



WWF POSITION STATEMENT – CLIMATE & ENERGY PACKAGE

WWF briefing on the EU Emissions Trading Scheme

April 2008

OVERVIEW OF THE CLIMATE & ENERGY PACKAGE

To prevent catastrophic climate change we must keep the global average temperature rise as far below 2 degrees centigrade as possible. To have a high chance of doing so the latest Intergovernmental Panel on Climate Change (IPCC) Assessment report suggests that industrialized countries should take on greenhouse gas reduction targets of between 25% and 40% below 1990 levels by 2020¹. Indeed, this was the range endorsed by all EU Member States at the international climate conference in Bali at the end of 2007. As a consequence of the 2 degree threshold, the IPCC also showed that global emissions need to come down to about zero prior to the end of the century. This means that industrialized countries including the EU need to achieve this target by around 2050.

The 20% greenhouse gas emission reduction target is too low: the European Commission's proposed target of a mere 20% cut in EU greenhouse gas emissions by 2020 is clearly not aligned with climate change science as well as the EU's international commitments. Furthermore, the current proposal allows for a large proportion of this target to be met by the purchase of emission reduction credits from outside the EU. This weakens an already insufficient target because at best these credits only offset (or cancel out) increases in EU

emissions, they do not actually result in a net reduction in global emissions. Therefore, the 20% GHG target undermines the EU's leadership role in tackling climate change at a critical time in the international negotiations. It fails to take into account the EU's huge historical contribution to climate change and our moral obligation to lead the way in cutting our own emissions first.

The 20% target will also fail to deliver the substantial financial support to developing countries that is required to assist them in decarbonising their economies and in adapting to the impacts of climate change. A robust international agreement in Copenhagen in 2009 will require developed countries, including the EU, to increase their financial and technological contributions to assist developing countries address climate change.

WWF therefore calls for

- An overall greenhouse gas emission reduction target of 30% below 1990 levels by 2020 to be achieved within the boundaries of the EU; and
- The financial equivalent of an additional 15% emission reductions to be invested in developing countries in adaptation and mitigation activities which also provide sustainable development benefits².

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¹ Full working group III report, chapter 13, Page 776, <http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter13.pdf>

² With an indicative carbon price of up to €60 per tonne CO₂-eq the financial equivalent of a 15% cut would equate to around 51 billion per year by 2020 - based on base year greenhouse gas emissions of EU27 being approximately 5.621 billion tonnes of CO₂-eq.

EU EMISSIONS TRADING SCHEME (EU ETS)

The design of the EU Emissions Trading Scheme (EU ETS) post 2012 will be critical for achieving an EU-wide 30% emission reduction target. WWF recommends the following priority amendments are made to the proposal to ensure it fulfils its potential as a fair and cost effective emission reduction mechanism, which promotes investment in low carbon infrastructure within the EU and also contributes appropriate financial support to the developing world.

WWF priority recommendations to strengthen the EU ETS proposal

- Set the cap on emissions from 2013 to a 36% EU emission reduction target and amend the year on year linear reduction percentage accordingly. This corresponds to the overall 30% reduction in the EU;
- Review the year on year reductions every 5 years;
- Ensure the EU ETS sectors are obliged to deliver their fair share of the financial equivalent of an additional 15% emission reduction in investing in adaptation and emission reduction activities in developing countries;
- Require that, as a minimum, only external credits from Clean Development Mechanism (CDM) projects which meet the Gold Standard accreditation³ and/or equivalent quality can enter the EU ETS;
- Implement full auctioning of emission allowances for all sectors from 2013 onwards – meaning all polluters must buy permits to pollute;
- Ensure that all revenues from auctioning are earmarked for emission reduction and adaptation activities and that at least 50% of these are invested in climate change mitigation and adaptation activities in developing countries.
- Domestic offset projects in the EU (buying pollution credits from non-ETS sectors) should remain excluded from the EU ETS.
- Sectors such as surface transport, buildings and European land use activities should not be included in the EU ETS.

PRIORITY RECOMMENDATIONS FOR EU ETS

- Cap on emissions with year on year reductions

WWF very much welcomes the move to make the scheme transparent, efficient and environmentally effective. In particular, the proposal to set the cap on total emissions at EU level from the start of the third phase (2013) is a significant step forwards from previous phases, where Member States created competitive distortions through National Allocation Plans following varying criteria.

In order for the EU ETS to contribute its share of the necessary overall 30% EU-wide greenhouse gas reduction target, the overall cap on emissions and the year on year reductions which will be in place from 2013 need to be tightened. WWF agrees with the current proposal that the EU ETS sectors should continue to deliver two-thirds of the share of the overall emission reduction effort of the economy.

WWF recommendations

- Set the cap on emissions from 2013 to a 36% EU emission reduction target and amend the year on year linear reduction percentage accordingly;
 - Review the year on year reductions every 5 years to check that the scheme is on course to deliver the 2020 target and that these targets still reflect the latest science.
- Using emission reduction credits from projects outside the EU

Quality must be assured – avoid abuse of the system

The Clean Development Mechanism (CDM) was created by the UNFCCC to provide countries with a way to meet parts of their emission reduction targets more cheaply, by investing in emission-reduction projects in the developing world. Its twin aim is to provide sustainable development benefits to the host

³<http://www.cdmgoldstandard.org>. The Gold Standard is an independent, transparent, internationally recognised benchmark for "high quality" carbon offset projects. This standard is restricted to renewable energy and end use efficiency projects, requires projects follow a conservative interpretation of the UNFCCC-additionality test and to provide evidence by a UNFCCC-accredited independent third party that they are making a real contribution to sustainable development

countries of these projects. At best then the current CDM is a zero sum game for the climate - allowing emissions to increase in the developed country where the credits from the project are being used.

In practice, however, there is growing concern that the system is being abused and that many projects which would have taken place anyway (so-called 'non-additional' projects) are being certified. Allowing these 'non-additional' projects in countries without emission caps to offset emissions in countries with reduction targets, results in an increase in global emissions. A recent report by the Oeko-Institut concluded that approximately 20% of CDM certified emission reductions may have happened anyway⁴. This is equivalent to around 34 million tones of CO₂ per year, or the annual emissions from 7 coal-fired power stations. Furthermore the research showed that the sustainable development aim of the CDM is frequently overlooked.

WWF recommendation

Ensure all future external credits meet strict environmental, social and additionality criteria. Therefore, only credits which, as a minimum, come from projects which meet the Gold Standard accreditation and/or equivalent quality criteria should be allowed entry.

Too many "credits" will delay investment in a low carbon European economy

Too much access by companies in the EU ETS to emission reduction "credits" outside the EU will both delay domestic reductions and keep investments in high-carbon infrastructure - such as new unabated coal-fired power stations - financially viable. This could lock us in to soaring CO₂ emissions in the EU for decades to come - putting 2020 and longer term targets out of reach⁵ - or at a minimum making future reductions much more costly for taxpayers and companies to meet.

Providing clear financial incentives to reward low carbon investment within the EU, on the other hand,

will stimulate innovation and employment opportunities for the existing and future workforce of Europe. At the same time, it is crucial that the EU contributes substantively to the low-carbon pathway of developing countries, assists them in reducing emissions from deforestation and forest degradation⁶ and in adapting to the impacts of climate change. WWF believes the best way to achieve a balance between these twin goals of promoting emission reductions within the EU, and also helping developing countries is for a non-European emission reduction target to be added to the 30% EU-wide greenhouse gas target.

WWF recommendations

- Europe commits to the financial equivalent of an additional 15% emission reduction to be achieved outside the EU, in addition to the 30% EU-wide target - with the EU ETS sectors taking on their fair share of this target, and
- The additional 15% is achieved through the use of new and existing market mechanisms and financial instruments for mitigation and adaptation activities, including an improved reformed CDM.

- Auctioning - a fair and cost effective way to allocate pollution allowances

Auctioning is the most efficient, transparent and equitable means of allocating allowances. It is proposed that from 2013 the power sector will have to pay for all their allowances. This is a very welcome move and it is critical that the European Parliament and the European Council keep and strengthen this key aspect for all sectors.

Auctioning emission allowances includes the following benefits

- It ensures the full cost of carbon is factored into investment decisions;
- It supports the 'polluter pays principle';
- It avoids the accumulation of windfall profits to the

⁴"Is the CDM fulfilling its environmental objectives? An evaluation of the CDM and options for improvement" a report for WWF by the Öeko-Institut, November 2007.

⁵For example there are currently plans to build 40 major new unabated coal fired power stations in the EU in the next five years.

⁶Emissions from deforestation and degradation are responsible for approximately 18% of global greenhouse gas emissions.

most polluting sectors that can come about as a result of free allocation. For example, the power generation sector in many countries enjoyed spectacular windfall profits in the first phase of the EU ETS as it passed on the value of the allowances it was given for free to the price of power. In the UK alone it was estimated that this resulted in profits of £1.2-1.3 billion in 2005⁷. These profits are likely to continue in Phase II. A new report commissioned by WWF estimates that that windfall profits in Phase II (2008-2012) of the EU ETS for the power sector in Germany, UK, Poland, Spain and Italy alone may accumulate up to 71 billion Euros⁸ and

- It rewards the most efficient low carbon production.

WWF accepts that only in the absence of an international agreement on climate change, should the European Commission investigate possible measures to address some large industrial polluting installations potential exposure to international competitive disadvantages solely because of the EU ETS. This must be achieved through a comprehensive, factual and transparent process based on independently verified data. Therefore, WWF calls for 100% auctioning for all sectors from 2013 onwards⁹. Specifically we believe the aviation sector, when it's inclusion in the EU ETS is finalised, should pay for all of its allowances from 2013. New research undertaken on behalf of the UK Government concluded that a high level of free allocation would be likely to generate windfall profits for airlines and that a substantial level of auctioning would be needed to avoid this outcome¹⁰.

WWF recommendation

100% auctioning for all EU ETS sectors from 2013 onwards.

- All auctioning revenues earmarked for climate protection measures

Recent reports¹¹ show that human induced climate change is already creating significant costs, particularly for developing countries. These environmental, economic and human costs are caused mainly by the present and historical emissions of industrialized countries such as the EU Member States. The EU has a responsibility to compensate developing countries for this damage and the future damage we are already locked into¹². Under the current proposal the Commission estimates that by 2020 revenues from auctioning could amount to €50 billion per year. When the cap is aligned to the 30% EU-wide emission reduction target, these revenues may even be higher.

The EU needs to offer substantial investment to help developing countries, for example:

- To adapt, where possible, to the impacts of climate change;
- To mitigate future climate change through the direct development and transfer of clean technology, capacity building, reducing emissions from deforestation and forest degradation; and
- To create a sustainable development path which contributes to the right of the world's poorest to a safer, healthier and better life.

The current proposal to allocate only 20% of auctioning revenues for climate protection measures is politically unsustainable. If governments are serious about achieving the reductions in emissions we need to stay well below a 2°C global warming, then ALL revenue needs to be committed to climate mitigation and adaptation activities.

⁷ The partial RIA accompanying the draft UK Government's Climate Change Bill (<http://www.defra.gov.uk/corporate/consult/climatechange-bill/ria.pdf>) states "DTI analysis has estimated that the large electricity generators gained £1.2-1.3 billion in 2005 arising from grandfathering of emission allowances under the EUETS"

⁸ The report "EU ETS Phase II – The potential and scale of windfall profits in the power sector (2008) produced by Point Carbon together with a summary of the issues and findings are located at http://www.panda.org/about_wwf/where_we_work/europe/what_we_do/epo/index.cfm?uNewsID=129962

⁹ Indeed the European Commission's Impact Assessment of the EU ETS proposal concluded that "allocating allowances for free does not appear to be an efficient or even effective instrument to remedy impacts on competitiveness". However, currently it is proposed that energy intensive sectors (and aviation) will receive 80% of their allowances for free in 2013.

¹⁰ A study to estimate ticket price changes for aviation in the EU ETS: a report for Defra and DfT; November 2007.

¹¹ <http://www.defra.gov.uk/environment/climatechange/trading/eu/future/pdf/ticketprices-report.pdf> ¹¹ The Economics of Climate Change – The Stern Review. Cambridge (2006) and IPCC Climate Change 2007 – Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the IPCC. (2007).

¹² OXFAM have estimated the financial need for adapting to the effects of climate change in developing countries amounts to approximately US\$ 50 billion.

WWF recommendations

- All auctioning revenues to be used to fund climate protection and adaptation measures;
 - At least 50% of the auctioning revenues to go to assistance for developing countries; and
 - The remaining 50% of revenues earmarked for climate mitigation and adaptation activities within the EU.
- Domestic offset projects should continue to be excluded from the EU ETS

The Commission's proposal to include domestic offset projects in the EU ETS is a serious setback to its emission reduction potential as well as market predictability. Domestic offset projects describe emission reduction projects that take place in Europe in sectors not covered by the EU ETS. These projects, if permitted, would generate ETS allowances which would then be used by sectors covered by the EU ETS to increase their emissions. These projects occur in sectors whose emissions should be addressed by relevant policies and measures such as, for example, energy efficiency standards in buildings and road transport.

To include domestic offset credits effectively inflates the EU ETS cap and undermines the effectiveness the European Union's climate and energy policies in the non-EU ETS sectors. Some of the many problems and issues associated with domestic offset projects are:

- They reduce the incentive for comprehensive and coordinated emission reduction policies and measures in non-ETS sectors;
- They are open to double-counting – reductions in the non-ETS are credited in the ETS sector so there is no overall emission reduction;

- If a sector is suitable for inclusion in the EU ETS then it should be considered for full inclusion like other sectors.

WWF recommendation

Continue to exclude domestic offset projects from the EU ETS.

- Surface transport, buildings and European Land use, land change and forestry (LULUCF) should not be included in the EU ETS

Any new sector considered for inclusion in the EU ETS must:

- Comply with the existing established monitoring, reporting and verification criteria;
- Be able to provide robust data on emission reductions to the same level of consistency and accuracy as those provided by the current sectors covered in the EU ETS;
- Demonstrate that its potential emission reduction effort in the EU ETS is higher than any other legislation such as energy efficiency standards or nature conservation laws, and
- Purchase all of its pollution allowances.

In this context, the above mentioned sectors should not be included in the EU ETS. Importantly:

- Surface transport and buildings - New and improved legislation is currently proposed (CO₂ in cars and a revision to the Energy Performance of Buildings Directive) that will address CO₂ emissions in these sectors. In the case of surface transport, a report by WWF together with a report commissioned by the European Parliament's Industry, Research and

¹³WWF "Briefing: Surface Transport and the EU Emissions Trading Scheme" can be located here:

http://www.panda.org/about_wwf/where_we_work/europe/what_we_do/epo/initiatives/climate/publications/index.cfm?uNewsID=128521

The European Parliament's Industry, Research and Energy Committee report "The future elements of the EU Emissions Trading Scheme" can be located here:

http://www.europarl.europa.eu/meetdocs/2004_2009/documents/dv/ip_a_itre_st_2007_08_eu_e/ip_a_itre_st_2007_08_eu_ets.pdf

Energy¹³ concluded that the likely EU ETS carbon price would not have an impact on the sector. There are also numerous problems associated with issuing permits to all vehicles and/or buildings which adds to the complexity of applying the monitoring, reporting and verification process.

- European land use sectors, agriculture and forestry – Including this sector as part of the overall EU ETS

Alternatively, generating carbon sequestration credits from this sector is likely to create a large volume of credits which severely undermines the environmental effectiveness of the EU ETS by allowing large industrial polluters to increase their emissions cheaply. Importantly, land-use sectors usually sequester carbon at a low rate over a long time – much longer than the current EU ETS compliance period of 5 years as well as the proposed 8 year compliance period. This would require a different type of EU ETS allowance which would

add uncertainty as well as possibly devaluing other EU ETS allowances. Finally, extreme weather events are likely to result in the sudden release of CO2 emissions. For example, the 2003 heatwave in Europe led to about 500 million tonnes of CO2-eq (equivalent to almost 10% of all EU GHG emissions) being released back into the atmosphere in about two months from various ecosystems¹⁴. Because of this volatility, it is better to identify appropriate policy and measures outside the EU ETS.

WWF recommendation

Exclude surface transport, buildings and European LULUCF from the EU ETS but ensure that Member States apply appropriate measures to address emissions reductions from these sectors in the policies in their Effort Sharing Directive commitments.

¹⁴ Evidence given to the European Climate Change Programme (ECCP) Review of the EU ETS 2007. See <http://ec.europa.eu/environment/climat/emission/pdf/etsreview2/3b.pdf>

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