

EU climate package explained

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The EU is trying to hammer out a final deal on a climate change package that is supposed to become law in the 27-nation EU early next year.

The original package presented by the European Commission in January 2008 is expected to be watered down to some extent, because the financial crisis has amplified concern about the economic cost of green energy. EU countries are divided over how to share out that burden and limit the economic pain.

The package focuses on three areas: emissions cuts, renewables and energy efficiency.

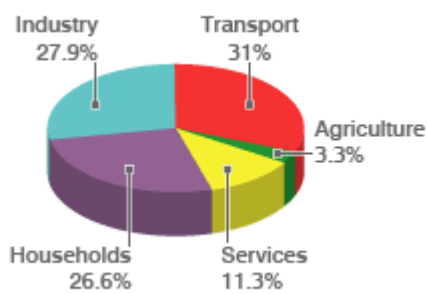
The EU's credibility is at stake as it aims to be a model in the run-up to a new global climate pact to be signed in Copenhagen in a year's time. That pact will succeed the 1997 Kyoto Protocol, which runs out in 2012.

But pressure is mounting from EU member states for other major polluters worldwide to adopt similar targets. France, which holds the EU presidency until January, has the tricky task of keeping all 27 member states on board at the EU summit on 11-12 December.

EMISSIONS CUTS AND THE ETS

The European Commission and EU governments agreed on the target of cutting greenhouse gases by at least 20% by 2020, compared with 1990 levels.

EU ENERGY CONSUMPTION IN 2005



The target will rise to 30% if an international agreement is reached committing other developed countries and the more advanced developing nations to comparable emission reductions.

The EU launched its pioneering Emissions Trading Scheme (ETS) in 2005. But to meet the new targets for emissions cuts changes to the ETS are required.

Under the ETS, permits for emitting carbon dioxide (CO₂) are distributed under a system of national allocations. The permits are traded - so big polluters can buy extra ones from greener enterprises.

The EU aims to reduce the allocations by 21% from 2005 levels by 2020. And there is to be one EU-wide cap on the number of permits, rather than individual national allocation plans.

The ETS covers about 10,000 heavy industrial plants across the EU - notably power plants, oil refineries and steel mills - which together account for almost half the EU's CO₂ emissions, the commission says.

EU 20-20-20 TARGETS

20% cut in greenhouse gas emissions by 2020

20% increase in use of renewable energy by 2020

20% cut in energy consumption through improved energy efficiency by 2020

In depth: Climate change

Q&A: EU green energy

All major industrial emitters of CO₂ are to be brought under the ETS and the scheme will also include greenhouse gases other than CO₂ - nitrous oxide and perfluorocarbons.

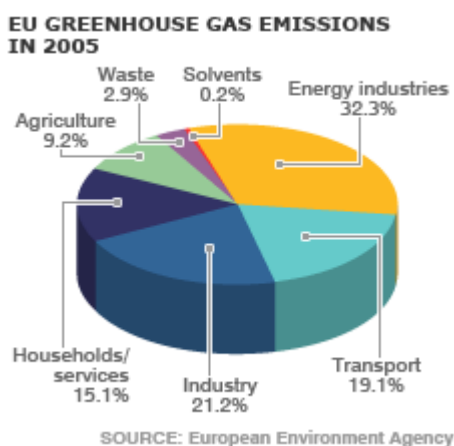
Many permits were given away for free in the first ETS phase. But from 2013 enterprises in the power sector will have to buy all their permits at auction, under the EU plans. For other industrial sectors and aviation full auctioning will be phased in by 2020.

The move to full auctioning is proving contentious. German industrial groups say full auctioning will cost them billions of euros - costs that they could not pass on to customers.

Similar warnings have come from new EU member states in Central and Eastern Europe - especially Poland, which is heavily dependent on coal. Italy has added its voice to the protests.

Concessions over the ETS targets may be necessary to prevent Italy or Poland vetoing the whole climate package - a threat that was made at the October EU summit.

Another option may be for the richer EU member states to compensate the poorer ones, to help cover the costs.



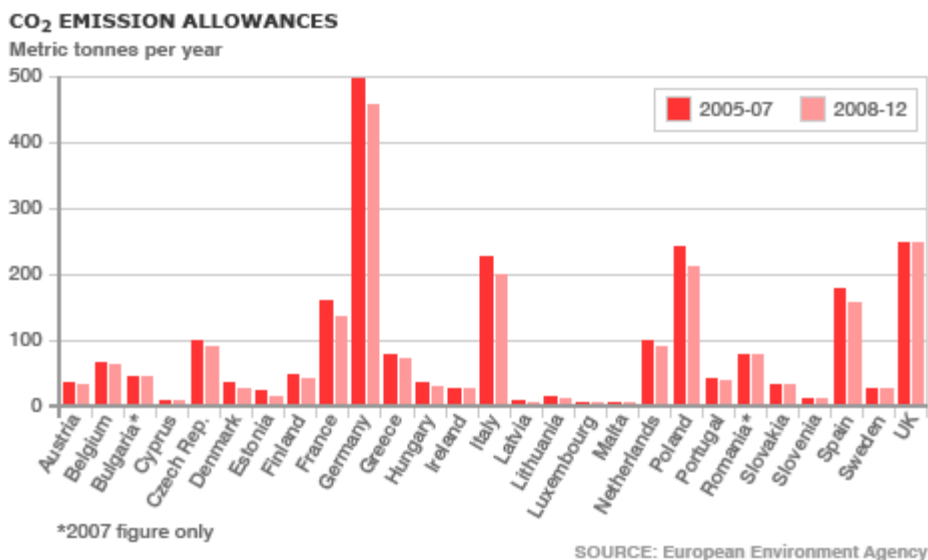
Full auctioning might also be delayed for specific sectors where it is feared there could simply be a transfer of jobs or plant to non-EU countries where the rules on emissions are not as strict - so-called "carbon leakage".

Revenues from the auctioning of permits will go to member states' treasuries, but the commission says they should devote at least 20% of that income to low-carbon technology and innovation. National budget pressures are now threatening that target too.

The EU has already softened the targets for reducing CO₂ emissions from cars, under pressure from carmakers hit hard by the economic downturn.

A key area of green innovation is carbon capture and storage (CCS) - new technologies that allow industrial CO₂ emissions to be captured and stored underground, where they cannot harm the climate.

There are plans to build 10 to 12 big pilot plants in the EU by 2015, with a view to making CCS commercially viable by about 2020. The plants would be funded by revenue from the ETS.



RENEWABLES

The EU package sets the goal of increasing renewable energy's share of the market to 20% by 2020, from around 8.5% today.

Within that goal, 10% of transport fuels will have to come from biofuels. The commission wants a strict certification system to ensure that only biofuels achieving a real cut of at least 35% in CO₂ emissions will be allowed.

The use of food-based biofuels is under review because of concern about deforestation and food shortages in developing countries.

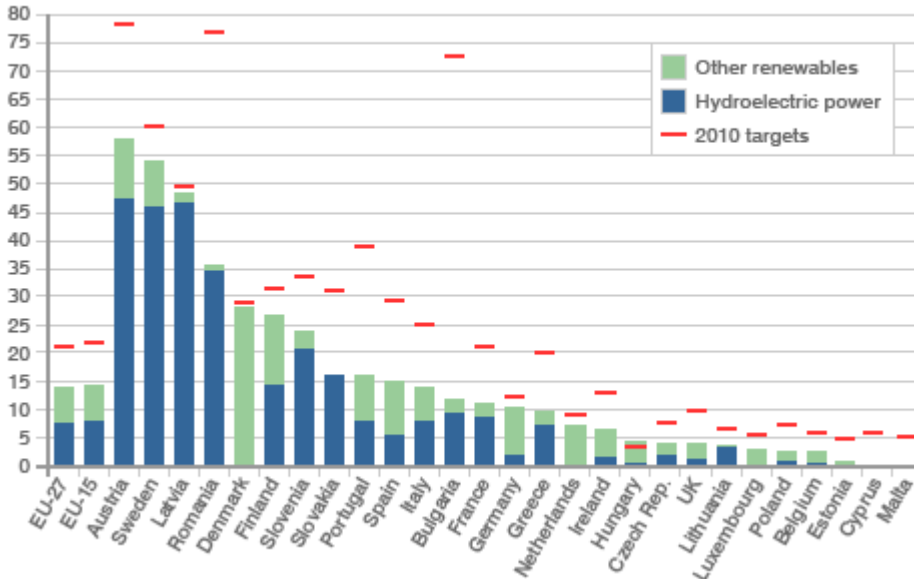
The renewables targets for member states differ because they are at different stages in their use of wind energy, solar power, hydroelectric power and other green sources. The UK's proposed target is 15% by 2020, because the UK is far behind many other EU countries in the area of renewables.

The commission says the EU must embrace renewables not only to slow climate change but also because the EU's reliance on imported gas is set to increase from 57% currently to 84% by 2030, and on imported oil from 82% to 93%.

The creation of new jobs in renewable energy technologies is another benefit, the commission argues.

RENEWABLE ELECTRICITY USAGE IN 2005

Share of renewable electricity in EU (%)



SOURCE: European Environment Agency

ENERGY EFFICIENCY

Energy consumption is to be cut by 20% by 2020 through improved energy efficiency, the package says.

The commission says state aid can legitimately be used to promote emissions cuts and increase take-up of renewables, so long as it does not breach EU competition rules.

On 3 December the commission came up with new proposals for the EU to co-finance national and local schemes to promote energy-efficient housing.

If the plan is adopted, the EU will help member states install double glazing, wall insulation and solar panels in housing, especially targeting low-income households.

The residential sector accounts for 25% of Europe's energy consumption, the commission says.