Climate Policy Objectives and EU funding policies**

Participants examined the extent to which future use of EU funding from structural and cohesion funds (SF/CF) can be expected to be in line with existing climate policy goals. For the new programming period in 2007-2013, 177 billion Euro (around 60 % of total funds) will be made available to the Central and Eastern European (CEE) countries. The experience from the previous programming period gives reasons for concern: Spain, Portugal, Greece

and Ireland received the most EU funds per capita and experienced major rises in greenhouse gas emissions during that period.

At the same time, EU funding for the NMS provides great opportunities for increasing energy efficiency and renewable energy production, as well as preserving and extending sustainable transport systems. However, there is a risk that these opportunities will be missed. At present, the NMS have set up their operational programmes for the 2007-2013 period and the Commission will decide on them in the coming months. An NGO analysis of these operational programmes shows that energy efficiency and renewable energy have generally lower priority than as might be expected from in the Community Strategic Guidelines.<sup>3</sup> Transport projects make up 27 % of the total funds, and yet more than half of the funds are allocated to roads and motorways. It is to be feared that an uncontrolled emission growth in the transport sector will limit possibilities for industrial development, as this would mean that in order to fulfil national reduction targets, the industries included in the ETS would have to bear a disproportionate share in reduction efforts.<sup>4</sup>

Once operational programmes have been approved, potential for adjustment remains at the level of individual project development, which takes place at country and regional levels. This would call for innovative project ideas, as well as transparency and public participation in the decision-making process. Current developments suggest, however, that national governments are rather reducing than expanding public participation in the design of projects, fearing that extensive consultations will delay the start of projects. Furthermore, the recent public debates on operational programmes were often characterised by a confrontation of irreconcilable positions, rather than constructive discussions. In addition, more public involvement does not necessarily increase support for climate-friendly projects, as public awareness of these issues is still fairly low. For instance, there is strong opposition in Malta and Cyprus against extending wind energy capacities. It also important to note that within the area of environmental protection, funding priorities as well as public perception still concentrate in areas other than climate change, such as waste water treatment. One influencing factor is that in certain “classical” environmental policy areas, countries have to comply with a highly elaborated *acquis communautaire*, which forces them to make corresponding investments in these areas.

In order to increase climate-friendly investments from these funds, it was suggested that minimum funding shares be earmarked. Up to 5 % of total funding, for example, could be allocated to energy efficiency and renewable energies, and 75 % of funding in the transport sector could be earmarked for environmentally-friendly investments, such as in railways and urban public transport. However, the Commission only has a mandate to examine whether operational programmes are in accordance with formal criteria. Certain opportunities at the Community level to introduce stricter environmental criteria may remain in the context of guidelines for the application for funds, which are still due to be developed.

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<sup>3</sup> Each of these two areas make up about 1 % in the operational programmes, while together they would amount to 8.5 % if all funding priorities established by the European Commission were treated equally.

<sup>4</sup> The Polish Government has calculated that GHG emission in year 2013 will be 31% higher than in year 2003 as a result of EU Funds.

It was argued that climate change policies should play an important role during the Mid Term Review of Structural Funds and that funding priorities should change if the review indicates that funding has led to an unacceptable increase in GHG emission from the NMS. It was also suggested to substitute structural funds by a Low Carbon Economy Fund after the year 2013. This Fund should help to fund the cheapest ways for reducing or avoiding GHG in the EU 27.

## **6. Specific circumstances in the Czech Republic, Poland and Slovakia**

Specific circumstances in the Czech Republic, Poland and Slovakia were generally discussed in the broader context of the NMS. With regard to these three countries, it was said that they will have to contribute to the medium term reduction commitments of the EU with their own reductions. With respect to the long term, it was argued that these countries could implement reductions by 90 % for the Czech Republic, 83 % for Poland and 86 % for Slovakia (compared to 1990) by 2050. It was argued that these reductions would be necessary from the scientific point of view. It was also stated that – while these reduction targets seem impossible – it is also true that sending a man to moon seemed unthinkable only a few years before Apollo actually landed on the moon in 1969.

All three countries are among those with the highest greenhouse gas intensity per GDP in the EU. But when comparing emissions per capita, the picture is significantly different: only the Czech Republic is among the highest ranking countries (but several EU-15 countries have a still higher GHG intensity), while Poland and Slovakia are below EU average.

It was observed that while certain climate policy goals, strategies and measures are in place in all three countries, policy frameworks are not yet sufficient to ensure that emission reductions achieved during the process of economic transition can be maintained in the long term. Between 2000 and 2004, greenhouse gas emissions have only decreased in the Czech Republic, while they have slightly increased in Poland and Slovakia. Some specific national conditions were also highlighted. In Poland, for instance, low per capita GDP (also in comparison with most other NMS) and high unemployment rates contribute to opposition against any policies that are perceived to interfere with the primary goal of economic development or impose additional burdens on consumers. Furthermore, the share of domestic coal in energy generation is very high, which results in a high carbon-intensity. A shift to imported energy carriers with lower carbon content, notably natural gas, is viewed with great suspicion because of the associated risks for supply security. Unlike Poland and the Czech Republic, Slovakia's share of renewable energies in electricity production is above EU average, which is mainly due its large-scale hydropower capacities.

In the Czech Republic, there are concrete plans to adopt an ecological tax reform, which will be fiscally neutral by decreasing taxes on labour and increasing taxes on energy consumption or greenhouse gas emissions. Participants deplored that Poland – despite considerable consultation efforts over the last years – has not made similar progress. It was suggested that the example of the Czech Republic could be further explored through regional co-operation, e.g. via a regional working group on ecological tax reform.