HOT SPOT
climate & energy policy news from europe
ISSUE N°68 • MAY 2013

CAN CLIMATE ACTION NETWORK Europe

EU ETS reform cannot wait any longer

Green MEPs in Strasbourg before the backloading vote

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JULIA MICHALAK, CAN Europe EU Climate Policy Officer

We are not big fans of backloading and we're frustrated watching an argument over a technical ETS adjustment turn into a debate about the future of Europe's carbon market. But we are also concerned that if the current course set by the plenary vote in Parliament is pursued, the EU will lock itself into eight years of inaction. Other countries will steal the lead in the race to a low-carbon future, profiting from technological advances that would in turn encourage investment and job growth. Backloading is a must to ensure that structural reform of the EU's carbon market will take effect before 2020. Without a short term ETS fix, long-term improvements are unlikely to happen before the end of this decade.

Reforming the ETS cannot wait, as advocated by those who don't want to see an effective EU carbon market any time soon. Some of the carbon market's opponents bluntly admit they're enjoying seeing a carbon price lower than the price of a hamburger and that no changes to the ETS are needed. Others, such as Business Europe, claim that something has to be done but there's no need to rush into it. At the same they criticise all structural measures proposed by the Commission, such as moving to a 30% emissions reduction target, limits on domestic and international offset credits and an increased trajectory for emissions reductions. They are calling instead for a debate about vaguely referenced "real solutions." But what "real solutions" do they support? Do they really want the ETS to be fixed or is their rhetoric just a delay tactic, as it's simply unlikely that any structural measures will be in place before 2020 if backloading doesn't pave the way forward?

When the backloading proposal was first presented by the Commission, the EU's carbon price was around 11 EUR/tonne. Today it's almost four times lower. There is no reason to keep waiting for Godot: for the Council to look at Parliament, for Parliament to blame the Council and for the Commission to delay the legislative proposals on structural measures. All branches of EU government need to take decisive action. Otherwise, Member States will start implementing alternative solutions to compensate for the weak carbon price, such as taxes on coal and tougher limits on pollution for new power plants. Parliament and Member States must support the backloading amendment to safeguard the EU's coherent approach to climate policy and ensure the world's first and largest carbon market provides the low-carbon incentives it was designed to do. ●

Background

On April 16th, the European Parliament regrettably voted to reject a proposal to temporarily revive the EU's flagging carbon market, the EU Emissions Trading Scheme (ETS). With carbon prices already at all-time lows, the vote has further undermined the security of investments into low-carbon technologies. However, the European Parliament is scheduled to vote again on backloading in the Environment Committee on June 19th with a full Parliamentary plenary vote expected at the beginning of July.

Polish coal plants bite the dust

PGE energy company scraps plans for two coal power units, but Poland's energy strategy is still running on coal.

MICHAL OLSZEWSKI, New Media and Policy Officer at ClientEarth Poland.

Opole's coal power plant expansion was a part of the Polish national energy strategy. In February 2011, Polish Energy Group (PGE) signed a 9.4bn zloty (€2.25bn) contract for the construction of two new units in Opole, with a capacity of 900 MW each, enough to power 1.6mn households for a year. Based on a variety of legal and environmental factors, ClientEarth decided to sue the investors. By the beginning of April 2013 the Opole board had scrapped the investment plans.

ClientEarth Foundation's lawsuit stressed that the new investment would have been in contradiction of EU directives and Polish law requirements, because of:

- ***Improper water pollution analysis.*** The document prepared by the investor lacked any data that would have made it possible to determine the impact of the new units on the nearby river Oder.
- ***Improper and inconsistent treatment of waste*** according to an environmental impact assessment.
- ***Failure to ensure public participation in the proceedings.*** While ClientEarth followed the process very closely, the authorities did nothing to encourage public access to the details of the planned project and its impacts.
- ***Lack of readiness to develop carbon capture and geological storage of CO_2 (CCS).*** In accordance with European Union law, each large, newly built coal-fired power plant must submit a verification of "CCS-readiness," demonstrating that it is technically ready to apply CCS.

The Court partly agreed with the above arguments and repealed the construction permit. However, the ClientEarth argument linked to the necessity of CCS implementation was rejected because of a lack of EU directive transposition at the national level.

So why did PGE decide to withdraw from this investment? There is much speculation, but it was probably down to a combination of factors. Polish electricity prices are among the lowest experienced in recent decades, compared to other EU countries[1], making the chance of a high rate of return on the investment unlikely. PGE was also affected by the European Commission's decision in July 2012 to remove 31 major investments with a total capacity of over 10 GW (about 20 per cent of all installed power plants in Poland) from the derogation list under the EU Emissions Trading Scheme (ETS). This loss of previously expected free emissions allowances was probably another blow to planned plants in Opole and other locations.

1 Eurostat calculated that between 2007-2012 the average price of electricity for German companies increased by 26%, and for households by 23% and in Poland these rates were only 2% and 2.8%.

In the short-term, the withdrawal from the project means that the financing needs of the investor will probably be lower. Even rumours that they might withdraw from the investment made their stock prices go up. Ironically, PGE should therefore be grateful to ClientEarth for delaying the investment. If construction had begun last year, the company would now be in serious trouble.

The most important question is if the scrapping of these planned plants represents a signal of a change in energy policy in Poland. Polish Prime Minister Donald Tusk declared recently that the national energy mix should be still based on coal and that renewables are acceptable only in the smallest amount required by the European Union. Moreover, there is another fundamental element of the economy, consistently unmentioned for years by the power companies: external costs being footed by the government. OECD estimated that during the years 1999-2009 the Polish state budget allotted $20bn (€15.3bn) to power companies, covering the costs of exemptions from social security charges, destruction of the environment, exemptions for mining damage and other stranded costs[2]. Unfortunately, these continued trends indicate that one good court decision will not necessarily change the course of the Polish, coal-powered steamer.

2 http://www.oecd.org/site/tadffss/POLAND_PL.pdf

calendar

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3 – 7 June: EU Green Week
7 June: TTE (Energy+Transport) Council
3 – 14 June: UNFCCC inter-sessional, Bonn
15 June: "Communicating the Science" CAN/GCCA workshop, Bonn
18 June: ENVI Council
19 June: Europarl. Environment Committee vote on backloading
26 June: close of EU public consultation on 2015 int'l agreement
24 – 28 June: EU Sustainable Energy Week
2 July: close of EU public consultation on 2030 climate and energy targets

Green Paper on 2030 targets: Don't forget about climate change!

DORA PETROULA, CAN Europe Energy Savings Policy Officer

One would expect that the EU Communication on the 2015 global legally binding agreement on climate change and the Green Paper on a new EU post-2020 climate and energy policy framework, both published by the Commission at the end of March 2013, would have been synchronised not only in terms of timing but also content. However, the Green Paper, which officially opens the discussions regarding medium- term domestic climate action, does not include a clear reference to the urgency of addressing climate change. This failure to acknowledge that we need to immediately step up our efforts comes at a time when other global organisations such as the World Bank, IMF and IEA are very publicly stating that the world's economies will be severely affected if insufficient climate and energy policies are put in place.

The Green Paper represents a positive step in moving the debate on the future of EU climate and energy policy forward, but it fails to adequately address other crucial elements needed for the further development of these policies. The level of ambition for greenhouse gas emission reductions in the paper is based on the lower end of the 80-95% target outlined in the EU's 2050 Low-Carbon and Energy Roadmaps. Achieving Europe's decarbonisation goals requires the transformation of the energy system with a significant reduction in energy use and a very high penetration of renewable energy. The importance of these solutions is recognised in the Green Paper, but a clear push for a coherent approach, which includes setting ambitious, binding targets for greenhouse gas emission reductions, renewable energy and energy savings, is absent.

Sustainability, competitiveness and security of supply are complementary pillars and not trade-offs as presented in the Green Paper. The pressing reality of climate change demands from Europe, as it does from all big emitters, increased action to reduce emissions. Luckily, this also offers economic opportunities, which can increase employment, stimulate innovation and improve security of energy supply through the deployment of clean technologies. Europe needs to make the most of these opportunities now and beyond 2020, as the best way to safeguard the competitiveness of its economy.

EU POLICY FOCUS

Under rather complicated rules of procedure, the backloading amendment was kicked back to the Environment Committee (ENVI), the lead parliamentary committee on the dossier. ENVI is scheduled to vote on it again on 19th June. In July the dossier will likely go back to European Parliament for another full plenary vote. Many MEPs are looking to their national governments for guidance, though the Council has not yet adopted its position. Many Member States still haven't made up their minds on backloading: Spain, Portugal, Czech Republic and Germany are among those who are hesitating about supporting it.

CAN Europe has also been actively engaged in the EU's post-2020 climate and energy framework debate in Brussels. Along with our members, CAN Europe will be submitting an official response to the EU's public consultation on the Green Paper on a 2030 framework, which closes on 2nd July. The EU's public consultation on its communication on the 2015 international climate agreement closes on June 26th. For more on these two communications, see the articles in this issue of Hotspot.

At the scheduled EU Environment Council in June, Environment Ministers are expected to issue conclusions on climate change adaptation and the joint communication "A Decent life for all: Ending poverty and giving the world a sustainable future." This Communication was released as a follow up to the Rio+20 conference and will help shape the EU development agenda for the post-2015 period, after the Millennium Development Goals' target date has been reached. The third and final step in this process of developing the EU's development goals will be the General Affairs Council on June 25th.

EC communication on the 2015 global climate agreement: *In search of a perfect recipe*

ULRIIKKA AARNIO, CAN Europe Senior Policy Officer

Together with the Green Paper on the EU's domestic climate and energy policies, in late March the European Commission launched a communication on the 2015 global climate change agreement, to which all parties to the UNFCCC have committed.

We quite agree with what the European Commission outlines in the communication as an ideal design for a global agreement on climate change. Here is what we think is the best recipe for the global deal:

- Set a carbon budget compatible with staying below 2°C warming (1.5°C if you want everybody to be served);
- Make sure that the lid fully covers 100% of global emissions;
- Add a framework for equitable burden sharing and political will;
- Add two generous cups of money, one for adaptation, one for mitigation; stir in a Means Of Implementation such as technology transfer, capacity building, etc.; and
- Add a handful of common accounting and transparency.

After stirring, pour the mixture over 194 government delegates. Let simmer for two weeks in a conference centre in Paris. DO NOT OPEN DOORS UNTIL AN ADEQUATE AGREEMENT IS REACHED. Check for loopholes and legally binding nature. Serve immediately with vigorous enforcement. For the EU, as a first step, we recommend upping the 2020 target and swiftly agreeing post-2020 targets in line with the EU's fair share.

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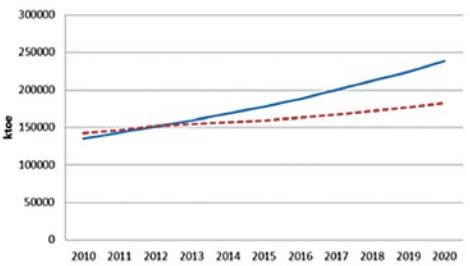
The EU's progress on renewables towards 2020

DANIEL FRAILE, CAN Europe Energy Policy Officer

On March 27th the European Commission published a report on the progress of member states toward fulfilling their 2020 Renewable energy targets. While most countries were on schedule for their interim 2011/2012 trajectory, most of them are unfortunately not on track to reach their 2020 target. The analysis suggests that new incentives must be put in place for Member States to reach these medium term targets.

The financial crisis is certainly affecting access to and cost of capital, but it is not the main reason for these conclusions. The latest sudden changes in certain support schemes across Europe, including the level of financial support, have had a larger negative effect on investors' confidence, increasing investment risk and putting many projects on hold. But other barriers the Renewable Energy Directive was intended to address have not yet been sufficiently tackled by Member States. Administrative delays and labyrinthine paperwork hoops that must be passed still cause problems in several countries and raise project risks. Slow infrastructure development, delays in connection and grid operating rules that disadvantage renewable energy producers all continue to exist and need to be addressed.



Planned (blue) vs. estimated (red) trend in renewable energy

The European Commission will soon publish guidelines on best practice for cost effective and consistent renewable energy support schemes. These will aim to improve current regulatory uncertainty, as well as to foster balanced growth of renewables all over Europe at lower cost. However, many of the negative elements identified in their analysis still remain unresolved.

CAN Europe and its members are working with governments to ensure the Renewable Energy Directive is fully implemented and market barriers are overcome. Key areas of focus include reducing administrative road blocks and red tape, increasing transparency and predictability of financial instruments and speeding the upgrade of transmission and distribution infrastructure to allow larger amounts of renewables to be connected .

At a time when Europe is discussing the establishment of a new Energy and Climate policy framework for the post-2020 period and the role renewables should play, solving market failures for renewables penetration and improving the regulatory framework are of paramount importance. Future renewables targets should be based on technological potential and multiple economic, environmental and social benefits and thus should not be undermined by the current poor national implementation of European policies.

HOTSPOT

Published by Climate Action Network (CAN) Europe. CAN Europe is Europe's largest coalition working on climate and energy issues. With over 120 member organisations in more than 25 European countries, CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.

CAN Europe is the European office of CAN-a global coalition of over 750 NGOs working to halt the most dangerous effects of climate change.

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PHOTO CREDITS

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Layout: www.beelzePub.com

The CAN Europe Spring GA – Another success!

This edition of CAN's twice yearly General Assembly went off in style again. With 76 participants over 2 days representing 46 organisations from 27 countries, the true diversity of CAN Europe was easy to see. We were also excited to vote five new members into the CAN Europe family: Transparency International, Drylands Coordination Group in Norway, The World Society for the Protection of Animals (WSPA) International, ClientEarth EU and the Nature Conservation Centre in Turkey. Welcome to CAN Europe!

CAN Europe family photo, Spring 2013 GA

CAN Europe gratefully acknowledges support from the European Commission.
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