UNDERSTANDING THE EUROPEAN COUNCIL CONCLUSIONS ON CLIMATE: **A 10-STEP GUIDE**

Joseph Curtin

IIEA
iiea.com
Sharing Ideas
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The Institute of International and European Affairs
Tel: (353) 1-874 6756.
Fax: (353) 1- 878 6880.
E-mail: reception@iiea.com.
Web: www.iiea.com
8 North Great Georges Street,
Dublin 1,
Ireland

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Written by Joseph Curtin.

Cover design and type by Alba Comenge

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EXECUTIVE SUMMARY

At the European Council meeting on October 23 the EU's 28 leaders reached a unified position on the broad framework for climate policy for the 2020 - 2030 period. The dimensions of this framework, set out in the Council Conclusions, will now be interpreted by the Commission and translated into legislative proposals, with Member States closely monitoring this process.

A detailed package with profound implications for Member State energy, climate, agriculture, transport and industrial policy will take shape over the next 18 months. The agreement enables the EU to bring a clear commitment to the Lima climate conference in December 2014, and was necessary in order to sustain momentum along the road to an international climate agreement in Paris in 2015.

A constructive ambiguity, however, characterises what was agreed in several key respects. This guide interprets the Council Conclusions by provisionally answering 10 key questions.

1. Is the overall mitigation pledge ambitious?

The Council agreed to "**at least** [a] 40% **domestic** reduction in greenhouse gas emissions by 2030 compared to 1990". The level and timing of this commitment is ambitious, especially in comparison to the commitments of other major international players. The wording leaves open the possibility of further strengthening this objective and puts the focus on domestic decarbonisation, thereby precluding the option to buy further carbon credits on international markets. The continued availability of "banked" international credits is a major weakness, which could critically undermine the strength of the target if it is not addressed in ongoing negotiations.

2. Will the proposed reforms to the EU Emissions Trading Scheme (ETS) ensure that it drives low-carbon investment?

The EU ETS, which covers nearly half of EU emissions, will continue to be the centrepiece of EU climate policy and will deliver a 43% reduction in covered emissions by 2030 compared to 2005 levels.

While some successes have been achieved in addressing the challenges facing the ETS, it is unlikely that current reforms will yield a sufficiently high carbon price and the problem of over-supply of permits may continue to undermine the system in the post-2020 period. The real battles associated with the Commission's proposal for a Market Stability Reserve, and the possibility of cancelling some of the cheap international credits flooding the system, have yet to yield decisive outcomes. It is unclear the extent to which the more ambitious reform agenda of some Member States such as the UK and Germany will have on the follow-up negotiations, scheduled to start imminently.

Some progress was made on ending free allocations of permits to power generators, but rules to end free allocations for other sectors (such as steel and cement) have been rolled back upon. The revenues from auctions permits and various solidarity mechanisms which have been proposed do not have strings attached, meaning that funding can continue to flow to support high-carbon technologies in East European countries.

Notwithstanding some overall progress, the Council Conclusions appear insufficiently robust to ensure a properly functioning ETS in the post 2020 period. This was borne out by the fact that the low carbon price of circa €6 remained unchanged upon publication of the Conclusions.

3. How will non-ETS targets be apportioned between Member States?

It was not possible to reach a consensus on the specific efforts that Member States will have to make towards the EU objective of a 30% reduction on 2005 non-ETS (buildings, transport and agriculture) emissions by 2030. Member States will continue to monitor negotiations on their national contributions closely. It was, however, decided that all Member States will contribute between 0 and 40% reduction on 2005 levels by 2030 and that GDP will be the primary criteria used to allocate reductions. Other criterion may come into the frame, such as cost-effectiveness or the proportion of non-ETS emissions arising from agricultural in Member States (see below), but the overall implications for Member State of these considerations remains unclear. A new door was opened which may allow Member States to manage the cost-effectiveness of meeting their targets by using some of the ETS allocations, but it remains to be seen how this proposal develops.

4. Will emissions from agriculture receive special treatment?

The Conclusions potentially mark a turning point in how emissions from agriculture are considered in EU climate policy. The "limited" mitigation potential of the sector is recognised for the first time, and there is a commitment to consider emissions from land use (forestry) and agriculture together.

It remains unclear how exactly policy in this area will be progressed. The modalities for the integration of forestry need to be decided before 2020, and how this can be managed without undermining the level of ambition is open to question.

If agriculture and forestry are considered under a discrete and new third pillar (separate from buildings and transport) a key question will be the relative effort required from agriculture and forestry on the one hand compared to transport and buildings on the other.

In the more likely event that agriculture and forestry are considered as part of the upcoming effort sharing decision (i.e. that they remain in the same pillar as transport and agriculture) the Commission will be required to consider the implications of agriculture's "limited mitigation potential" for the sharing of efforts between Member States.

5. What are the implications for mitigation from transport?

The Conclusions suggest that the role of first generation biofuels will play a limited role in meeting EU targets in the period to 2020 and beyond. While not explicitly stated, further CO_2 targets for private transport vehicles and vans will likely be forthcoming in the post-2020 period. Aside from this, no clear implications for the transport sector emerge. It is unclear, for example, whether the EU's approach should be entirely technology neutral or seek to promote a particularly promising technology, such as electric transportation.

6. Will the agreement boost renewables deployment?

The Council adopted a target of at least 27% of energy to come from renewables by 2030, which is binding at EU level only. This is not considered ambitious and would probably be delivered under business as usual, given a 40% emissions reduction target. The added value of a weak renewables target,

binding only at EU level, is somewhat unclear. For example, what are the implications should the target not be achieved? This target is unlikely to have much impact in renewables deployment in the EU in the period to 2030.

7. Will the agreement boost energy efficiency?

The Council Conclusions propose a non-binding target at the EU level of at least a 27% improvement in energy efficiency by 2030. This is a weaker target compared to the 30% improvement proposed by the Commission. Perhaps more surprisingly, this target references "the EU level", whereas the 2020 target also applies indicatively at Member State level.

This represents a significant weakening compared to the current policy framework for energy efficiency, which has been highly effective and successful and has delivered significant benefits for the EU. This level of ambition reflects a "business as usual" approach and is therefore unlikely to have an impact on energy efficiency promotion during the period up to 2030. It should be noted, however, that provision is made in the Conclusions for a review of the target before 2020.

8. Will the agreement boost electricity interconnection between Member States?

The Council agreed a non-binding objective that 15% of EU energy should be transportable via cross-border connections by 2030. The agreement could be interpreted to place an onus on the Commission to play a stronger role in addressing the investment needs to support interconnection. It does not, however, place an onus on reluctant Member States to play a more proactive role in coming to agreements on interconnection projects with neighbours, as had been desired by certain Member States.

9. What happens next?

An overall deadline of Q1 2016 may be considered plausible for the agreement of legislative proposals associated with the 2030 climate package. The next step for most elements of the Council's framework is for the Commission to interpret the Council Conclusions by translating them into draft legislative proposals. Member States will monitor this process more closely than was the case with the 2008 climate and energy package.

Not all aspects of the package will necessarily progress at the same speed. Some players favour fast-tracking the ETS proposal, while the energy efficiency target, the treatment of land use and the one-off reduction of ETS allowances may not be finally decided upon until 2020. The European Parliament will have a significant input into most elements of the package under co-decision procedures.

10. What of the international impact?

The EU will go to Lima COP (Climate Summit) in December 2014 with a strong and clearly enunciated target, unlike Copenhagen when its more ambitious target was conditional upon the efforts of others. This target has the potential to be upgraded, and should therefore deliver what is necessary in order to sustain momentum along the road to an international climate agreement in Paris in 2015. This is arguably the most important outcome from the October European Council.

Introduction

The spectre of a Polish veto failed to materialise at the European Council meeting of 23 October 2014. European leaders managed to defy the odds and reached a unified position on a framework for the EU's climate policy in the 2020 to 2030 period.

Unity was achieved at the cost of clarity and a constructive ambiguity characterises the phraseology of quite a number of the key dimensions of the Council's Conclusions.[1] In many cases only a hint of what might follow is provided, and the fault lines that reveal competing Member State positions are evident in several places. Leaders were in many cases seeking to incorporate their own red lines and preferences into the text, so that their positions are considered in the difficult negotiations to follow as the text is translated into legislative proposals by the European Commission.

Given the lack of clarity, it is challenging to interpret these Conclusions with any degree of certainty. Does the agreement represent a decisive step forward for climate protection, an amalgam of lowest common denominator positions or is it somewhere in between?

In this analysis we set out 10 key steps for understanding the Conclusions, by providing provisional answers to each of the following questions:

1. Is the overall mitigation pledge ambitious?
2. Will the proposed reforms to the Emissions Trading Scheme ensure that it functions effectively?
3. How will non-ETS targets be apportioned between Member States?
4. Will emissions from agriculture receive special treatment?
5. What are the implications for mitigation from transport?
6. Will the agreement boost renewables deployment?
7. Will the agreement boost energy efficiency?
8. Will the agreement boost electricity interconnection between Member States?
9. What happens next?
10. What of the international impact?

Our interpretations are speculative to some extent and we welcome feedback on this analysis.

Step 1: Is the overall objective "ambitious"?

The European Council endorsed a binding EU target of: "**at least** [a] 40% **domestic** reduction in greenhouse gas emissions by 2030 compared to 1990".

Two aspects of this wording are worthy of comment. First of all, "at least" 40% leaves the door open for the EU to go further. This wording came as a surprise given the majority of Member States had reportedly been opposed to including "at least" in the text. It can therefore be considered a success for a minority grouping, including Germany, the UK, Denmark and Sweden, who supported this formulation.[2]

It is ambitious in the sense that the target goes far beyond what is on the table from other major players and groupings internationally. The timing is also ambitious. Its insertion is in keeping with the spirit and direction of ongoing international negotiations, which are progressing under the auspices of the UNFCCC. Countries and regions are required to make national mitigation pledges by the first quarter of 2015, with a view to arriving at a global climate agreement by the December 2015 climate summit in Paris.

While critics correctly point out that current pledges on the table would leave the world on track for an estimated 4 degrees[3] warming by 2100, these initial pledges will be peer reviewed, and can (and must) be strengthened and improved over time. The metaphor of a train is useful in this respect. An inclusive agreement with all on board can speed up over time, but if no one is on board, it is of no consequence how fast the train travels. The use of the "at least" in the Council Conclusions leaves open the possibility of revising the EU target after the December 2015 climate summit in Paris, when the Council has pledged that it "will revert to this issue".

While the agreement is ambitious compared to other commitments, and is timely and can be revised upwards, these considerations must be balanced against two others. A 40% reduction by 2030 may not be sufficient to set the EU on a pathway to meeting its long-term objective of reducing emissions by 80 to 95% by 2050. [4] Nor is it considered sufficient from a climate justice perspective to deliver the overall global objective of keeping global temperature increase to within 2 degrees of pre-industrial levels.[5]

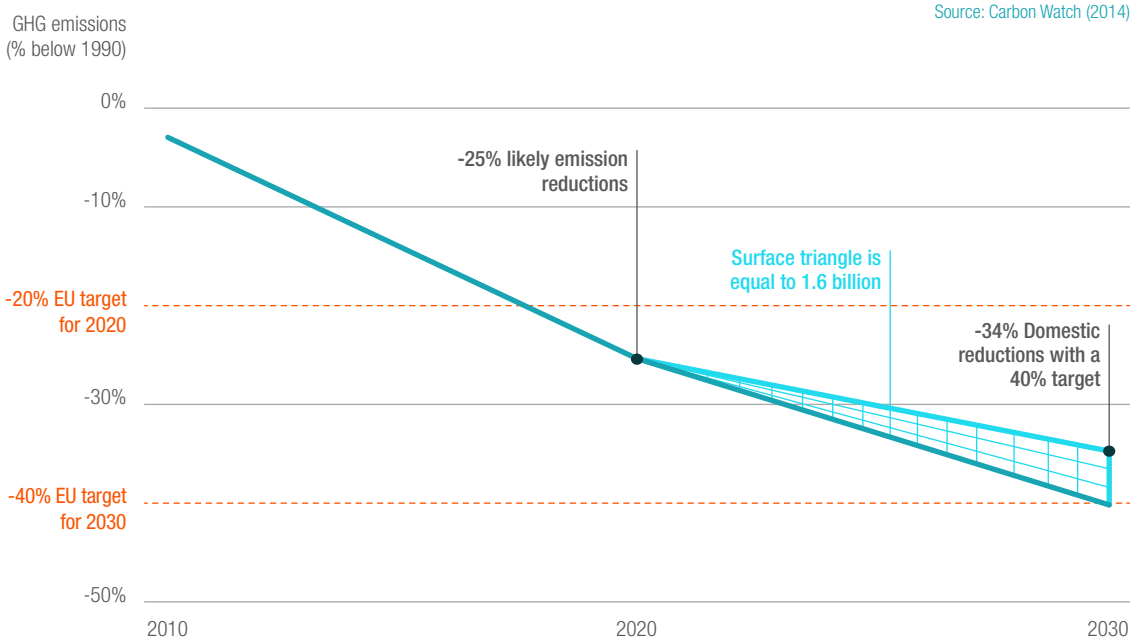
Second, the wording refers to "domestic" action and while this was well flagged in the Commission's proposal from January 2014, [6] it nonetheless marks a major departure from existing practice. It means that EU countries and companies are precluded from purchasing carbon permits from international markets to meet their targets. The EU must decarbonise domestically. Critics may argue that this will increase the cost of compliance for the EU without delivering a global environmental dividend. But arguably the biggest contribution the EU can make is to become an exemplar for others by demonstrating that low carbon development is possible, and this is why "domestic" action needs to be the priority.

While the domestic focus is therefore noteworthy in policy terms, its significance is qualified by the continued availability of "banked" international credits that have already entered the system, having being purchased at average costs of only 10 cent per unit on international carbon markets. An analysis by Carbon Market Watch suggests that 1.6 billion international credits have already been bought and translated into EU ETS allowances. [7] These can be "banked" and used to meeting the 2030 target.

This in turn brings us back to the question of ambition: the availability of international credits changes the EU's decarbonisation trajectory dramatically and could mean that aggregate emissions may only be 34% below 1990 levels by 2030, as illustrated in the graphic below.

FIG 1. THE IMPACT OF OFFSETS ON POST-2020 DOMESTIC REDUCTIONS

Source: Carbon Watch (2014)



Conclusion 1

The level and timing of EU commitment are ambitious, especially in comparison to other major international players, and the wording leaves open the possibility of further strengthening while also promoting a focus on domestic decarbonisation. The continued availability of "banked" international credits is the major weakness, which could critically undermine this level of ambition if it is not addressed in ongoing negotiations.

Step 2: Will the post-2020 Emissions Trading Scheme function effectively?

The EU Emissions Trading System (EU ETS) is the EU's flagship climate policy instrument and covers approximate 45% of all EU emissions. Because of the inflow of carbon offsets, weak targets and the economic crisis, it has however suffered from an over-supply of allowances and thereby resulted in depressed permit prices. The ETS has therefore failed to provide an effective signal to investors in favour of low carbon technologies.

Measures to fix the problems of the EU ETS are necessary to set the European economy on a path to effective decarbonisation and in particular to decisively switch investor behaviour away from coal-fired power generation.

The current surplus in the EU's carbon market amounts to 2.1 billion tonnes of CO_2-equivalent, and this surplus is projected by the European Commission to increase further to 2.6 billion carbon permits by 2020, [8] while the UK Government expects that the surplus will be far higher.[9]

Problems notwithstanding, the Council Conclusions earmark the ETS to continue to do much of the EU's heavy lifting given that emissions covered by the scheme must deliver a reduction of 43% on 2005 levels by 2030. This compares to the 30% for the remainder of emissions from the so-called non-ETS (mainly comprised of heat in buildings, transport and agriculture, see below).

The European Commission had proposed to establish a Market Stability Reserve in advance of the Council meeting. This reserve would render the supply of emission allowances more flexible and increase the shock resilience of the system, as well as alleviating some of the current oversupply issues. The text seemed to endorse the Commission's proposal, albeit somewhat obliquely, stating that a "well-functioning, reformed ETS with an instrument to stabilise the market in line with the Commission proposal will be the main instrument to achieve this target". It therefore seems that the Commission's proposal is likely to be implemented in some form or other, but the details remain contested.

This reform proposal would go some way to fixing the European carbon market according to an analysis by Thomson Reuters which suggests that the Market Stability Reserve is the key reform proposal and projects that the EU carbon price could average €23/t in real terms between 2021 and 2030. This projection, however, is predicated on the adoption of other targets, one of which (the proposal for an efficiency target of 30% by 2030, see below) has not been agreed.[10]

The Commission had proposed that this instrument would become active in 2021 but the UK, Germany and others wish it to become active by 2017 at the latest. They also argue that the Stability Reserve itself is insufficient to resolve the problems of chronic oversupply. For example, the UK has called for the cancellation of some allowances to be considered. [11] Germany and the UK have reiterated their

commitments to more radical reforms since the Council meeting. [12] Within this context, it is worth noting the provision (2.12 in the Conclusions) for Member States to retire instead of auctioning ETS credits to meet non-ETS targets. This provision, discussed in more detail in the following section, could also be relevant to addressing the oversupply of ETS credits.

The Commission's Market Stability Reserve proposal has, therefore, been ambiguously endorsed by the Council but several Member States do not think it goes far or acts fast enough. Because The Market Stability Reserve is the subject of a discrete Commission proposal that has already been formulated, discussions on this issue could be fast-tracked.

More clarity was achieved on other reform proposals. Under current rules the EU ETS cap (the number of permits introduced onto the market annually) is set to fall by 1.74%. The Council agreed that this annual factor will be increased to 2.2% from 2021 onwards. This reform, well flagged in the Commission's January proposal, is a major advance.

Second, current rules require the power generation sector to buy all of their emissions allowances at auction rather than receiving them for free from 2013 onwards. Auctioning revenues are, by and large, used to support low-carbon development by Member States.[13] However, the ten Central and Eastern European Countries (CEECs) succeeded in negotiating a derogation to this rule in 2008 under Article 10c of the ETS Directive. Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Poland and Romania have made use of a derogation, whereas Latvia and Malta chose not to.

They were allowed to issue a decreasing number of free emission allowances to their power producers up to 2019. This derogation was made conditional upon the Member States in question investing the value of free allowances into projects which promoted the diversification of the energy mix of. In practice, however, the vast majority of the resultant investments (total value €12 billion) went to upgrading fossil fuel capacity.[14]

The Council Conclusions have made some attempt to address this unsatisfactory state of affairs. In a sign of progress, the practice of 100% allocation to the power generation sector in the CEECs will be discontinued and from 2020 the maximum of 40% of allowances will be allocated for free by Member States with a GDP per capita below 60% of the EU average (see Table 1 below). However, little progress was made in ensuring that funds will be used to diversify from coal and other fossil fuel technologies. Rather the Conclusions merely state that "the current modalities, including transparency, should be improved to ensure that the funds are used to promote real investments modernising the energy sector". It remains to be seen how this provision will be interpreted in subsequent negotiations, but it appears unlikely that a fundamental rethink will be undertaken requiring real investments in low-carbon technologies.

For all other heavy industries covered by the ETS, current rules envisaged the progressive introduction of full auctioning by 2027, even for the sectors deemed to be exposed to "carbon leakage". This now seems to have been rolled back upon. According to the Conclusions, "free allocation will not expire… with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness". The basis for this decision is unclear given that the Commission's impact assessment had found no evidence of carbon leakage in the EU. [15] This means that the current practice of allocating permits free of charge to certain industries will be continued. The modalities (how exposure to "carbon leakage" will be determined) for continued free allocations has yet to be decided and the wording of the Council Conclusions in this respect leaves much room for interpretation.

Under the current rules, 10% of the EU ETS allowances auctioned by Member States is to be distributed among those countries whose GDP per capita does not exceed 90% of the EU average (see Table 1 below). Assuming an average price of €10, this will provide approximately €9 billion to low-income Member States by 2020. However under current rules there is no requirement to earmark these revenues

TABLE 1. NOMINAL GDP AND 2020 NON-ETS TARGET

Member State	Nominal GDP Per Capita (2013 %)	2020 Target (% reduction on 2005)
Luxembourg	173	-20
Denmark	170	-20
Sweden	144	-17
Austria	140	-16
Netherlands	139	-16
Finland	139	-16
Ireland	134	-20
Belgium	130	-15
Germany	122	-14
France	115	-14
United Kingdom	100	-16
European Union	100	-10
Italy	87	-13
Spain	74	-10
Cyprus	67	-5
Malta	67	5
Slovenia	61	4
Portugal	55	1
Czech Republic	54	9
Estonia	52	11
Slovakia	46	13
Lithuania	45	15
Latvia	39	17
Croatia	39	
Poland	39	14
Hungary	28	10
Romania	21	19
Bulgaria	21	20
Greece	21	-4

Sources: Eurostat (2013)

for low-carbon investment. The Council Conclusions indicate that this approach will continue and that 10% of the EU post-2020 auctioned permits will continue to be allocated with no strings attached. This could be considered a missed opportunity given the likely increase in the number auctioned permits and the likely upward trend in prices.

Finally, a new reserve of 2% of the EU ETS allowances will be set aside to cover the "high additional investment needs in low income Member States (60% below the EU average GDP per capita)". The Conclusions state that "the reserve will serve to establish a fund which will be managed by the beneficiary Member States, with the involvement of the EIB in the selection of projects". This wording constitutes a compromise between the East and West EU states. The recipients of these additional funds demanded the freedom to decide their investments with no strings attached but other Member States favoured the more central involvement of the EIB, whose involvement would likely have precluded further investments in coal power. [16]

Conclusion 2

The outcome of negotiations on ETS reform constitutes something of a messy compromise. While some progress has been achieved, it is unlikely that current reforms will yield a sufficiently high carbon price to incentivise low carbon investment, and the problem of over-supply of permits may continue to undermine the system in the post-2020 period. Decisions on the market stability reserve and the potential to cancel some of the cheap international credits that have flooded the system have been kicked down the road. It is unclear what impact the more ambitious reform agenda of the UK and Germany will have on subsequent negotiations.

Some progress was made on ending free allocations of permits to power generators, but rules to end free allocations for other sectors have been rolled back. The revenues from auctions permits and various solidarity mechanisms which have been proposed (or continued) do not have strings attached, meaning that the funding can continue to flow toward support for high-carbon technologies in East European countries.

Overall, the Conclusions appear unsatisfactory in relation to ETS reform as evidenced by the fact that the low carbon price of circa €6 remained almost unmoved upon publication of the Conclusions.

Step 3. How will non-ETS targets be apportioned between Member States?

Taking 2005 levels as the base line, Member States are required to reduce non-ETS emissions (mostly arising from agriculture, transport and heat in buildings) by an aggregate 30% by 2030. This builds on the current commitment to reduce emissions from these sectors by 10% by 2020. Current national commitments range from a 20% emissions reduction by 2020 for the richest Member States to a 20% increase for the least wealthy one, Bulgaria, as per the 2009 Effort Sharing Decision (Table 1).[17]

The previous Effort Sharing Decision relied exclusively on GDP per capita to determine national contributions. The national contributions to the 2030 target, however, could not be agreed as part of the Council Conclusions and remains as one of the big decisions to be made, although efforts were made to agree principles for the apportionment of effort.

In the post-2020 period, no country, no matter what its level of economic development, will be allowed to continue increasing its emissions. According to the Conclusions "All Member States will contribute to the overall EU reduction in 2030 with the targets spanning from 0% to -40% compared to 2005". The key criteria for effort sharing will remain unchanged, as "efforts [will be] distributed on the basis of relative GDP per capita" (Table 1). However, several wealthier Member States were opposed to the exclusive reliance on the GDP criteria for distributing efforts, and the following clause therefore qualifies the former by stating that efforts may be "relatively adjusted to reflect cost-effectiveness in a fair and balanced manner".

It is generally understood to be more cost-effective to achieve emissions mitigation in less developed economies,[18] and the reference to cost-effectiveness could therefore be seen to be in direct opposition to the reliance on GDP.

Table 2 below, adapted from the Commission's impact assessment, indicates what the division of effort between Member States would be using cost-effectiveness as the sole criteria for the distribution of the targets. While ordered with Member States with higher overall mitigation potential to the top, it should be noted that it is deviation from the reference case which denotes the availability of cost-effective potential more accurately. These figures are based on overall non-ETS reduction target of 30 to 34% across the EU.

Given the multiple criteria which could be considered (detailed in Tables 1, and 2 above and 3 below) it is difficult to predict how effort sharing will eventually proceed, and there clearly remains much work to be done. One suspects that this is one of the key issues that Member States had in mind when stating in the pre-amble that "The European Council will keep all the elements of the framework under review". As the

TABLE 2. COST-OPTIOMAL REDUCTION TARGET FOR MEMBER STATES				
Member State	% reduction on 2030 compared to 2005	Reference 2030	Maximum Deviation from Reference	Minimum Deviation from Reference
Germany	-41 to -47	-33%	-8%	-14%
Greece	-39 to -41	-32%	-7%	-9%
United Kingdom	-35 to -39	-25%	-10%	-14%
France	-34 to -38	-23%	-11%	-15%
Portugal	-34 to -35	-24%	-10%	-11%
Italy	-31 to -35	-23%	-8%	-12%
Denmark	-31 to -33	-20%	-11%	-13%
Finland	-30 to -33	-21%	-9%	-12%
Sweden	-29 to -33	-21%	-8%	-12%
Hungary	-29 to - 33	-19%	-10%	-14%
Netherlands	-28 to -32	-20%	-8%	-12%
Austria	-27 to -32	-19%	-8%	-13%
Malta	-27 to -29	-17%	-10%	-12%
Bulgaria	-25 to -26	-13%	-12%	-13%
Croatia	-25 to -27	-12%	-13%	-15%
Belgium	-24 to -32	-15%	-9%	-17%
Estonia	-23 to -28	-9% -	14%	-19%
Lithuania	-23 to -28	-16%	-4%	-11%
Spain	-23 to -27	-13%	-10%	-14%
Czech Republic	-23 to -27	-10%	-13%	-17%
Ireland	-21 to 25	-7% -	14%	-18%
Luxembourg	-20 to -27	-16%	-4%	-11%
Cyprus	-20 to -25	-11%	-9%	-14%
Romania	-18 to -19	-6% -	12%	-13%
Slovakia	-17 to -22	-6% -	11%	-16%
Latvia	-17 to -21	-3% -	14%	-18%
Slovenia	-14 to - 20	-5%	-9%	-15%
Poland	-12 to -17	7%	-19%	-24%

Source: European Commission (2014)

"limited" mitigation potential of agriculture is now recognised (see next section) the implications for the effort sharing decision required careful consideration.

The clause which follows perhaps offers some insight into how these opposing principles might be married. Current arrangements allow for intra-Member State trading of national allocations (by trading what are known as Annual Emission Allocation units (AEAs)) to meet 2020 targets. A Member State who over-complies may sell additional allowances to those in need. The Conclusions are likely to have this mechanism in mind (as well as provisions for banking and borrowing of AEAs by Member States between years) when they state that:

"the availability and use of existing flexibility instruments within the non-ETS sectors will be significantly enhanced in order to ensure cost-effectiveness of the collective EU effort and convergence of emissions per capita by 2030".

This opens the possibility of AEAs being transferred in excess of current restrictions set out in the Effort Sharing Directive (2009), [19] or could open the door to greater levels of inter-annual banking and borrowing by Member States.

Another issue which is not mentioned in the Conclusions is the carry over of AEAs from the 2013 – 2020 period to the post-2030 period. Carbon Market Watch have estimated that by the year 2020, European countries are will have accumulated around 1.3 billion unused allowances. Eastern European countries had pushed for the carryover of these AEA units not used, but this was not included in the final text. This has been interpreted as a welcome step to safeguard the 2030 target, though the carryover of credits is not specifically precluded.[20]

On the basis of a Danish proposal, a new and additional flexibility is also envisaged for Member States with high targets, or low-cost-effectiveness in achieving targets, "through a limited, one-off, reduction of the ETS allowances". This would appear to suggest that Member States could retire instead of auctioning a pre-defined number of ETS credits in order to offset these credits against their non-ETS targets. This would have the treble dividend of: reducing Member State cost of compliance; equalising costs between the ETS and non-ETS sectors (which environmental economists will approve of); and providing a boost to the depressed price of credits in the ETS.

The downside, however, is that it effectively weakens the non-ETS reduction commitment. In order to create market certainty, presumably eligible Member States (all Member States with GDP above the EU average, and perhaps others, such as Italy and Malta) would be required to state the extent to which they would use this flexibility well in advance.

Conclusion 3

It was not possible to reach a consensus on the specific efforts which Member States would make towards the EU objective of a 30% reduction to 2005 non-ETS emissions by 2030. Member States will therefore continue to monitor negotiations on their national contributions closely. It is clear that all Member States will contribute between 0 and 40% reduction on 2005 levels by 2030, and that GDP will be the primary criteria used to allocate efforts. Other criteria may come into the frame such as cost-effectiveness or the size of agriculture (see below), but the implications of these considerations for ongoing negotiations remain unclear. A new door was opened which may allow Member States to manage the cost-effectiveness of meeting their targets by using some of the ETS allocations and it will be interesting to see how this proposal develops.

Step 4. Will emissions from agriculture receive special treatment?

Agriculture only accounts for 10% of EU emissions,[21] although it accounts for a significant 18% of EU non-ETS emissions. In many developing and emerging economies, however, agricultural emissions make up a more significant proportion of overall emissions.[22]

Nonetheless, the sector has traditionally been peripheral to climate negotiations within the EU and indeed internationally at the UNFCCC. The sector received scant attention in the EU's 2008/09 energy and climate package. This is now changing. As the EU decarbonises agriculture will come to make up a greater portion of total non-ETS emissions, and thus can no longer remain a peripheral concern. Emissions

TABLE 3. PROPORTION NON-ETS EMISSIONS FROM AGRICULTURE

Member State	% of 2012 non-ETS emsisions
Ireland	43
Lithuania	31
Denmark	29
Latvia	29
Romania	26
Bulgaria	25
Estonia	24
France	23
Hungary	21
Sweden	19
Greece	19
Spain	19
Finland	18
European Union	18
Poland	18
Cyprus	17
Portugal	17
Slovenia	17
Croatia	16
Austria	15
United Kingdom	15
Germany	14
Netherlands	14
Slovakia	14
Belgium	13
Czech Republic	13
Italy	12
Luxembourg	7
Malta	7

Source: Alan Matthews (2014)[24]

from the sector already account for 43% of non-ETS emissions in 2012 for Ireland and in excess of 23% in seven other Member States (Table 3).[23]

There are technical limitations associated with reducing emissions from agriculture which do not arise in other sectors and which consequently could greatly increase the cost of compliance in countries with high proportions of emissions coming from the sector. Indeed the reference scenario for EU emissions shows only a small decrease from emissions from agriculture in the period to 2030 and 2050, on the basis of policies and measures already in place.[25]

This poses specific challenges for a minority of Member States, most notably Ireland, but is not yet a priority consideration for the majority. [26] On the other hand, carbon sinks, mostly forestry, contribute significant net sequestration of emissions across the EU, [27] and some Member States have the potential to increase the sink capacity through afforestation programmes. The importance of energy crops and forestry is also underpinned by the potentially crucial role of versatile "negative emissions" technologies such as carbon capture and storage and bioenergy in keeping global warming to within 2 degrees. The importance of developing an integrated agriculture, forestry and land use (AFOLU) approach, which seeks to capture these unique characteristics and optimise the potential of the sector is therefore of increasing importance.

The Commission's impact assessment discussed the relative merits of three options for dealing with land use and agriculture, as follows:

- Option 1 ("Status Quo"): Maintain the agriculture sector in the future Effort Sharing Decision and further develop forestry policy separately;
- Option 2 ("Effort Sharing"): Include the forestry into the effort sharing decision; or
- Option 3 ("Land Sector Pillar"): Merging the forestry and Agriculture into one new and independent third pillar of the EU's climate policy (in addition to the existing non-ETS and ETS pillars.

The Council did not decisively come out in favour of any of these options, although the first now seems to be precluded.

The Conclusions recognise "the multiple objectives of the agriculture and land use sector, with their lower mitigation potential….as well as the need to ensure coherence between the EU's food security and climate change objectives".

The main innovation is therefore a commitment to deal with agriculture and land use in an integrated manner. The Conclusions state that "policy on how to include Land Use, Land Use Change and Forestry into the 2030 greenhouse gas mitigation framework will be established as soon as technical conditions allow and in any case before 2020". This is a change from the current 2013 – 2020 period, wherein countries cannot claim credit and offset emissions against carbon sink which arises from afforestation (though this was possible in the 2008 – 2012 period). Therefore we conclude that option 1 above, the status quo, has been ruled out.

A key challenge to be addressed with the inclusion of land use, land use change and forestry will be a perception that it could take the focus of cost effective mitigation options in other sectors, thereby creating 'green hot air". For example, forest management could potentially contribute significant carbon credit in some Member States. There could also be concerns from richly afforested countries that they can't sustainably manage their forests to displace fossil fuels in their energy systems with wood biomass, without creating a carbon debit. It should be noted in this respect that the Commission's impact assessment that the impacts on the LULUCF sink seem limited if increased demand for bio-energy is met largely through increased use of energy crops. [28]

It is also significant that the "limited" mitigation potential is recognised for the first time. But what will this mean going forward? For example, will the "limited" potential be a consideration in a future effort-sharing decisions, along with the impact of forestry (Option 2)? The idea of a "third pillar" for agricultural emissions does not appear in the Conclusions; rather they commit the Commission to "examine best means of encouraging sustainable intensification of food production".

It is unclear if the door remains open on the third pillar option. It might perhaps be considered less likely option given it is probably more radical. If the Commission does not propose a separate third pillar then it remains to be seen how the "limited mitigation potential" of agriculture and the potentially positive impact of forestry would be recognised in the effort sharing decision, and how the accounting issues can be resolved. How would the combined mitigation potential of the agriculture and land use sector be calculated? What would the implications for the level of ambition required in the transport and buildings sectors? Perhaps more importantly, what would the impact be for the efforts required by Member States?

Conclusion 4

Emissions from agriculture receive much more considered treatment by the Council than was previously the case and have been significantly differentiated from emissions from other sources. The "limited" mitigation potential of the sector is recognised in the Conclusions and there is a commitment to consider land use and agriculture together.

It remains unclear how exactly forestry and agriculture will be considered, and there appears to be two options on the table. Questions remain on the implications of agriculture and forestry for effort sharing between Member States, and across sectors.

Step 5. What are the implications for the transport sector?

Almost 40% of all non-ETS emissions arise from the transport sector, and it is a sector that remains uniquely dependent on fossil fuels. Between 1990 and 2013 emissions from the transport sector increased 13%,[29] while emissions from all other sectors declined. Reducing emissions from the transport sector has proven intractable and under current policies and measures GHG emissions are not projected to decrease between 2013 and 2020.

With this challenge in mind, and perhaps recalling the success of EU legislation which set mandatory emission reduction targets for new cars, the Council invited the Commission "to further examine instruments and measures for a comprehensive and technology neutral approach for the promotion of emissions reduction and energy efficiency in transport, for electric transportation and for renewable energy sources in transport also after 2020." This is a somewhat confusing formulation, perhaps attempting to marry different Member State positions. It references both "technological neutrality" and one specific technology: electric transportation.

The Council also urged the Commission to bring forward its proposal reviewing the impact of EU renewables policy on indirect land use change, and addressing ways to minimise that impact (under Directive 98/70/EC). This proposal comes in light of the findings by the Commission that first generation biofuels should play a limited role in de-carbonising the transport sector.

Finally the Conclusions recall that under existing legislation a Member State can opt to include the transport sector within the framework of the ETS. This provision was also included at the behest of the Danish Government who may actively be considering the options of including transport into the ETS.[30]

Conclusion 5

The Conclusions suggest that first generation biofuels will play a limited role in meeting EU targets in the period to 2020 and beyond. While not explicitly stated, further CO_2 targets for private transport vehicles and vans will likely be forthcoming in the post-2020 period. Aside from this, no clear implications for the transport sector emerge. It is open to question, for example, whether the EU's approach should be entirely technology neutral or seek to promote a particularly promising technology such as electric transportation.

Step 6. Will the agreement boost renewables deployment?

Each Member States has a legally binding target to boost its deployment of renewable energy in the period to 2020 in line with an overall EU objective of meeting 20% of energy needs from renewables by 2020.

Building on this target, and as proposed by the Commission, the Council adopted an EU target of at least 27% for the share of renewable energy consumed in the EU in 2030. Unlike the target for the 2012 – 2020 period, which was apportioned and binding at Member State level, the target will be binding at EU level only.

The Commission's January Impact Assessment demonstrated that a share of 24% renewables by 2030 would be delivered in a business-as-usual scenario and that a much higher share of renewables was possible. The Commission also found that a greenhouse gas reduction target of 40% should by itself encourage a greater share of renewable energy in the EU of at least 27%.[31]

On this basis it is not considered a particularly ambitious target. This perhaps reflects the lack of support among Member States, in particular the UK and Eastern European countries, for ambitious or nationally binding targets.[32] These Member States argue for flexibility in choosing how to meet mitigation commitments. The fact that many renewable technologies are approaching or have reached grid parity in some EU markets has also been used as a further argument against targets.

It remains unclear how a target which is only binding at EU level can be promoted and achieved. Nor is it clear what the implications would be of not achieving a target only binding at EU level. Given the Commission has few instruments at its disposal to promote the adoption of renewables in Member States the Conclusions state that the target "will be fulfilled through Member States contributions guided by the need to deliver collectively the EU target". This language reflects the Commission's January proposal which suggested the target "could be fulfilled through clear commitments decided by the Member States themselves which should be guided by the need to deliver collectively the EU-level target. [33]

Conclusions 6

The added value of a weak renewables target which is binding only at EU level is somewhat unclear, as are the implications should the target not be achieved. This target is unlikely to have much impact in renewables deployment in the EU in the period to 2030.

Step 7. Will the agreement boost energy efficiency?

The EU and each individual Member States are working towards a non-binding 20% energy efficiency improvement target for 2020. While the overall target is non-binding, several aspects of supporting legislative measures, in particular the Energy Efficiency Directive, contain binding elements. Under the agreements, Member States make regular progress reports to the Commission.

The Commission's July 2014 Communication on Energy Efficiency found that "with current measures the EU will achieve energy savings of 18-19% by 2020" but that the 20% target could be reached without the need for additional measures.[34] The Communication also identified a compelling list of co-benefits from European's ambitious energy efficiency policy. For example, it demonstrated that for every additional 1% in energy savings, EU gas imports are expected to fall by 2.6%, decreasing the EU's dependence on external suppliers. On this basis it proposed a 30% improvement target for 2030.

The Council proposed "an indicative target at the EU level of at least 27% is set for improving energy efficiency in 2030". The proposed target therefore represents a significant downgrading of ambition compared to the Commission's proposal and it is noteworthy that the target only applies at EU level, not to Member States (as is the case with the current target).

The Commission's analysis shows that a greenhouse gas emissions reduction target of 40% would require an increased level of energy savings of approximately 25% by 2030.[35] The target is therefore unlikely

to provide much impetus beyond business as usual to improve energy efficiency, again reflecting the opposition of some Member States, in particular the UK, to an ambitious target. This is unfortunate as significant barriers to an optional level of energy efficiency investment have been identified in many studies, which a robust policy environment is necessary to overcome. [36]

In a concession to the many Member States who were calling for a more ambitious target, the Conclusions state that the target "will be reviewed by 2020, having in mind an EU level of 30%".

Conclusion 7

A weaker target than had been proposed by the Commission has been agreed which is not binding and applies only at EU level. This represents a significant weakening in the policy framework for energy efficiency compared to the highly effective and successful framework currently in place. The target is unlikely to have a decisive impact on energy efficiency promotion in the EU in the period to 2030.

Step 8. Will the agreement boost energy interconnection between Member States?

There is a clear EU imperative to deliver a more interconnected EU electricity grid so that increased levels of intermittent renewable energy can be integrated.[37] This objective is also in line with the increased emphasis on the need to complete the internal market in energy, which would result in significant cost savings for consumers. Under current EU policy, Member States must work towards an interconnection target of at least 10% of their installed electricity production capacity by 2020.

Portugal, and to a lesser extent, Spain, had called for a binding target whereby 15% of installed production capacity should come from interconnection of electricity markets between Member States.

The Portuguese and Spanish position to some extent represents the Europeanisation of a regional dispute between Spain and Portugal on the one hand, and France on the other. Spain and Portugal, both of whom have integrated high levels of intermittent renewables into their generation portfolio, have argued that they are prevented from selling their surplus renewable energy to France, who they accuse of protecting its nuclear industry.

Portugal in particular had threatened to veto the Conclusions if its demand for a binding target were not met. In the end, Portugal attained a non-binding objective that 15% of the bloc's energy be transportable via cross-border connections by 2030. The European Commission is to investigate "all possible sources of financing including on the possibilities of EU financing" to improve the interconnection of the Baltic States, Portugal and Spain to this end and proposes that "EU co-financing should be made available". Where current plans are insufficient to meet a 10% target for interconnection by 2020 the Council proposes that "new projects will be identified, added as a matter of priority in the upcoming review of the list of projects of common interest and swiftly implemented for these projects".

Conclusion 8

The agreement could be interpreted as placing an onus on the Commission to play a stronger role in addressing the investment requirements to support interconnection. It does not, however, place an onus on reluctant Member States to play a more proactive role in coming to agreements on interconnection projects with neighbours.

Step 9. What happens next?

The Conclusions state that that the Council "will revert to this issue" of the "at least 40%" target after the Paris Conference of December 2015. This provides a potential end point for the agreement. On this basis one suspects that the March European Council of 2016 could produce a final decision on many aspects of the package, including legislative proposal ETS reform, effort between Member States in the non-ETS sector, and legislation for the renewables target.

There is a crucial difference between the Council Conclusions and the Climate and Energy Package of 2009/2008 because at this stage in the proceedings national contributions to non-ETS targets had been agreed. It perhaps comes as no surprise that the European Council has therefore committed "to keep all the elements of the framework under review and will continue to give strategic orientations as appropriate, notably with respect to consensus on ETS, non-ETS, interconnections and energy efficiency". Several Member States emphasised that they would not be taking a back seat on ongoing negotiations where the details of the framework will be teased out. Rather they intend to remain centrally involved.

Compared to this indicative timeline, discrete aspects of the package may be agreed either more quickly or more slowly. For example, the Commission's proposal for a Market Stability Reserve for the ETS may progress along a different negotiating track and, indeed, is already being discussed at the Environmental Council. The reform proposal could be fast tracked, as is the preference of Germany and the UK, among others.

In the case of other aspects of the package, decisions may not be taken until 2020. For example, the "one-off, reduction of the ETS allowances" must be decided "before 2020". Similarly, policy on how to include Land Use, and Use Change and Forestry into the 2030 greenhouse gas mitigation framework will be agreed "as soon as technically possible" and "in any case before 2020". The energy efficiency target "will be reviewed by 2020, having in mind an EU level of 30%".

In the case of most aspects of the package, it will now be for the Commission to interpret the Council's high-level direction and to translate these principles into legislative proposals. These will then be discussed by the European Parliament and possibly presented to the Council in 2016 as is required under the co-decision procedure. In some cases the Parliament's role will be peripheral, for example in the non-ETS proposal where Member State efforts are concerned. In other cases, such as reform proposal for the ETS, it is likely to have a more decisive input.

Conclusion 9

An overall deadline of Q1 2016 may be considered plausible for the agreement of legislative proposals associated with the 2030 climate packages. The next step for most elements of the framework is for the Commission to interpret the guidance provided in the Council Conclusions and translate it into draft legislative proposals.

Member States will monitor this process more closely than was the case for 2008 Climate and Energy Package.

Not all aspects of the package will necessarily progress at the same speed. Some players are in favour of fast-tracking the ETS proposal, while the energy efficiency target, the treatment of land use and the one-off reduction of ETS allowances may not be finally decided until 2020. The European Parliament will have a significant input into most elements of the package under co-decision procedures.

Step 10.
International Impact

Historically, the EU has contributed about a quarter of all heat trapping emissions in the atmosphere. But its annual contribution is falling. This year the EU's 28 Member States will only be responsible for 10% of the global total.[38] This is because the EU has managed to reduce its footprint since 1990, while the contribution of others, such as China, is growing rapidly. Even on an emissions per capita basis, Chinese emissions now exceed those of the EU. [39]

It is clear that the EU cannot solve the global climate crisis action alone. Nonetheless, a positive European Council outcome was vital for sustaining this momentum along the road to an international agreement in Paris in December 2015.

The EU maintained the momentum by agreeing to cut emissions by "at least 40%" by 2030, a target far beyond anything else on the table. The EU will go to Lima COP (Climate Summit) in December 2014 with a strong and clearly enunciated target, unlike the Copenhagen climate conference in 2009 when its more ambitious target was conditional upon the efforts of others. A spokesperson for UN secretary-general Ban Ki-moon commended the EU's ambition stating that "EU leaders have once again placed Europe in a leading position with an ambitious emissions reduction target," adding that "the decision will also set a new standard for climate ambition for all countries in support of the upcoming global negotiations."[40]

Conclusion 10

The EU delivered what was necessary in order to sustain momentum along the road to an international climate agreement in Paris in 2015.

Endnotes

1 Referred to herein as "the Conclusions", available: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/145397.pdf
2 Leaked positions available here: http://cf.datawrapper.de/kbpOX/4/
3 See, for example, http://climateactiontracker.org/news/160/Did-the-UN-Climate-Summit-progress-on-efforts-to-hold-back-warming.html
4 See, for example, http://www.ecofys.com/files/files/ecofys-2014-assessing-the-eu-2030-targets.pdf or https://www.pik-potsdam.de/members/knopf/publications/Knopf_EMF28_overview_final.pdf
5 See, for example, http://kevinanderson.info/blog/letter-to-the-pm-outlining-how-2c-demands-an-80-cut-in-eu-emissions-by-2030/
6 See: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014DC0015
7 See: http://carbonmarketwatch.org/wp-content/uploads/2014/07/ETS-POLICY-BRIEF-JULY-2014_final_1.pdf
8 EC (2014), SWD(2014)17, Impact Assessment accompanying the Proposal for a Decision concerning the establishment of a market stability reserve
9 See: https://www.gov.uk/eu-emissions-trading-system-the-future-of-the-system
10 See: http://blog.financial.thomsonreuters.com/eu-carbon-price-average-e23t-2021-2030-thomson-reuters-assess-future/
11 See: https://www.gov.uk/eu-emissions-trading-system-the-future-of-the-system
12 See: http://www.reuters.com/article/2014/10/27/us-eu-carbon-reform-idUSKBN0IG23Y20141027
13 See: http://europa.eu/rapid/press-release_IP-14-1202_en.htm
14 CAN (2014) Stronger Together: INVESTMENT SUPPORT AND SOLIDARITY MECHANISMS UNDER THE EU'S 2030 CLIMATE AND ENERGY FRAMEWORK.
15 See: The main conclusions from this Section are that at present there is no evidence that carbon, p111
16 See: http://www.businessgreen.com/bg/news/2284479/european-investment-bank-halts-lending-to-dirtiest-coal-power-plants
17 Effort Sharing Decision 406/2009
18 According to the Commission's impact assessment:
19 A Member State is allowed to transfer up to 5% of its AEAus of a future year to other Member States. A Member State is also allowed to transfer any unused AEAus (e.g. due to lower emissions than its initial allocation of that year) to another Member State without quantitative limitations.

20 See: http://carbonmarketwatch.org/wp-content/uploads/2014/10/2030-Council-Conclusions-Analysis_final.pdf
21 See: http://www.iiea.com/blogosphere/integrating-agriculture-and-land-use-into-the-climate-picture-infographic
22 See: http://www.iiea.com/blogosphere/integrating-agriculture-and-land-use-into-the-climate-picture-infographic
23 See: http://capreform.eu/agriculture-in-the-2030-climate-and-energy-package/ for a comparison of EU Member States
24 See: http://capreform.eu/agriculture-in-the-2030-climate-and-energy-package/
25 See: http://ec.europa.eu/clima/policies/2030/docs/swd_2014_xxx_en.pdf p 58
26 See: http://capreform.eu/agriculture-in-the-2030-climate-and-energy-package/
27 See:
28 See: http://ec.europa.eu/clima/policies/2030/docs/swd_2014_xxx_en.pdf p62
29 See: http://www.iiea.com/blogosphere/integrating-agriculture-and-land-use-into-the-climate-picture-infographic
file:///Users/research/Downloads/Trends%20and%20projections%20in%20Europe%202014%20-2.pdf
30 See: http://www.europeanvoice.com/article/denmark-pushing-to-include-transport-in-ets/
31 See: http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014DC0015
32 Leaked positions available here: http://cf.datawrapper.de/kbpOX/4/
33 See: http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014DC0015
34 See: http://ec.europa.eu/energy/efficiency/events/2014_energy_efficiency_communication_en.htm
35 See: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014SC0016&from=EN
36 See, for example, http://www.iea.org/publications/freepublications/publication/mind_the_gap.pdf
37 See: http://www.roadmap2050.eu/attachments/files/Volume1_fullreport_PressPack.pdf
38 http://www.iiea.com/blogosphere/major-economies-and-the-global-carbon-budget-infographic
39 See: http://www.iiea.com/blogosphere/major-economies-and-the-global-carbon-budget-infographic
40 See: http://www.rtcc.org/2014/10/24/eu-adopts-co2-cutting-target-of-at-least-40-by-2030/#sthash.qIPM5o8I.dpuf

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