

## Briefing Paper: Climate Change

---

With reference to the European Union (Amendment) Bill Debates – House of Commons

### Climate change and the Lisbon Treaty

The Lisbon Treaty<sup>1</sup> states that Article 174 (paragraph 1, 4<sup>th</sup> indent) of the *Treaty Establishing the European Community* – which provides that “...promoting measures at international level to deal with regional or worldwide environmental problems” – shall be replaced by the following:

“...promoting measures at international level to deal with regional or worldwide environmental problems, **and in particular combating climate change.**”

Thus six words have been added. But it changes nothing. It adds nothing to the EU’s powers of “combating climate change” under the current Treaties. The EU already has huge powers to pursue policies that “combat climate change” – not least of all through its agreement to the Kyoto Protocol on the UN Framework Convention on Climate Change (UNFCCC).

## **The EU: Kyoto compliance**

In 1997 the EU15 signed up to the Kyoto Protocol on the UN Framework Convention on Climate Change (UNFCCC). The EU agreed to cut greenhouse gas (GHG) emissions, of which carbon dioxide emissions are one of the most significant, by 8% by the 5-year commitment period 2008-2012 (taking annual average emissions over this period) compared with the base year 1990. The target was ambitious and reflected the EU's position as one of the leading supporters of the Kyoto Protocol.

Under the EU's "burden sharing" scheme of 2002, different member states were allocated different emissions targets. Germany, for example, agreed to a cut of 21% (made possible because of the collapse of much of East Germany's industry following reunification) and the UK agreed to a cut of 12.5%. Spain, on the other hand, was permitted an increase of 15% and Greece an increase of 25%. Of the 12 "new states", eight (including the Czech Republic) have an 8% cut as their target, whilst Hungary and Poland have a target of -6% and Cyprus and Malta have no target at all.

The EU's compliance with these targets to date has been patchy – to say the least. By 2002 only France, Germany, Sweden and the UK (of the EU15) were judged to be on target to meet their Kyoto commitments – and the EU15 on the whole was not.<sup>2</sup>

A more recent study by the EU's European Environment Agency (EEA) suggested that the EU15 had only managed to cut their greenhouse gas emissions by 2% by 2005 compared with the base year of 1990.<sup>3</sup> Indeed the EEA judged that the only three EU15 countries that were on track to hit their targets, using existing measures, were the UK, Germany and Sweden. If, however, the projected use of carbon sinks and "Kyoto mechanisms"<sup>4</sup> were allowed for, then another five EU15 countries could hit their targets: Belgium, Finland, France, Luxembourg and Netherlands. The other seven EU15 countries, however, still would not: Austria, Denmark, Greece, Ireland, Italy, Portugal and Spain. And neither would the EU15, as a whole, meet its target.

Most of the new post 2004 Member States have experienced significant falls in greenhouse gas emissions since 1990 and are well on track to hit their targets.

## **Further EU commitments by 2020**

In March 2007, the Council of the EU decided that the EU would make a firm, independent commitment to achieving at least a 20% reduction in GHG emissions by 2020 compared with the base year of 1990.

The European Council has also endorsed an EU objective of a 30% reduction in GHG emissions by 2020 (compared with 1990) for the period beyond Kyoto's 2012, provided that other developed countries committed themselves to comparable emission reductions and that economically more advanced developing countries should contribute adequately according to their responsibilities and respective capabilities. The

caveats on this higher target are some acknowledgment of the potential adverse competitiveness effects of imposing draconian GHG emissions cuts at home when the rest of the world, not least China and India, are likely to ignore any pleas to cut back on their CO<sub>2</sub> emissions.<sup>5</sup>

## **The Emissions Trading Scheme (ETS)**

As part of the Kyoto GHG emissions reduction process, the EU has established the Emissions Trading Scheme (ETS), which is a market to trade “pollution” permits for CO<sub>2</sub>, the main greenhouse gas. The ETS is a “Cap and Trade” scheme. The scheme theoretically “caps” the amount of CO<sub>2</sub> that certain industries can produce and allows companies to “trade” emissions rights within the EU. If, for example, firms exceed their emissions limits can buy extra “allowances” from firms whose emissions are under target levels.

The ETS began operating in January 2005. The first trading period ("phase") ran from 2005 to 2007. The second phase will run from 2008 to 2012. Further 5-year trading periods are expected subsequently.

Emissions Trading Schemes can work successfully but the EU's ETS in its first phase attracted much criticism. The main problem concerned the allocation of emissions permits by Member States for 2005 to 2007. Member governments were, apparently, left to choose their own targets, with few restrictions from the Commission. The UK set stringent targets, whilst most of the other Member States, including Germany, did not. Open Europe<sup>6</sup> calculated that UK firms paid nearly £½bn for extra permits from business rivals in other Member States in 2005 as a consequence, whilst German firms received nearly £300m. In addition, some British firms, especially electricity generating companies, reduced their emissions and hence output because they were short of permits. Inevitably this led to higher electricity prices in the UK.

There were other problems as well. According to Open Europe, member states handed out free permits for nearly 1,830m tonnes for 2005, whilst emissions were only 1,785m tonnes. The scheme, therefore, did not succeed in reducing emissions at all. When the market realised in April 2006 that many Member States, especially Germany, had set over-loose targets, the secondary market for emissions permits crashed.

The second phase (from 2008 to 2012) has, of course, already started. The Commission claims that it will be tougher and fairer than the first because of its insistence that it has clamped down on the over allocation of permits by Member States. But there is arguably a risk that the second phase could be just as flawed as the first - though for different reasons. And these reasons relate to the fact that Member States are now allowed to “import” external Kyoto “credits”, through the aforementioned “Kyoto mechanisms”, from developing countries, in order to meet their targets for CO<sub>2</sub> reductions. Open Europe criticizes these credits as “highly flawed, and often fraudulent. They don’t always reflect absolute reductions in emissions, whilst many of these credits

are generated from projects in developing countries that would have happened anyway.”<sup>7</sup>

## References

1. FCO, *The Treaty of Lisbon, amending the Treaty Establishing the European Union and Treaty Establishing the European Community*, Cm 7294, December 2007 – paragraph 143.
2. Report *Catching up with Community's Kyoto target* under Decision 280/2004/EC of the European Parliament and of the Council concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol COM (2004) 818 final, 20 December 2004.
3. European Environment Agency, *Greenhouse gas emission trends and projections in Europe 2007*, EEA, 2007.
4. DEFRA defines ‘Kyoto mechanisms’ as follows: “the Kyoto Protocol allows for emissions reduction projects to be carried out in other countries and to receive ‘credits’ for the corresponding emissions reductions or limitations. These Kyoto project ‘mechanisms’ rely on the fact that emissions of greenhouse gases contribute equally to global warming wherever they are emitted, meaning that companies can choose to reduce emissions where it is cheapest for them.” DEFRA’s website is [www.defra.gov.uk](http://www.defra.gov.uk)
5. The UK’s Climate Change Bill has a target of a reduction in carbon dioxide emissions by 60% by 2050. This is draconian by any standards and almost certain to undermine the UK’s international competitiveness position – especially for manufacturing industry.
6. Open Europe, *The high price of hot air: why the EU Emissions Trading Scheme is an environmental and economic failure*, July 2006.
7. Open Europe, *Europe’s dirty secret: Why the EU Emissions Trading Scheme isn’t working*, August 2007.