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Future Climate Change Policy in the Accession and Candidate Countries: Looking beyond 2012

**International Workshop
14-15 June 2006, Sofia**

Chairman's Summary

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On 14 and 15 June 2006, representatives from the Candidate and Accession Countries and the European Commission met in Sofia for a two-day international workshop on future European Union (EU) climate change policies. Bulgaria's Deputy Minister of Environment, Jordan Dardov, opened the Workshop, which was attended by about 40 participants from governments, business, non-governmental organisations (NGOs) and academia. A consortium, led by Ecologic – Institute for International and Environmental Policy (Berlin) – organised the workshop. The workshop was sponsored by the European Commission and was the third in a series of events, intended to promote stakeholder and policymaker dialogue on this very important issue within the New Member States (NMS), Accession Countries (AC) and Candidate Countries (CC).

Nils Meyer-Ohlendorf, Senior Fellow with Ecologic, chaired the event. The workshop was divided into two working groups on the second day. Daniela Stoycheva of the Bulgarian Ministry of Environment and Water chaired working group No 1 on future burden sharing and the future of the flexible mechanisms. Lavinia Andrei of the Romanian NGO TERRA Mileniul III chaired working group No 2 on the potential of energy efficiency and future energy mixes. The following conclusions – compiled by Ecologic – 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 Candidate and Accession Countries. The discussions were extensive and productive. The workshop was held against the background of the 11th session of the Conference of the Parties (COP 11) to the United Nations Framework Convention on Climate Change (UNFCCC) in December 2005 and the 24th session of its Subsidiary Bodies (SB 24) in May 2006. 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. It was felt that the discussion would have benefited from participation of Commission representatives throughout the entire workshop.

Participants agreed that climate change poses a threat to the Candidate and Accession Countries, although uncertainties still exist concerning the timing and dimensions of the threats. Damages caused by the 2005 and 2006 floods demonstrated the vulnerability of the Candidate and Accession Countries to extreme weather events. In this respect, more effort must be dedicated to adaptation which in particular requires strategies at the local level. Participants also agreed that communication between scientists and policy-makers must be improved.

Concerning the second commitment period, participants agreed that more ambitious targets and action on the global scale are needed, and that a delay of action will increase costs. Participants agreed 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. It was also agreed that the carbon markets must continue to function after 2012. In this respect, certainty is absolutely crucial for long-term investments.

To allow for active participation of the AC and CC in these negotiations, it was agreed that there is a very urgent need for reliable analysis of the reduction potential of the AC and CC. In this context, participants agreed that a **working group on future commitments**

consisting of representatives from the AC and CC as well as the European Commission would be instrumental to:

- identify the reduction potentials of the AC and CC for the second commitment period;
- inform the AC and CC on the preparation of a possible burden-sharing agreement (on the international and/or EU level), in particular the future criteria for designing such a system and
- discuss a future burden-sharing agreement within the EU.

Regarding domestic energy policies, in particular the promotion of energy efficiency, it was observed that much stronger national institutions were needed to co-ordinate and implement measures. A wealth of ideas and good practice examples exists (also from the EU-15) but they are not yet being used in a systematic manner. In this context, the establishment of a permanent regional working group on energy efficiency, involving various stakeholders, was suggested.

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

1. Common challenges for AC and CC

Apart from certain similarities between Bulgaria and Romania, the conditions in the AC and CC differ considerably from one another. However, all AC and CC face urgent institutional and capacity needs, e.g.:

- A severe **lack of funding**. Until recently, no governmental funding was available at all for climate change activities, which have still a low priority on the political agenda.
- **Lack of comprehensive studies and reliable data** for the estimation of the costs and benefits of complying with a future climate change regime. AC and CC lack the resources to finance such studies, which would therefore need to be financed by the EU.
- **Reporting requirements** under the UNFCCC and the Kyoto Protocol pose considerable challenges for the AC and CC. AC and CC have missed reporting deadlines due to their limited capacities, entailing the risk of being excluded from the Kyoto mechanisms.
- **Participation in the EU Emissions Trading System (EU ETS)** is a big challenge for governmental institutions as well as for industry. Some enterprises even lack information as well as basic technical capacity to participate in the EU ETS, e.g. do not have computers.
- New policies are needed besides the EU ETS to cover all sectors. Climate change policies need to be **integrated in other sectoral policies** in line with a coherent sustainable development strategy.
- **Negotiation skills** need to be developed for negotiations with(in) the EU as well as in the UNFCCC and Kyoto Protocol context. Building negotiation coalitions is very useful even if the group of countries is small. The former “Central Group 11” could serve as a role model and could be revived by new candidate countries.

- **Public awareness** needs to be increased. The recently launched EU campaign shows the possibilities of action in this field, but also underlines the differences in resources between the AC and CC on the one hand and the European Commission on the other.

2. EU position in further climate negotiations

Participants noted that up until now, **no clear EU reduction targets** have been agreed upon for 2020 and 2050. It was argued that various processes and factors – notably the position of the US and other major players – will have a significant impact on the EU position, making it difficult for the EU to agree swiftly on one clear reduction goal. However, some participants were concerned that the lack of a clear EU position may weaken its claimed leadership in the international negotiations and thus the whole process. In Kyoto, the EU negotiated on the basis of a clear target, which was instrumental for the successful outcomes of the negotiations. Participants agreed that the **AC and CC should be fully involved in developing the EU position.**

3. Future burden sharing

Although international negotiations are at an early stage, it was expected that a new international regime will allow for a **burden sharing agreement**. It was also expected that a post 2012 regime would contain a multi-staged approach with a clear target for 2020 and some indications for 2050. Participants agreed that a clear analysis of reduction potentials of the AC and CC, as well as socio-economic implications of possible reduction targets, is a prerequisite for active participation in the negotiations over a post-2012 regime. 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, participants agreed that setting up a **working group on future commitments** would be helpful, which would consist of representatives from the AC and CC as well as the European Commission and relevant experts from the member states. This working group should be initiated by the CC and AC and established by the European Commission.

In addition to the general uncertainties evident at the beginning of negotiations, it seems particular unclear **how AC and CC would be involved in the negotiations** of a future burden sharing agreement. Given the AC's and CC's respective status towards the EU negotiations as observers or without any formal involvement, the question was raised whether they will have to negotiate their own targets or whether they will be in some way attached to the EU target. It was also noted that there is still no clarity according to which formula an EU burden sharing regime could be designed. Furthermore, the question was raised of what the status of a country like Macedonia implies, which is a non-Annex I country but at the same time obliged to participate in the EU ETS. In this context, it was pointed out that Malta and Cyprus are in a similar situation.

In order to establish a new burden sharing regime, participants agreed that a **methodology** should be used which respects the basic differences between the countries concerned. An analysis of the EU-15 burden sharing under the first commitment period was deemed necessary. There was consensus that the following **criteria** should be taken into account when designing a future burden sharing regime:

- economic performance,
- carbon dependence of the economy,
- historical contribution to overall emissions,
- emission level in the base year,
- possible future energy sources and supplies,
- adaptation capacity and vulnerability to climate change.

Participants stressed that they are in favour of **further reduction of GHG** in the 2nd commitment period. In this context, they will support the EU efforts, in particular efforts to broaden participation, though AC and CC will play a limited role in this respect given their limited resources. Participants also stressed that targets within a burden-sharing agreement must reflect the specific circumstances in the AC and CC. It must be avoided that current performance is converted into future commitments in an unfair manner. As emissions are projected to increase, a **much more stringent target in the 2nd commitment period** (e.g. -15 %) could pose a **great and ultimately unacceptable burden** for the AC and CC. In this respect, a burden sharing agreement must be shaped in a way that fully respects the capacities of the AC and CC, i.e. it should provide for sufficient flexibility.

Participants expected clear **guidance from the European Commission** in the post-2012 discussions given the fact that these negotiations pertain to a time span which is usually beyond governmental action in the context of short electoral terms. Guidance from the Commission should include suggestions for incentives the EU might offer to the AC and CC to ensure their participation in climate policies. Participants also stressed the need for full **stakeholder involvement** in the post-2012 discussion: Since the time the Kyoto Protocol was negotiated, awareness has greatly increased with respect to the problem of climate change, but also to the possible implications of mitigation commitments on the economy. Therefore it is critical to address the concerns of all relevant groups and to involve them in a constructive way.

4. Future of Flexible Mechanisms

Participants expected that the flexible mechanisms will be **strengthened** in the second commitment period. It was uncontested that the EU-ETS will continue to operate and will be enhanced by the inclusion of other sectors and other GHGs. Concerning the Clean Development Mechanism (CDM), participants believed that it will continue to be developed and will become a more important instrument for GHG reductions, especially as carbon capture could be included. It was expected that business actors from the AC and CC will probably invest in CDM in the future, i.e. evolve from Joint Implementation (JI) host countries into CDM investor countries.

The importance of clarifying the future **role of JI** was highlighted. Concerns were expressed that the European Commission does not dedicate enough attention to this mechanism. It was noted that JI is developing dynamically as the JI Supervisory Committee has been set up and the JI Track 2 procedure is scheduled to become operational by the end of this year. However, funding for the JI Supervisory Committee has been very limited, jeopardising its

successful functioning. Participants expected that in the future, JI will continue to play an important role in Russia, Belarus and Ukraine but will most likely cease to operate in the AC and CC. It was expected that International Emissions Trading in connection with Green Investment Schemes, and the CDM would entirely replace JI in the latter countries.

5. Future Energy Mixes in the AC and CC

The **example of Croatia** was used to highlight attitudes and drivers for action in the electricity industry in AC and CC. The industry has come to perceive climate change as a real and serious problem. Future policies have to take into account other factors as well, such as energy supply shortage, growing dependency on energy imports (in particular natural gas), and difficulties in finding locations for new power plants. While legislation promoting renewable energies still needs to be implemented and further developed, companies may already undertake some measures on their own initiative. For instance, HEP, Croatia's leading electricity producer, promotes small-scale renewable energy producers by power purchase agreements (PPAs) with favourable prices. In addition, all HEP hydropower has received the "green energy certificate". Since coal will continue to be an indispensable part of the energy mix, carbon capture and storage is seen as a very promising technology in the long term. Coal gasification technologies may provide further means to achieve "clean coal", but are regarded as a still more distant prospect. The option of extending the use of nuclear energy remains on the agenda and is under serious consideration in the AC and CC.

In the discussion, the following suggestions and aspects for consideration were highlighted:

- **Energy strategies:** At present, governments in the region currently pay insufficient attention to renewable energy and concentrate too much on traditional energy sources. Their attention should be drawn to the question of how to **better combine renewable energy with traditional sources**. Long-term goals and strategies, such as the Swedish plan to phase out fossil fuels by 2020, would be helpful to guide action.
- **Security of supply:** Recently, the focus of EU energy policy has shifted towards security of energy imports, notably from Russia. However, diplomatic efforts will not "cure the disease" which is heavy reliance on energy imports from a few countries. Only an increased use of new energy sources will effectively decrease this dependency.
- **Finding locations for new (renewable) power plants:** In order to cut transaction costs for renewable energy installations, country-wide studies should define areas where such plants may be built without additional administrative procedures, i.e. areas with low population densities and no specific nature protection requirements. There could even be obligations for land-owners to develop the land for energy generation or to sell it.

6. The potential of improved energy efficiency for AC and CC

It was noted that there is great potential for **small-scale energy efficiency measures** in the AC and CC, but various challenges for their implementation persist. In particular local authorities have limited capacities to pursue energy efficiency projects without external support. Compared to economic and social considerations, environmental aspects are not

relevant for local business or municipalities. Finding ways to link these small energy efficiency projects to the Kyoto mechanisms is still a challenge: They are generally too small to qualify for JI, but projects may be established as a priority for Green Investment Schemes.

Given the small size of most energy efficiency projects, participants highlighted the need to address the following **issues to promote energy efficiency measures**:

- Public awareness is crucial for enhancing energy efficiency. In this respect, the requirement to reduce CO₂ emissions should be presented in a way that it is not perceived as a punishment, but as a common goal. A “culture” of energy saving needs to be established.
- In contrast to certain large single investments, energy efficiency measures are not likely to receive much publicity. This tends to make them unattractive for politicians. In addition, the link between energy conservation and climate change mitigation is still not obvious for many decision-makers.
- Care needs to be taken to keep the administrative burden low. Many options for reducing emissions and energy use are unworkable because transaction costs are too high.

Participants underlined that energy supply to households is still considered in the AC and CC as a **social good, rather than a commodity**. In this respect, participants stressed the importance of adequate energy prices for improving energy efficiency. There needs to be a shift away from general subsidising of energy use towards more targeted subsidies for poor households. In addition, governments could subsidise energy conservation measures, e.g. the purchase of energy-efficient household appliances. In Turkey, for example, there is legislation underway to exempt energy-saving products from VAT. However, such an approach would not be compatible with EU state aid legislation.

It was agreed that existing EU legislation is already providing numerous instruments that help reduce greenhouse gas emissions. However, aside from persisting implementation problems, it was also felt that current EU policy instruments were still too weak in many areas. It was noted that there was a wide-spread attitude in AC and CC to wait for initiatives from the EU, while more active domestic approaches might be appropriate. It was also questioned whether the current tendency of “soft regulation” in the fields of energy and the environment was adequate to address the climate change problem. Generally, a need for **strong regulation** was emphasised. In certain cases, more “sticks” and less “carrots” may be required to achieve progress, e.g. a more aggressive phase-out of outdated, carbon-intensive technologies. It was also pointed out that in some instances, such as in the case of district heating, consumers’ freedom of choice undermines the functioning of environmentally sound systems.

Participants argued that **public buildings** should serve as a role model in energy-efficiency measures. It was suggested that public authorities should be obliged to renovate buildings which are not in compliance with current energy-efficiency standards under their responsibility. It would be left up to them whether they commission Energy Service Companies (ESCOs) or organise and finance renovation on their own. In this context, it was stated that ESCOs should also operate in the private sector. In Turkey, a system exists where the state trains independent energy experts. For industrial installations, a check by

such experts has been mandatory for many years; this requirement should be extended to buildings.

It was stated that existing **institutions** for the promotion of energy efficiency and renewable energies require considerable improvement. Generally, existing institutions lack funding and often are not very active in promoting measures to reduce energy use. The adequate funding for such institutions would be in the order of 30-40 mio. Euro per year for each country, which is in sharp contrast to the current budget levels which at the highest consist of a few million Euro. Participants also said that NMS, AC and CC could learn from the work of Western European energy efficiency agencies.

EU structural and cohesion funds will constitute an important source of funding for new Member States. It is the countries' own responsibility to spend these funds in an effective manner, including on energy efficiency projects and institutions. If clear **strategies** for sustainable energy production and consumption are in place, the funds can be used in a targeted way; if not, they may be used up without leading to significant progress. In this context, it would be helpful for countries to set themselves **energy efficiency targets**, along the same lines as the existing renewable energy targets.

It was suggested that a **regional working group**, or "think tank", for energy efficiency could be set up. It would consist of experts from various institutions (research, NGO, business, government officials). In this respect, participants agreed that funding for such initiative should be stable and for the long-term.