



NGO briefing: ITRE amendments to the EU Emissions Trading Scheme imply +4°C global temperature rise

INTRODUCTION

This briefing provides an overview of the priority amendments tabled in ITRE Committee on the Commission's proposal to improve and extend the Greenhouse gas emission allowance trading system (ETS) in advance of the ITRE Committee vote on **17 September**. Priority voting recommendations, with a summary assessment of key ITRE amendments to support and reject are provided in overview, and in more detail by subject.

Environmental and development NGOs have analysed the amendments and their likely impact on the EU's final position according to:

- +** amendments which will put the EU on a path to ensuring global warming stays below 2°C compared to pre-industrial levels and will show leadership to other industrialised countries at international talks in Poznan & Copenhagen; OR
- amendments which mean the EU's climate policies will lead towards +3°C or even +4°C global warming if other industrialised countries follow the EU.

The EU ETS is a key part of the EU's climate policy, representing sectors which account for approximately 45% of total EU GHG emissions. The robust design of the scheme post 2012 will be critical for achieving 2020 and longer term emission reduction targets. Key aspects of the scheme must be improved, however, in order to fulfil 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.

ITRE amendments - "Business as usual" or real EU actions to combat climate change?

NGOs believe the majority of amendments tabled in ITRE would, if adopted:

- **significantly weaken** the Commission proposal and promote 'business as usual' for EU industry by:
 - weakening the EU emissions reduction target for 2020;
 - allowing more external credits to replace emission reductions **within** the EU;
 - reducing the amount of pollution allowances that are auctioned and paid for, thereby continuing free allocation for large sectors of industry; and
 - encouraging continued investment in high carbon infrastructure – reducing incentives to invest in renewables which would help in countering high energy prices and increasing security of energy supply.
- **prevent the EU from playing its fair part** in ensuring that global temperature rise is kept below the 'tipping point' of 2°C.

The collective impact of the majority of ITRE amendments would – if followed by other industrialised countries – put the planet on course for global average temperature rise to around 4°C and runaway climate change.

SUMMARY OF ITRE AMENDMENTS ON PRIORITY ISSUES

Priority NGO recommendations	COM proposal	Amendments to support	Amendments to reject
1. Level of 2020 emission reductions a) 30% cut in EU emissions by 2020 is vital	20% now; 30% after an international agreement.	161	159, 160, 178, 179, 377-386
b) Use of external credits – “off-setting” - must be in addition to, not instead of reductions within the EU. c) No credits allowed from offset projects within EU (domestic offsets). d) Only external credits from projects meeting Gold Standard criteria or equivalent should be allowed to enter the EU.	Allowed to carry over unused credits from phase II to phase III (2013 to 2020), extra credits allowed after international agreement is in place. Credits from projects within the EU (domestic offsets) allowed. No robust quality criteria on the quality of offset projects.	340	337, 339, 341-349, 350-352, 364, 387, 389, 390.
2. Auctioning of pollution allowances Full auctioning of allowances from 2013 for all ETS sectors. Instead of only 20% auctioning and 80% free allowances for ETS sectors (apart from the power sector) in 2013.	100% auctioning for the power sector in 2013; only 20% for others (or 80% of allowances for free), increasing to 100% by 2020.	168, 334.	166, 236, 200-250, 255, 259, 312, 313, 315-317, 320, 327, 328 and 333, 268-271, 279-288, 293, 311.
3. Use of auctioning revenues and developing country assistance. All revenues from auctioning should be earmarked for climate protection measures with 50% going to assist developing countries and the rest used within EU.	20% “should” be earmarked for climate measures.	3, 4, 18, 20, 170, 172, 174, 175, 184, 185, 192, 193.	
4. Addressing impacts on international competitiveness - Keep the Commission’s proposal for an evidence based assessment of sectors/sub sectors potentially at risk; and - Focus on supporting an EU position at the international climate change negotiations which doesn’t undermine the need for a global deal based on cuts that will ensure we keep as far below 2°C as possible.	COM to assess sectors and propose measures by 2011 if no international agreement.	319	378, 379, 287, 297-300, 305, 306, 314-5, 322-325, 329-331, 398-9, 403-4.

ANALYSIS OF PRIORITY AMENDMENTS

1) Level of 2020 emission reduction

a) Emission reduction targets

Parliament voted strong support for keeping the global average temperature rise below +2°C in June 2008 in the Climate Change Committee report. This commitment now needs to be implemented by support for strengthening the Commission proposal which is currently equivalent to a temperature trajectory of almost +3°C! This proposal, starting with a modest 20% emission reduction including a significant part of off-setting domestic emission reductions through the use of external credits is in reality only equivalent to roughly a 9% cut between 2013 and 2020 (when the EU's existing Kyoto target of an 8% cut by 2012 is taken into account). We urge MEPs to reject damaging ITRE amendments which water down the ambition level even further - either through allowing more off-setting or by seeking to delay or even prevent a shift to a more ambitious emission reduction target.

COM: Target for EU ETS sectors in line with a 20% overall reduction in EU greenhouse gas (GHG) emissions by 2020, compared to 1990. A non-binding recital mentions increased reduction of 30% by 2020 after an international agreement. This is not reflected in the Articles.

NGOs: EU target for emission reductions needs to be set clearly for **AT LEAST 30%** by 2020 with the target for the EU ETS sectors set in line with this. Reductions need to take place **WITHIN** the EU boundaries (thus no off-setting with external credits within this 30% target).

Ek report: Mentions need for a 'strong level of ambition' in a recital, but this is not specific nor binding.

ITRE amendments: The vast majority of amendments aim to further weaken the COM proposal for only 20% EU reductions by 2020. Only one amendment aims to strengthen the reduction level to around 25%. Amendments from several individuals in PPE, PSE and ALDE groups impose limiting conditions for any increase above a 20% target after an international agreement, therefore making this more difficult to achieve.

Am no.	Article	MEP	Content	Vote rec'n	Justification
161	Article 9,1	Corbey	Increases EU annual emission reduction factor to 2% per year, from 1.74%. This equates to around 25% EU reduction by 2020.	+	Best available proposal in ITRE to move EU towards 30% reductions by 2020
159 160	Article 9,1	Rubig Reul	Decreases by half (in one case) the EU reduction target by 2020. Shifting it to well below 20%.	-	EU emission reductions would be far less than 20% by 2020 – putting world on course for 4+°C global warming.
378 379	Article 28.1	Niebler & Langen	Imply that developing countries should reduce their emissions as much as developed countries.	-	Contradicts international principle that developed countries should lead in reduction commitments to reflect historical responsibility and greater financial resources.
377-3 86	Article 28	Various PPE PSE ALDE	Weakens the COM proposal language for there to be an increase from 20% to 30% reductions after an international agreement.	-	Could prevent COM proposed increase from 20% to 30% reductions after international agreement on climate change.

b) No off-setting via external emission reduction credits until reductions have been made within the EU

COM: i) Allows unused external credits from phase II to be carried over (banked) into phase III 2013-2020.

ii) If EU emission reduction target goes **above 20%**, allows use of **new** external credits for half of the increase in emission reduction effort beyond 20%.

This means in reality:

- under COM reduction target of 20%, only potentially **17%** reductions within the EU;
- under increased reduction target of 30%, only potentially **22%** reductions within the EU.

NGOs: EU's own emission reductions must be at least 30% by 2020 and take place **within** the EU. Thus, no off-setting with external credits until EU has reduced its domestic emissions by 30% - then use external credits in addition. Projects from external credits should meet 'gold standard' criteria¹, to provide better assurance that projects are additional and contribute positively towards sustainable development.

Ek report: No change to the Commission proposal.

External credits are one way to support developing countries in reducing their GHG emissions ("mitigation"). However, continued use by ETS companies of (cheaper) emission reduction credits outside the EU – so-called 'off-setting' – will only delay the necessary EU domestic reductions and also reduce incentives to invest in clean technology and slow down innovation. Consistency with a <2°C global temperature rise goal means that overall EU emissions by EU ETS installations need to be reduced by 30% by 2020, compared to 1990. Using external credits to achieve the emission reductions for the EU is 'cheating' this reduction target.

The purchase of offset project credits should therefore be **additional to** and not instead of a strong focus on EU domestic emission reductions. Under the ETS, consistency with a <2°C requires that off-setting of emission reductions should be allowed only if the emission reduction target is set above -30% compared to 1990.

In addition an offsetting mentality will not lead to the significant flows of finance which must move from the north to the south² to help developing countries in reducing emissions and in adapting to the impacts of climate change. It is a myth to claim that external credits can provide sufficient help when in reality the scale of finance needed is far greater and should be committed by Member States themselves - under the Effort Sharing proposal, and by earmarking auctioning revenues.

ITRE amendments: Several amendments would allow much greater use of project credits from developing countries, instead of requiring reductions within the EU. Some remove ALL restrictions on the quantity of external credits. This would allow EU industry to 'buy' cheap external credits for reductions abroad without needing to reduce its own emissions.

¹ The Gold Standard is an independent, transparent, internationally recognised benchmark for high quality carbon offset projects. It is restricted to renewable energy and end-use efficiency projects, requires projects to follow a conservative interpretation of the UNFCCC-additionality test and provides evidence by a UNFCCC-accredited independent third party that they are making a real contribution to sustainable development

² See section xxxx for a further discussion regarding the scale of these flows.

Am no.	Article	MEP	Content	Vote rec'n	Justification
340	Article 11a 3-7	Harms, Hassi	Only permits use of external credits from renewable energy and energy efficiency projects (excluding large hydroelectric).	+	These types of projects would help developing countries in the move towards a low-carbon economy AND also provide potential sustainable development benefits.
337 339 342 345	Article 11a .	Korhola	Allows an increase in the use of external credits if emissions increase – or removes all restrictions on use of credits. Relaxes rules on approval of credits by Member States.	-	Removes limits on use of external credits and so reduces EU's own emission reductions. Also removes incentives for companies to reduce emissions.
343 344 348 349 387	Article 11a & 28	Reul, Ehler, Niebler	Increases access to external credits to up to 70% of EU emission reduction effort.	-	As above.
341	Article 11a.2 & 4,	Louis	Introduces use of 'sinks' credits, without an international agreement.	-	Forest projects generate temporary credits due to concerns around the permanence of biological carbon sinks. Claiming credit for carbon stored in forests and other vegetation ('sinks') is one of the most contentious issues in the Kyoto Protocol. The decision to exclude forestry projects from the first and second phases of the EU ETS was made due to the significant liability risks that these temporary credits present to a company trading system based on permanent emissions reductions and restricted compliance periods.
350-3 52 389 390	Article 11a.7a (new), 28 a (new)	Buzek Ek Vidal-Qadras Corbey	Introduces use of REDD* forest credits into ETS.	-	There is currently no existing mechanism for REDD. NGOs support action to ensure that a robust financing system for REDD is established within the international climate change agreement – and believe priority should be given to this.

* Reduced emissions from deforestation and degradation.

c) Off-setting via EU domestic projects outside ETS sectors

COM: In addition to external credits, the proposal allows the possible use of 'domestic' EU credits from projects in sectors which are not covered by the scheme.

NGOs: The use of credits from the non-EU ETS sectors is unacceptable as this would result in less emission reductions in the EU ETS and would dilute the EU ETS cap. There is also no guarantee whatsoever that the credits from domestic non-EU ETS projects represent real emission reductions because of the absence of good compliance and enforcement rules for the non-EU ETS sectors. We recommend that Article 24 is deleted from the COM proposal.

Ek report: No change to COM proposal.

No amendments to SUPPORT.

Amendment to REJECT:

364 Article 24a a (new) (Buzek) which allows for the emissions made in the non-ETS sectors to be used for ETS compliance thereby further inflating the emissions cap.

2. Auctioning of pollution allowances from 2013

COM: 100% auctioning for the power sector **only** from 2013. 20% auctioning for other ETS industry sectors from 2013 (= 80% free allocation), slowly increasing to full auctioning and no free permits by 2020. This will likely allow other sectors to make “windfall profits” by giving 80% of their pollution permits for free.

NGOs: Full auctioning for all sectors from 2013.

Ek report: Auctioning to be carried out by the European Commission or another competent authority, to ensure that auction revenues are pooled and used in the most efficient way (amendments 3 and 18).

Within a trading scheme auctioning allowances is a key design feature which helps to ensure that progress towards a low carbon economy takes place in the fairest and economically most efficient way. Auctioning of 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 accumulation of windfall profits to the most polluting sectors which can result when sectors pass on the price of pollution allowances which they receive for free. Estimated windfall profits for the power sector in Germany, UK, Poland, Spain and Italy are up to €71 billion by 2012 (according to report commissioned by WWF)³.
- It rewards the most efficient low carbon production.

The Commission proposal to give 80% of pollution permits for free to other sectors, apart from power sector, will continue to distort the economic functioning of auctioning and open the way for more “windfall profits” in these sectors from 2013.

By 2013, most sectors covered by the EU ETS will have been in the scheme for eight years. Energy intensive industry sectors may well have benefited from free allocation of permits based on business as usual emissions projections for most or all of this time. From 2013, it is reasonable for all sectors to pay for their pollution allowances.

ITRE amendments: Almost all amendments restrict the use of auctioning even further than the Commission proposal. Most aim at reducing the amount of auctioning in the power sector through exceptions (for combined heat and power (CHP), auto-production, waste gases etc.). Some amendments promote continued and indefinite free allocation of pollution permits for all sectors. Others aim to continue the existing perverse incentives to invest in coal power generation by giving free allowances for new entrants to the electricity sector!

Many amendments assume that all EU manufacturing industry is subject to ‘fierce’ international competition and that in the absence of a robust international agreement auctioning would force them to leave the EU. There is no empirical evidence that EU climate policies have so far

³ EU ETS phase II – the potential and scale of windfall profits in the power sector (2008), by Point Carbon and summary by WWF can be found here http://www.panda.org/news_facts/newsroom/index.cfm?uNewsID=129962

resulted in the relocation of polluting industries to countries with less stringent environmental policies. Indeed if some sectors are sensitive to competitiveness losses, these are likely to be sub-sectors or individual installations, which should be dealt with on a case by case basis – as proposed by the Commission.

Am no.	Article	MEP	Content	Vote rec'n	Justification
168 334	Article 10.1, 11	Harms and Hassi	Full auctioning from 2013.	+	Auctioning is most, efficient and transparent way to distribute emission allowances. All ETS sectors should pay for their pollution allowances from 2013.
166	Article 10	Reul	Deletes Article on auctioning completely in favour of free allocation based on benchmarks and actual production.	-	This removes the entire principle of auctioning from the ETS.
236	Article 10a.2	Reul and Ehler	Allocation of allowances based on actual production levels – contrary to ETS approach.	-	Creates incentives for increasing emissions, by giving more allowances for free where production levels increase – regardless of the emissions cap.
200-250	Article 10a various	Various	Most aim to limit auctioning in the power sector via listing exemptions for e.g. auto-generation, waste gases, etc.	-	Any possible derogations from auctioning should only be for sectors identified by the Commission in due course as exposed to risk of significant carbon leakage.
255, 259 312-317 320 327/8 333	Article 10a and 10b	Various PPE PSE ALDE	Provide free allowances to industry for the electricity they use, so-called 'indirect emissions'.	-	Substantially reduces incentives for industry to improve energy efficiency and undermine emissions-based approach of ETS.
268-271	Article 10a.6.3	Ransdorf, Reul, Ehler, Buzek, David	Free allowances continued for new entrants from electricity sector.	-	Would provide more windfall profits to the power sector and reward carbon-intensive power generators.
279-288 293 311	Article 10a various	Various PPE, ALDE, + Mann	Indefinite continuation of free allocation for all manufacturing industry.	-	These assume all manufacturing industry is subject to 'fierce' international competition. They would destroy economic efficiency of whole scheme.

3. Use of auctioning revenues and developing country assistance

COM: Recommends 20% of the revenues from auctioning permits “should” be earmarked.

NGOs: Earmark **ALL** auctioning revenues for climate protection measures – 50% to help developing countries and the other half to support a range of EU climate-friendly projects and support measures.

Ek report: Proposes pooling all auctioning revenues at Community level with all revenues from auctioning to be used for climate protection measures.

The revenue generated from the auctioning of pollution allowances are significant **new** funds which were not anticipated before the creation of the EU ETS. Estimated revenues by 2020 are around €50 billion per year, even under the Commission's low proportion of auctioning.

The EU has a moral obligation, due to our substantial historical contribution to climate change, to offer substantial long term financial support to help developing countries reduce their emissions and adapt to the impacts of climate change. EU auctioning revenues could provide a substantial source of new funding for these activities⁴. This would be before any use of external credits for offset projects. The remaining revenues should be used within the EU for climate support measures.

What level of 'climate' funding should the EU provide to developing countries?

Concrete figures are hard to determine but indicative levels of funding which reflect the EU's responsibility for current levels of climate change can be gleaned from the existing research on the potential cost of mitigation and adaptation. For example the UNFCCC's 2007 report on investment and financial flows estimates that by 2030 €69 billion will be required for mitigation in developing countries⁵. With the EU 27 responsible for approximately 30% of greenhouse gas emissions from industrialised countries in 1990, this implies that the EU should invest around **€21 billion per year on mitigation activities in developing countries**. There are various estimates as to the level of possible funding needed to address adaptation in developing countries. OXFAM for example estimate that it may cost at least US\$50 billion per year, 30% of which equates to around **€11 billion as the EU's share of this**⁶.

This European Parliament could play the historic role becoming a key player in brokering an international agreement on Climate Change. The EU has the historical responsibility to compensate developing countries for the damage that has been caused by their historical GHG emissions. In Bali it was agreed that developing countries action is contingent on developed country support. The EU aims to be a leader in the global climate negotiations and support to developing countries is key to an international deal that will keep global warming below 2 degrees.

Amendments to SUPPORT:

- **3, 4, 18 and 20** (Article 10 and Recitals) (Ek)
- **170, 172, 174, 175, 184, 185, 192 and 193** (Article 10) (PSE, Greens) because they move beyond the Commission's proposal on earmarking of auctioning revenues.

⁴ Indeed under the current proposal the Commission estimates that by 2020 revenues from auctioning could amount to €50 billion per year.

⁵ Indeed this is report based on a scenario which would lead to more than 2 degrees centigrade warming. So mitigation costs to say below 2 degrees are likely to be significantly higher.

⁶ Other estimates: United Nations Development Programme Human Development report (2007) estimated that by 2015 costs of adaptation in developing countries could be approximately US\$86 billion per year.

4. Addressing impacts on international competitiveness and carbon leakage

COM: Commission to collect evidence from and assess all EU sectors/sub-sectors and decide by 2010 which of these are at serious risk from international competition and could be subject to 'carbon leakage' (moving business and emissions abroad due to ETS costs). Then to propose measures to address this in 2011 (in the case of no international climate change agreement).

NGOs: Keep the Commission evidence-based proposal. Tighten the criteria for defining sectors at risk of carbon leakage.

Ek report: Priority is given to getting an international agreement. Carbon leakage to be addressed only if there is no international agreement.

A robust international agreement on climate change would be the best solution to address the impacts on specific energy intensive sub-sectors as a consequence of the EU ETS, including the risk of their relocation outside the EU ('carbon leakage'). Only if there is no robust global deal should the Commission investigate possible measures to address the impacts in these sectors. In the meantime the identification of those sectors at potential risk of re-location must be based on evidence and a set of clear, specific criteria.

Free allocation is one commonly proposed solution to prevent or limit carbon leakage but we would dispute this premise. Indeed a recent document from the UK Government states⁷: *"Further consideration should be given to the long-run effectiveness of continued free allocation at preventing possible carbon leakage. Firms may choose to use free allocation to earn windfall profits from the allowances, resulting in reduced market share and carbon leakage. Long term windfall profits could be used to finance investments in new installations, possibly outside the EU. Therefore consideration should be given to other methods proposed to limit the possibility of carbon leakage."* This is corroborated by the Carbon Trust who consider that free allocation could protect profitability but won't really prevent carbon leakage⁸.

Competitiveness losses have always been put forward by industry when discussing environmental policies. However, after decades of environmental legislation there is still no empirical evidence that such policies have resulted in the relocation of polluting industries to countries with less stringent environmental policies

ITRE amendments: Several amendments propose that all manufacturing industry receive all their allowances for free in the absence of a global deal – without any criteria to identify whether they are exposed to significant levels of international competition or not. Other amendments propose to list the sectors 'exposed to significant risk of carbon leakage' in an annex now and that special treatment should automatically follow. This is clearly premature - as assessments have not yet been carried out – and it would undermine the EU's position at the international climate negotiations.

⁷ <http://www.defra.gov.uk/corporate/consult/euets-2013amendments/partial-ia.pdf>

⁸ "Cutting carbon in Europe – the 2020 plans and the future of the EU ETS" Carbon Trust, 2008

Am no.	Article	MEP	Content	Vote rec'n	Justification
319	Article 10b	Harms Hassi	Measures to address carbon leakage only to be considered if no post-2012 climate change deal is reached.	+	The best way to tackle potential 'carbon leakage' is by getting a robust international climate change agreement. Seeking to identify sectors and propose measures in advance of key negotiation meetings will merely undermine this crucial process.
287 297-300	Article 10a	Vlasto Rubig Reul Langen	Deletes criteria for identifying sectors exposed to significant international competition. Free allowances for energy intensive industries if no global climate change deal.	-	Energy intensive sectors are not homogenous and are subject to varying levels of international competition.
398 399 403 404	Annex I a (new) and IIa.a & b(new)	Vidal-Quadras Busquin Vlasto Langen	Establishes a list of sectors which are 'exposed to carbon leakage' and proposes they receive automatic 100% free allocation of emission allowances.	-	Bypasses Commission scrutiny system for assessment of sectors and would remove any incentive to reduce emissions in sectors receiving 100% free allowances.
305 306	Article 10a.9.1	Goebbels Grosse-tete Busquin Swoboda	Brings forward assessment of carbon leakage sectors to June 2009.	-	Best way to address carbon leakage problems is by getting an international climate change agreement to be at end 2009. There is no point in identifying EU sectors which may be at risk before this date.
322-325	Article 10b.1	Toia Susta Buzek David Mann	Brings forward the date for proposed EU measures to address carbon leakage sectors (even including power sector).	-	As above
378 379 314/5 329-331	Articles 28 & 10b	Niebler Langen	Set specific & restrictive criteria for addressing carbon leakage in a global deal.	-	Such criteria would damage EU relations with developing countries, and contradict the UNFCCC principle of 'common but differentiated responsibilities' for developed and developing countries.

ENDs

ANNEX – POTENTIAL TEMPERATURE IMPACT OF “CLIMATE UNFRIENDLY” ITRE AMENDMENTS

