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Future Climate Change Policy: Looking beyond 2012

**International Conference
16 October 2007, Budapest**

Chairman's Summary

Ecologic – Institute for International and European Environmental Policy

Pfalzburger Str. 43-44, D-10717 Berlin, Tel. +49 30 86 88 117, Fax +49 30 86 88 0100

E-mail: meyer-ohlendorf@ecologic.de

On 16 October 2007, representatives from the new EU Member States (NMS), Candidate Countries (CC), and the European Commission met in Budapest for an international conference on future EU climate change policies. The Conference was attended by more than 50 participants from government agencies, business, non-governmental organisations (NGOs) and academia. It concluded a series of events which was designed to help facilitate discussions in the NMS and CC on further climate change action, create additional public awareness and networks of relevant stakeholders, and strengthen the capacity of NMS and CC to contribute to the negotiations on future EU and global climate policy. A consortium, led by Ecologic – Institute for International and Environmental Policy (Berlin) – organised this series of events, which was commissioned by the European Commission.

R. Andreas Kraemer, Director of Ecologic, chaired the conference. A press conference with, Tibor Faragó (Hungarian Ministry of Environment and Water), Artur Runge-Metzger (DG Environment) Andrzej Kassenberg (Institute for Sustainable Development, Warsaw) and R. Andreas Kraemer was attended by representatives of the Hungarian press, radio and TV. The following conclusions do not constitute a binding or exhaustive summary of the discussion.

The Conference drew conclusions from the project and produced recommendations for policy makers. It addressed a wide range of issues pertaining to future EU climate change policies and the implications for the NMS and CC. The Chatham House rule applied to this Conference.¹ The Conference's discussions benefited from various introductory presentations and brief kick-off statements, which were given by representatives from business, government agencies, academia and NGOs.

As a result of discussions during the project, it was suggested that the NMS are prepared to share responsibilities when combating climate change. It was also concluded that NMS do not have a strong voice in the EU climate change policies and negotiations yet. However, it was concluded that the knowledge and weight of climate change issues has increased considerably since the project was launched in 2005. The project has contributed to this increase in awareness and clout.

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

1. The EU and Further Climate Negotiations

The political momentum to fight climate change is constantly growing, particularly during 2007 when the IPCC published its 4th assessment report, Al Gore and the IPCC won the noble peace price, and the European summit adopted ambitious targets in March. In this context, the Commission will propose a **comprehensive climate and energy package** in December 2007 [now postponed until January 2008], which will include proposals for a revised emission trading scheme as well as proposals on effort sharing on greenhouse gas emission reductions and renewable energies. The proposals will call for a regulation on effort sharing on reduction commitments and renewable energies. A regulation was considered to

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

be an adequate instrument as fixed targets on limited flexibility will be required for a successful effort sharing. An implementation package is intended to be adopted before the end of the term of the European Parliament and Commission, i.e. 2008. Participants discussed whether to call the proposal burden, effort, responsibility or opportunity sharing but voiced concerns that overemphasising alleged opportunities would raise suspicions over real costs rather than trust.

The **Commission was criticised for** a lack of transparency in the deliberations regarding the energy and climate package. It was argued that – despite contrary requirements of the March EU summit conclusions – Member States have not been fully engaged in the discussions. NMS voiced concerns that they would be confronted with the proposals when they are not ready to respond adequately, in particular because data on reduction potentials is missing. It was also said that a confidential package, dubbed by some participants the Santa Clause Package, will not be accepted by Member States. As the proposals on effort sharing will be crucial for future energy and climate change policies, participants asked for a better involvement of Member States and the public. Concerning the content of a future burden sharing, it was argued that the criteria used for the first agreement could not be copied as the Emissions Trading Scheme (ETS) has to be taken into account. However, it was also highlighted that the EU provides many opportunities to participate in the discussions on burden sharing, e.g. the expert group on negotiations, recent exchange of energy directors on the subject.

Discussions touched on the **international negotiations** in general and the next COP / MOP² in Bali (December 2007) in particular. There was agreement that the UN is and will be the home of global negotiations on climate change. It was also generally agreed that the building blocks of a Bali Roadmap should include:

- a shared vision on the objective of keeping the mean global temperature increase below 2 °C,
- aiming for a global reduction of greenhouse gas emissions in the range of 50 % by 2050 and legally ambitious targets on emission reduction,
- fair contributions from developing countries,
- a central role for a global carbon market,
- action to halt deforestation,
- inclusion of emissions from aviation and shipping in reduction targets,
- the development and deployment of technologies, and
- adaptation to climate change impacts.

² Conference of the Parties [to the United Nations Framework Convention on Climate Change] serving as the meeting of the Parties to the Kyoto Protocol.

2. Joint Fulfilment of Commitments

The **PRIMES Model**³ was criticised as being a black box that neither allows for a full understanding of results nor transparent participatory involvement of all stakeholders. Carbon intensity and per capita emissions were considered to be essential criteria for a future burden sharing agreement but essentially a differentiated approach will be required, which reflects the limited capacities and economic needs of the NMS.

It was generally agreed that the reduction potential of the NMS is basically unknown and that an intensive discussion on procedures and criteria is needed now, more urgently than a discussion on results. Practical experience suggests that it will be difficult to assess reduction potentials as companies often consider emissions data to be confidential and will not make it readily available. In this context, it was agreed that **NMS lack sufficient scientific capacities** to fully understand the implications of climate change and policies designed to address these implications. NMS capacities are particularly insufficient to evaluate the social, economic and political implications of climate change on these countries. Until last year, assessments of costs effectiveness and reduction potentials were basically absent.

In this context, it was said that the reduction units might be cheaper in the NMS which only raises the question of how to trigger investments in a low carbon economy. This thorny question is key and unresolved.

3. The Role and Contribution of New Member States and Candidate Countries to International Climate Change Policies and Negotiations

There was **agreement on the European targets on emission reduction**, renewable energies, and energy efficiency as adopted by the European Council in March 2007. However, there was **controversy concerning the allocation of emission allowances under NAP II**. It was argued that requested cuts in proposed national plans mainly refer to NMS, i.e. it was alleged that NMS finance the fulfilment of a substantial part of EU 15 Kyoto commitments. It was also claimed that European Commission has not taken into account the development needs of – for example – Poland when reducing the amount of requested allowances by 28%. In this respect, the decision of the European Commission clearly strays from the principle of solidarity within the European Union, that was applied in the Burden Sharing Agreement of 1998 by allocating differentiated greenhouse gas reduction or stabilisation targets to the EU-15 Member States.

It was argued that **NMS lack the capacity to fully participate in international negotiations** and – as consequence – find it difficult to add value to the European and international deliberations. Participants argued that NMS can use their understanding and networks to countries of the former Soviet Union as a specific and unique contribution to climate change negotiations. It was also argued that NMS should not complain like some developing countries about the economic burden of emission reduction, but should accept that economic development can come hand in hand with emission reductions.

³ See <http://ec.europa.eu/environment/air/models/primes.htm> and <http://www.e3mlab.ntua.gr/manuals/PRIMsd.pdf>

4. Future Climate Change Policies: Economic Opportunities and Challenges for the New Member States and Candidate Countries

Enhancing **public awareness** of climate change and the need to develop policy responses remains a key challenge but some progress can be noticed. Public attitudes to climate change were characterised on the example of the Baltic region. Political decision-makers are generally well aware of climate science and its implications. The broader public has a limited perception of climate change risks, but is generally open to scientific findings on climate change impacts. The use of renewable energies is well established in the public consciousness, and the notion of becoming “clean” is received very positively. Overall, scepticism towards technological change is widespread, but sound arguments have a chance of being heard, in particular where environmental technologies go along with saving money (energy efficiency).

Climate policy targets may help in identifying even no-cost options. However, the perception that there are abundant low-cost or negative-cost greenhouse gas **reduction options** may be still true for the residential and institutional sectors, but less and less for the business sector. The transport sector is a specific problem – here, emissions are continuously rising and predicted to rise further, which reflects a convergence towards the problematic development in the EU-15.

The view was expressed that it should be openly acknowledged that carbon policy imposes a **constraint on the economy** and thereby inevitably has its **cost**. Carbon restrictions will prevent the economy from achieving the highest possible growth path, at least in the short term: they impose a challenge of conditional optimisation. In the longer term, the economy will adapt to restrictions and develop towards a new equilibrium. One can take as an analogy from the economies in transition the new balance between increased crime incidence and, as a consequence, increased security expenses.

There are business opportunities for some sectors and players, but there are winners and losers. There is not only the issue of less growth but even the risk of losing whole sectors of the economy, depending on the carbon cost difference between the EU and countries outside the EU. As a consequence, business opportunities should be explored but not be presented as the main rationale for climate change policies. What we really gain from climate policies is the **avoidance of damage costs** that are likely to be dramatically high. The costs of action can thus be regarded as **insurance costs**. Active climate policies can be seen as a “bet on the future”, pushing research and development in a low-carbon direction. As a consequence, restricting the share of bought-in emission certificates in compliance with climate policy targets is not primarily a fairness issue, but balances innovation policy against short-term economic efficiency.

Of course, the **co-benefits** of climate change policies need to be taken into account. In particular, growth scenarios for more remote time periods heavily depend on assumptions on future energy demand and supply. Synergies between mitigation and adaptation measures may be explored, e.g. afforestation and alternative flood management / water capture.

In the **global arena**, pushing for ambitious targets can be seen to be in the interest of new Member States, but on the condition of a fair distribution. To some extent, new Member States’ commitments and burden sharing (or “effort sharing”) within the EU can be used as a model for “pulling in” developing countries. There is some analogy of the “old” / “new” EU

Member States constellation to developed / developing countries: A differentiation of commitments is required due to different starting positions. In terms of relevant indicators, a double **convergence** between old and new Member States could be stated as a goal: GDP/capita converging upwards while GHG/capita converging downwards.

Within the EU internal market, there should be a reflection on possible **protective measures** to take into account the specific economic vulnerabilities of certain Member States with regard to certain industrial sectors. In trade relations with countries outside the EU, border tax adjustments should continue to be considered even though at present there is opposition in the WTO to this instrument. In principle, one single global carbon price (which would necessitate a global regulator) would be the ideal solution, and even if we are still far away from this situation, it should be kept in mind as a long-term goal.

There was a discussion on how much **domestic energy-intensive production** should be kept in the EU. It was emphasised that certain industrial products will continue to be indispensable for the economy and society, even if they are produced abroad. There are physical limits of energy and carbon efficiency (e.g. process emissions from cement industry). In addition, energy intensive EU industries often use much more energy-efficient technologies than competitors outside the EU. "Security of supply" concerns may be valid not only with regard to energy, but also to goods from energy-intensive production.

On the other hand, major **structural changes** are taking place anyway. Traditional heavy industries are disappearing while services and high technology are expanding. When looking at Western industrialised countries, an advanced process of "deindustrialisation" is not necessarily bad for the economy. While the process of modernisation and structural change has its economic and societal costs, it also represents a huge opportunity to "**leap-frog**" equipment and structures in other industrialised countries. Green "**lead markets**" need to be found where EU industries, and in particular those of the new Member States, have a chance to be competitive on the world market in the long run. The European Commission is in the process of proposing a new EU industrial policy which would identify such lead markets and set market-based incentives to invest in these sectors. There was agreement among the participants that a stable, harmonised policy framework for green innovation within the EU was needed. Doubts were expressed, however, that the new Member States will profit from such initiatives if the same conditions are applied for all Member States, regardless of their different starting positions. A better understanding of market mechanisms still needs to be developed among the various economic and political players in the new Member States. The lack of capital for climate-friendly, sustainable investments continues to be a severe problem. This also refers to all sorts of equipment in households and the public sector. Much energy-saving could probably be achieved if it was possible to accelerate replacement cycles.

In addition, it is not obvious what would be the lead markets where new Member States would have a competitive edge. Energy from biomass might be such an opportunity. There might be a potential for developing innovative solutions that would also be applicable in developing countries. The active participation in market-based mechanisms under the Kyoto Protocol was highlighted as an opportunity. There are considerable skills and research capacities available in the new Member States and Candidate Countries. The challenge is, however, to create attractive employment opportunities and avoid further "brain drain".

The widespread use of **combined heat and power (CHP)** in the economies in transition still has a potential to become a positive example of a climate-friendly energy supply structure. However, this will only materialise if CHP is properly modernised and expanded. At present, CHP is not very popular and there is a tendency to shift to other supply systems. There is a dangerous tendency that households develop unregulated, environmentally harmful heating systems because people cannot afford to modernise their heating systems. This problem of small emission sources, with its negative air quality and health impacts, affects many regions with millions of people. In this context, it was argued that biomass should preferentially be used as a heat source for households, rather than for electricity generation. As part of domestic policies, some participants recommended to introduce lump-sum rebates in compensation for the abolition of subsidies for energy use in households. Such an instrument would provide incentives to save energy while maintaining overall financial support to vulnerable households. It was also said that EU policies need to address **fuel poverty** more seriously. More broadly, the **social dimension** of climate policies needs to receive more attention. In the new Member States in particular, there is a traditional emphasis on the natural science aspects of climate change, whereas social science and policy research in this area should be strengthened.