



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 29 February 2008**

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**Interinstitutional File:**

**2008/0013 (COD)  
2008/0014 (COD)  
2008/0015 (COD)  
2008/0016 (COD)**

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**7025/08**

**ENV 132  
ENER 66  
IND 19  
COMPET 85  
MI 81  
ECOFIN 94  
TRANS 62  
AVIATION 55  
AGRI 60  
CODEC 277**

**NOTE**

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from : General Secretariat

to : Council

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No. prev. doc.: 6683/08 ENV 102 ENER 53 IND 17 COMPET 66 MI 67 ECOFIN 78 TRANS 49  
AVIATION 47 AGRI 51 CODEC 236

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Subject : Package of implementation measures for the EU's objectives on climate change  
and renewable energy

- Presidency questions for the policy debate
  - = Written contributions from delegations
- 

In reply to questions by the Presidency (6683/08), delegations will find in the Annex written contributions by EE/FI/EL/HU/LV/PT/SK/UK.

ESTONIAPackage

- 1. An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

On the whole, this package will contribute to the achievement of the targets and give an important signal to third countries about the EU's intention to reduce GHG emissions. It will also strengthen the role of the EU as a leader in negotiations at international level post- 2012. The need to establish complementary measures is appropriate on the level of the Member States on the basis of national action plans.

To guarantee the investments and reduce the risk of security of supply, long-term forecasting and clear specification of planned action are essential. The package should definitely be complemented with principles and a basis for the arrangement of auctioning of emission allowances. Estonia considers that 1990 should be a reference year for setting the GHG emission reduction targets.

EU ETS/non ETS

- 2. Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?***

Generally the proposed principles should reduce emissions; the targets set are very ambitious. The package should definitely be supplemented with the principles of arranging the auction of assigned amount units, of free allocation of assigned amount units and of allocation of assigned amount units for new entries from the EU-wide reserve.

Estonia considers it important that Member States' energy security and regional differences are taken into account in the revision of the ETS and in the setting of national targets for GHG emission reductions. In order to provide energy security and ensure competitiveness, Estonia regards it as important that a limited amount of free quota can be given to electricity producers on the same grounds as in industry with a high carbon-leakage risk. Estonia proposes that importers who import into the internal market electricity which is produced in third countries should have to comply with the same measures for tackling climate change (i.e emissions trading) as the EU electricity producers operating inside the internal market.

The separation of ETS sectors and non-ETS sectors may not be the best solution because in some Member States it is more cost-effective to reduce emissions from non-ETS sectors and in this case there might be a possibility to realise the difference on the ETS market for ETS installations with a sold quota.

### CCS

#### **3. *Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

Documents concerning CCS incorporated into the package are not directly applied in Estonia because the implementation of this method requires suitable geological conditions. The conditions in Estonia are considered unpropitious for geological storage.

In addition to carbon geological storage technology, mineral storage (storage of oil shale ashes) should be expanded upon. It is essential to provide CCS- related development and research funding through the Seventh Framework Programme.

CCS technologies should be expanded upon CO<sub>2</sub> mineral sequestration as well. Therefore, “carbon capture and geological storage” should be replaced by “carbon capture and sequestration” as used in Kyoto Protocol and in the conclusions of the Spring European Council in 2007.

### Sustainability Criteria

#### **4. *Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

In order to make decisions about different criteria, Member States which have dealt with those issues previously should share information (consider the origin of raw material and yield). Estonia has limited information on this issue.

In areas where unfair competition between importers and producers in EU is being prevented, we support free and unconstrained trade between Member States. Bureaucratic schemes to prove origin should be avoided. In some circumstances it might be reasonable to apply conservative assessments to evaluate production-related environmental aspects and the use of imported fuels.

## FINLAND

### Package

**1. *An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

Finland welcomes the Commission's climate and energy package. The targets and measures set out in the package are challenging but achievable and Finland is ready to do its fair share in achieving the EU's overall targets as set out by the 2007 Spring European Council. Finland considers that the measures set out in the package are sufficient to reach these ambitious goals.

Reaching a global and comprehensive climate change agreement is of the utmost importance. The EU's climate and energy package sends an extremely important and viable message to the international climate change negotiations. In this respect the EU's unilateral commitment to reduce emissions by 20 % or even 30% in the case of a global and comprehensive agreement is a key issue. We must ensure that the EU procedures through which the shift to the 30% target will be made are transparent and practical.

The EU must maintain its leading role in the international climate change negotiations and continue setting an example to other Parties. It is important that the EU retains its credibility towards third countries. Despite ongoing internal negotiations on the package within the EU, the Union must retain a united and unanimous front in the international negotiations. This is of the utmost importance since there is very little time left to reach an international agreement.

Therefore Finland wishes to highlight the need to reach an agreement on the main proposals of the climate and energy package as soon as possible, at the beginning of 2009 at the latest.

Finland also emphasizes that the proposals in the package are closely linked to each other and that their overall impacts and costs for each Member State must be taken into account during the negotiations on the basis of the principles set out by the European Council. Member States must be granted sufficient flexibility when implementing the package. This would guarantee greater cost-effectiveness and the possibility to take into account national circumstances and starting points in relation to climate and energy policy goals.

### EU ETS/non ETS

**2. *Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?***

All sectors must take part in the effort and reduce their greenhouse gas emissions. The 20% GHG emissions reduction target is very demanding and all possibilities to reduce emissions must be taken into account and studied carefully. Since the emissions reductions are coupled with significant economic effects, it is of the utmost importance that the measures to achieve the reductions are cost-effective. In practice this means that the main focus of the required emissions reductions must be directed at those sectors and those measures where the costs are less than elsewhere.

Finland believes that, in principle, the division of emissions reductions efforts between the ETS and non-ETS sectors proposed by the Commission goes in the right direction and is balanced. The possibilities for emissions reductions within the EU emissions trading system are still broader and economically more feasible than in non-ETS sectors. Achieving emissions reductions in the non-ETS sectors also typically takes longer. Therefore, directing the focus of emissions reductions at the sectors within the ETS is justified

Finland agrees that for the package to be politically acceptable it must incorporate elements of cost-effectiveness as well as fairness.

Finland stresses that Member States must be granted enough flexibility for implementing the required emissions reductions. This concerns especially the possibility to use different flexible mechanisms such as clean development mechanisms. Ensuring the necessary flexibility will significantly reduce the costs of implementation and give an important signal to the international climate change negotiations. The active use of flexible mechanisms also sends the right message to developing countries, encouraging them to participate in the development of international climate change politics. The rules concerning the use of the flexible mechanisms must be clear.

In addition, the possibility of linking the EU emissions trading system to compatible systems in third countries is very important. This aspect must be kept in mind when revising the EU ETS, so as to avoid creating any obstacles for future linkage.

Finland welcomes the harmonization of the ETS as a way to avoid distortions in future. Harmonization cannot, however, lead to all sectors being treated the same way. When selecting allocation methods, each sector's position and participation in international competition must be taken into account. Analysis of and decisions on allocation method, definition and the necessary special treatment of energy-intensive industries that are at risk of carbon leakage must be made urgently and in a transparent manner.

Finland firmly considers that a two-year reference period – for example years 2005-2006 - must be used as the reference for calculating the emissions rights which are to be auctioned. This is absolutely necessary in order to avoid volatilities caused by yearly variations.

District heating plays an important role in Finland. The competitiveness of district heating must be maintained. The allocation method for district heating needs clarification within the directive.

It is also problematic that different ways of producing electricity are not differentiated within the ETS directive. In Finland's case industrial combined heat and power production (CHP) is common. The electricity produced within this process for industrial use should be seen as part of the industrial activity.

Finland does not support binding rules for the earmarking of revenues from auctioning. Mandatory earmarking would be in conflict with Finnish budgetary principles and the Finnish constitution.

### CCS

#### **3. *Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

Carbon capture and storage is a promising method which is being developed to minimize the amount of CO<sub>2</sub> emissions in the atmosphere and its deployment is definitely part of the selection of tools within climate policy. Carbon capture and storage can, however, only be applied to a limited fraction of emissions and the development of this technology must not lead to a hampering of the development of the other measures included in the climate and energy package, such as energy efficiency or the development of renewables.

Finland stresses the importance of creating coherent rules for the capture, transport and storage of CO<sub>2</sub>. This is necessary in order to ensure that this new technology is from the very beginning deployed in an environmentally safe way and that the long-term storage of carbon dioxide is guaranteed. Common transparent rules will also further promote the deployment of the necessary technology when uncertainties concerning the rules and procedures are removed. This is important for the operators and for promoting public awareness and acceptance.

The Commission's proposal is therefore a necessary step and it goes in the right direction. During the upcoming discussions on the proposal, particular attention must be paid to the clear definition of liability concerning possible leakages and environmental damages during the capture, transportation and storage of CO<sub>2</sub>.

### Sustainability Criteria

#### **4. *Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

Finland welcomes the Commission's proposal on sustainability criteria for biofuels. It is vital to promote the technical development and commercial use of biofuels which increase energy security, are acceptable in terms of their environmental impacts and which can be developed cost-efficiently.

The proposal is a good starting point for the discussions on developing sustainability criteria for biofuels and other bio-liquids. However, the sustainability criteria and their application still require further examination. When assessing the sustainability of biofuels for transport, the life-cycle effects during the whole production chain must be taken into account, as well as social and economic criteria.

Finland stresses that the criteria must be neutral towards different technologies and their development, as well as towards different raw materials. The criteria should encourage the necessary technical development. The improvement of energy security requires that cost-effective and competitive second-generation biofuels are developed with the goal of making them commercially viable. Biofuels which are ineffective in reducing GHG emissions and which are not commercially viable should not be supported in the long term.

Requirements to be used globally should be developed in close cooperation with producers of raw materials and biofuels outside the EU. It is important that the respective sustainability criteria are applied to biofuels from third countries.

Environmental sustainability criteria developed for biofuels used in transport cannot, as such, appropriately be applied to other uses of biomass (production of electricity or heating and cooling). A separate analysis is needed for this purpose. Finland stresses that when assessing the sustainability of biomass from forests, the future possible criteria should be consistent with the existing principles and criteria of sustainable forestry.

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## GREECE

### Package

**1. *An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

The proposed measures, in the "Climate Action and Renewable Energy" package, do meet the targets adopted by the Spring European Council 2007.

Reaching the targets will be challenging and the specific cost-effectiveness and impacts for every MS should be carefully evaluated to achieve a fair and efficient result. In that context, a Committee with representatives from various ministries and experts has been formed in Greece to examine the proposals and provide detailed comments.

Greece is, in principle, positive, taking into consideration the challenges of climate change that all Member States need to tackle jointly and efficiently, and we congratulate the Commission for this very constructive step forward.

### EU ETS/non ETS

**2. *Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?***

Greece believes that, in principle, the proposed division between ETS and Effort Sharing (non-ETS) provides a rational basis for developing a balanced and coordinated European policy on emission reductions.

In the revision of ETS, particular attention should be given to providing for proper linkage of ETS with relative emission trading systems globally as this can play a significant role towards reaching a post-2012 international agreement.

The obligatory auctioning of allowances for electric power production units without doubt significantly increases production costs and therefore needs further evaluation. This additional burden on production costs is expected to increase the end-price of electricity, which will have tremendous impact on the competitiveness of businesses and European products (particularly those of energy-demanding industries.)

Careful examination of the full range of the impact and the development in advance of appropriate tools to counter it will play a major role in ensuring that targets are reached.

The European Commission's willingness to analyse the danger of carbon leakage in energy-intensive industries and to examine ways to deal with the problems constitutes an important contribution in that firstly, the danger of carbon leakage is measured and secondly, the effects of the package on the competitiveness of these industries are analysed and dealt with appropriately.

Greece firmly considers that the earmarking of revenues from auctioning should incorporate binding rules to safeguard the necessary funds for environmental protection and climate change mitigation.

### CCS

#### **3. *Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

With regard to the CCS proposal, Greece has, on several occasions, expressed concern about the pace of this novel technology deployment. These concerns are based on the lack of knowledge necessary to guarantee an environmentally safe application.

Furthermore, the energy intensity and costs involved in the whole process of capture, transport and storage are two other main areas of concern, not to mention the liability issues, especially when two or more countries are concerned.

It seems only right to expect demonstration and proof of environmentally safe application before we proceed with an EU-wide legislation.

In that respect, our proposal is to discuss and develop a legal framework not for widespread EU application, but only for the operation and monitoring of the pilot projects. These projects are needed to test this technology and demonstrate the reliability of the whole process.

If, at the end of this process, we are confident, then at a future date, depending on the results, we will be ready for such an “environmentally safe” widespread legislative application.

Some MS may not be able to use this technology – owing to seismic activity or geological conditions – which, for reasons connected with distortion of competition, is an issue that needs particular attention before CCS inclusion in the ETS is considered.

We should be very careful in developing this novel technology, and before considering any kind of wide commercial deployment of this technology, we should be able to ensure that there is absolutely no leakage.

If accumulated leakages over the coming decades turn out to be large, this implies an implicit transfer of burden from our generation to future generations, either in the form of more emission mitigation required in the future, or in the form of increased climate change and related damage.

On the basis of precautionary principle and better regulation guidelines – and in the light of today’s knowledge – we urge you to consider our proposal.

### Sustainability Criteria

#### **4. *Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

We agree with the view that the viability of the liquid biofuels used for transport and the addition of relevant limits for every liquid biofuel that relates to other energy uses needs particular attention. This is particularly true for the 2nd generation biofuels, and we believe that the issue has to be further examined, since there are still problems with the first generation.

We are of the opinion that the future planning of further promotion of biofuels has to give serious consideration to both the MS specificities of owing to their geographical location and the special technical characteristics of each biofuel category.

In this framework, we consider it necessary to make it clear that the objective of 10% refers to the overall percentage of alternative energy sources to transport and not solely to biofuels.

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## HUNGARY

### Package

1. *An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?*

Hungary believes the credibility of the implementation of the EU's own commitments will be of crucial importance in the international context, for which the package serves as a good basis. However, Hungary suggests that the climate section of the package be recalculated on the basis of 1990, the horizontal base year of the international negotiations (*see below*).

### EU ETS/non ETS

2. *Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?*

Hungary considers that the new climate regime should be fair, transparent and cost-efficient in its entirety. Hungary's position on the main design features of the revised ETS and the effort sharing proposals is as follows:

a) **Base year:** Hungary finds the calculation of all commitments on the basis of 2005 highly problematic. The choice of such a base year hides the serious differences in the efforts hitherto undertaken by Member States in greenhouse gas emission reductions and it deviates from the internationally accepted base year. Hungary suggests that all overall aggregate reduction targets per Member State be calculated equally on the basis of the date the European Council committed itself to and set the goal of "20-20 by 2020", ie. 1990 (*see proposal in Annex*).

b) **Separation of ETS/non- ETS commitments:** Hungary can, in principle, accept the separation of the two sectors. However, Hungary would like to point to two serious limitations:

- the international **commitments** have been and **should** in the future **be calculated at national level** (i.e. not at sectoral level). Therefore separation should only be a means of achieving GHG emissions nation- and Community-wide, but in no way should constitute an absolute dividing line as a result of which actual national performance cannot be correctly measured (for this *see proposal on base year in Annex*);
- there are **no justifiable environmental reasons for a rigid separation between the two sectors**. The proposals, as they stand, take hardly any account of the largely divergent reduction potentials in the ETS and non -ETS sectors that may prevail at national level. Even though an EU-wide ETS may bring about cost-efficiency benefits in the relevant industrial sectors, such efficiency should not be limited to the ETS but should be ensured across all sectors. Therefore, Hungary suggests in the Annex to this document the introduction of transfer mechanisms that would allow the optimisation of reduction potentials covering all relevant sectors. It must be pointed out that such enhanced flexibility would be in line with the conclusions of the ECOFIN on the subject.

c) **Convergence, cohesion:** the existing burden -sharing agreement is based on the principle of shared but differentiated responsibility. This is reflected in the largely divergent undertakings of the various Member States allowing certain countries, *i.e.* those in the phase of rapid economic convergence, to actually increase emissions.

Hungary considers that the new climate regime should be based on the same principle. Even though the effort -sharing proposal of the Commission goes some way towards taking account of the growth needs of some of the new Member States, the overall package suffers from serious shortcomings in this respect. These are as follows:

- the 2005 base year distorts the real efforts to be undertaken by Member States. In the case of Hungary the ETS/non -ETS total reduction on 1990 basis is 21%, above the EU average;
- the uniform ETS with a high level of auctioning forces installations with real variations in economic power to compete against one another. Even though this may *prima facie* appear to be a level playing field, the largely different positions of the various installations effectively distorts conditions in favour of those with more financial resources. Such an exposure of undercapitalised installations, especially in the new Member States, may drive companies out of business very rapidly and may lead to an unwanted market concentration, a phenomenon running counter to Community competition and economic policy.

Hungary therefore proposes a number of measures in the Annex to tackle the significant imbalance between (i) on the one hand the historic over-performance and the growth demands of the new Member States and (ii) on the other hand their actual prospects under the climate proposals. These measures should focus on the recognition of the solidarity and convergence principle and on the increased redistribution of ETS and non- ETS incomes for the benefit of Member States with lower GDP.

### CCS

#### **3. *Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

Hungary is not yet convinced that the environmental benefits of CCS unequivocally outweigh the potential environmental risks involved. Even though the legislative proposal does not provide for a mandatory application of the technology, with Member States therefore remaining free to opt out, serious risk considerations remain. Hungary will look in detail at how to improve the modalities of risk assessment and prevention envisaged by the Commission proposal.

### Sustainability Criteria

#### **4. *Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

Hungary agrees that the production and use of biofuels should be linked to strict sustainability criteria. In particular, Hungary is in favour of a precise definition of these criteria and the relevant calculation methods at EU level. Hungary believes that the effectiveness of the sustainability scheme will be strengthened if all core requirements are laid down in both the new fuel quality directive and the directive on renewables in an identical manner.

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## Annex

### **Proposal by Hungary concerning the revision of certain elements of the climate action legislative package**

#### ***I. Definition of the base year***

Hungary considers that the use of 2005 as a general base year in the climate action package is not justified and gives a misleading impression of the actual efforts to be undertaken by Member States. Hungary takes the view that the very fact that 2005 was the only verified year in the ETS does not on its own provide sufficient justification for revising the international base year hitherto used. This is supported by the fact that the European Council committed Member States on the 1990 basis and 1990 remains the starting point of international negotiations.

The 2005 base year leads to a number of distortions in the system that renders a transparent comparison of the Kyoto and post-Kyoto undertakings virtually impossible. The Hungarian authorities have re-calculated the ETS and non-ETS efforts proposed by the Commission on the 1990 level. This shows a wide range of fluctuation in the efforts to be undertaken by the various Member States. The figure in the Appendix to this document demonstrates that the breakdown does not correlate either with the degree of Kyoto efforts, or the economic potential or the growth demands of the various countries. This hits some new Member States particularly hard as they have suffered the largest historic economic losses since 1990 (therefore contributing disproportionately to the overall EU standing) yet they might be required to undertake extra efforts to reduce GHG emissions and jeopardise their future legitimate growth prospects. Such a distribution of efforts falls short of the equity and fairness displayed by the EU 15 upon the conclusion of the existing burden-sharing agreement under the Kyoto Protocol. On 1990 basis the Hungarian contribution would be 21%, *i.e.* above EU average.

In order to improve the equity and the transparency of the system, Hungary proposes a re-calculation and revision of the efforts to be undertaken by each Member State. Hungary calls for a consistent display of all reduction targets not only on 2005 but also on the 1990 basis as suggested in the Appendix.

#### ***II. Convergence, cohesion and redistribution***

Effort sharing should not burden any Member States beyond their capacities and should respect their previous contributions to GHG reductions. It is one of the guiding principles of the Kyoto construction that responsibility for climate change should be shared but differentiated. Hungary considers that the proposed climate action package fulfils this principle only to a limited extent. Hungary therefore proposes to strengthen the convergence and solidarity element of the package as follows:

- **Re-calculation of the efforts of all Member States on 1990 basis** (*see* above and Appendix);
- **Recognition of convergence demands at the highest political level:** the relevant Council formations as well as the European Council should, in their conclusions, recognise that some Member States have already contributed to European GHG reductions disproportionately and that the costs of mitigation and adaptation by these countries are, due to their relatively low level of economic development, likely to be higher. These countries should therefore be eligible for a range of re-distribution and support schemes that compensate for their relatively unfavourable position. (or: "unfavourable relative position")
- **Softening the separation of the ETS and non -ETS sectors:** the EU ETS in its proposed format will strongly distort competition among the installations situated in various Member States. What appears to be a level playing field for all in fact amounts to a serious hindrance to fair competition. Undercapitalised companies or other installations (e.g. hospital incinerators), especially in new Member States, will find it difficult to acquire emission allowances on the European auctioning market while companies with sufficient financial resources will gain a huge market advantage. Moreover, cost-efficiency should be achieved not only at the level of EU industries (*i.e.* under the ETS), but across all GHG -emitting sectors. Therefore, a number of transfer mechanisms between the ETS and non -ETS sectors should be introduced, ensuring emission reductions where it is less costly. The possibility of full optimisation of the reduction potentials that are available in any sector of any Member State will provide a strong incentive for multiple investment in mitigation projects within the EU that may effectively lead to reductions beyond what is envisaged by future EU requirements. Hungary's proposal are as follows:
  - o **conversion of unused non -ETS potential:** it may transpire that a Member State does not make full use of its cap in the non- ETS sector. In the case of such a good performance it should be possible for these countries to sell or convert into ETS allowances these unused rights to emit GHGs. Such a mechanism is already envisaged in the proposed renewables Directive;
  - o **introduction of project mechanisms between ETS and non- ETS emitters:** following the pattern of the joint implementation projects under the Kyoto Protocol, companies should be authorised to conduct project activities even in the same Member State in consideration of emission credits that reduce emissions in the other sector, be it in the ETS or non- ETS. Economic and environmental rationale dictates that emission reductions be undertaken in the sector and in the geographical areas where it is cheapest.
- **Redistribution of allowances:** Hungary strongly supports the redistribution of allowances to Member States with a lower GDP. In view of the above arguments, the 10% rate should under no circumstances be reduced. In this context Hungary would like to note that, in the absence of a global agreement, it is against the increase of the current 3% limit for CERs. Should this rate be increased there is a chance that new emission reduction investments would be diverted outside the EU. Unfettered clean development activity would also lead to undesirable volatility in the EU ETS allowance market.

**- Appendix -**

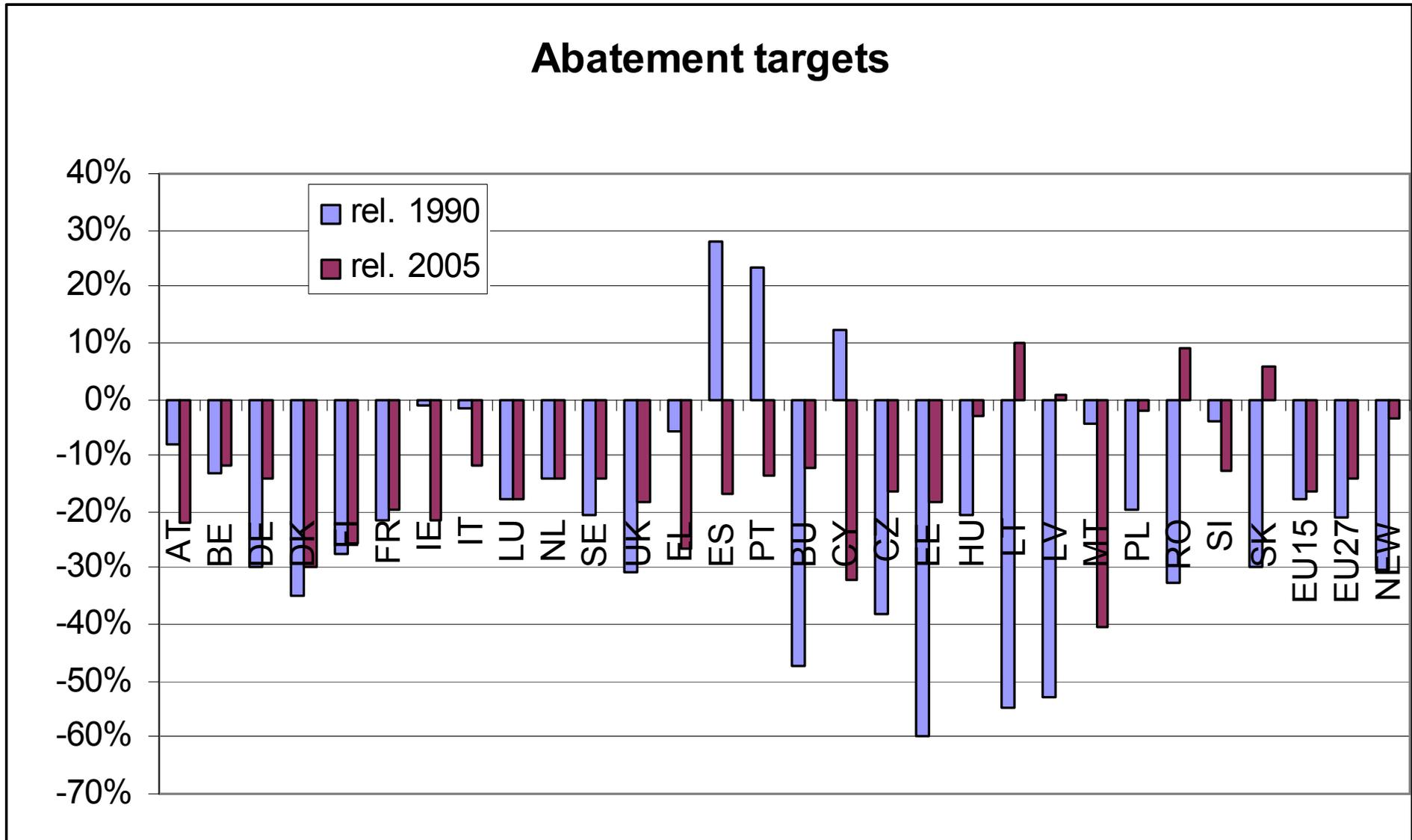
The figures in the first and second columns show the real change by 2020 in overall aggregate (ETS+non-ETS) greenhouse gas emissions per country, according to the Commission proposal and its modelling, compared to 1990 and 2005 respectively

	2020 total emission		2005 GDP/cap. EU27=100%
	rel. 1990	rel. 2005	
	[%]		
Austria	-8%	-22%	133%
Belgium	-13%	-12%	129%
Germany	-30%	-14%	121%
Denmark	-35%	-30%	171%
Finland	-27%	-26%	134%
France	-21%	-20%	122%
Ireland	-1%	-22%	175%
Italy	-1%	-12%	109%
Luxembourg	-18%	-18%	291%
Netherlands	-14%	-14%	139%
Sweden	-20%	-14%	146%
United Kingdom	-31%	-18%	134%
Greece	-6%	-26%	80%
Spain	28%	-17%	94%
Portugal	23%	-14%	63%
Bulgaria	-47%	-12%	13%
Cyprus	12%	-32%	81%
Czech Republic	-38%	-17%	44%
Estonia	-60%	-18%	37%
Hungary	-21%	-3%	40%
Latvia	-55%	10%	25%
Lithuania	-53%	1%	27%
Malta	-5%	-41%	53%
Poland	-19%	-2%	29%
Romania	-33%	9%	16%
Slovenia	-4%	-13%	63%
Slovakia	-30%	6%	32%
EU15	-18%	-17%	119%
EU27	-21%	-14%	100%
EU12	-30%	-4%	28%

Sources:

- 1990, 2005 total emission: inventories reported to the Secretariat of UNFCCC
- 2005 ETS emission: Commission's decisions
- Projection for 2020:
  - Non- ETS: effort-sharing targets in Commission's proposal.
  - ETS: "Annex to the Impact Assessment" p58 column 1 of Table 11.
  - Total: non ETS+ETS.
- GDP/Cap: Eurostat

# Abatement targets



## LATVIA

### Package

***1. An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

Latvia believes it is important to find the correct balance between climate policy, security of energy supply and competitiveness targets, while at the same time ensuring economic convergence between the EU Member States. Latvia welcomes the European Commission's integrated approach to drawing up the package of climate and energy measures and emphasises that the separate elements of the package should be looked at in the context of the whole package, since they all influence each other.

Latvia supports the revision of the EU's emissions trading system, considering it to be an important means of further reducing emissions. Envisaging an extension in the use of clean development mechanism (CDM) project units in the event of an international agreement is a step in the right direction if the developing countries are to be given an incentive to sign up to such an agreement. However, sufficiently strong incentives must be given to other, developed countries to commit themselves to reducing emissions. It is therefore important to envisage the measures needed to ensure that energy-intensive industries do not flow out from the EU to countries where there are no appropriate requirements on emission reduction. With this in mind, Latvia considers it necessary to resolve as soon as possible the question of the measures required to sustain the competitiveness of the EU's energy-intensive sectors.

With regard to the non-ETS sectors, Latvia is pleased to note some flexibility in the achievement of the targets using CDM project units and also the possibility of using up part of the GHG emission limit the next year. But it is doubtful whether the proposed flexibility is sufficient to reduce emissions in sectors where considerable initial investment is required and where any real reduction in emissions will become apparent only after a long period of time. Moreover, there would need to be considerable more clarity regarding the planned Community-level measures and their influence on emission-reduction in the non-ETS sectors, since this would make it possible to identify clearly the sectors in which additional national measures are required.

## EU ETS/non ETS

### **2. Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?**

Latvia considers that the proposed mechanisms – redistribution of ETS auction rights, differentiation of targets for the non-ETS sectors and partial differentiation of targets for renewable energy sources, using the GDP and population criteria – are steps in the right direction that would enable the cost of emission reduction to be evened out among the Member States, thus ensuring a fair distribution of targets. This approach takes into account each Member State's ability to finance emission reduction and also the expected economic development. While in general this approach to distributing targets reduces the direct costs to the new Member States, Latvia's costs are still much higher than the EU average <sup>1</sup>.

*Should questions be raised about the revision of the system for sharing the proceeds of emission auctions (as currently drafted, the ETS Directive allots 90 % to the Member State and the remaining 10 % is shared among States whose GDP is under the EU average), Latvia would tend to support Member States wishing to raise the 10 % threshold (e.g. to 20 %), so as to increase income available for fulfilling emission reduction target in non-ETS sectors*

With that in mind, Latvia considers that when additional national emission reduction targets are being established as a result of successful international agreement on post-2012 reductions in GHG emissions and compliance with the 30 % emission reduction target, Member States' actual emission reductions since 1990 should also be taken into consideration <sup>2</sup>.

Latvia broadly speaking supports the set of new ETS measures, i.e. the increased use of auctioning, especially in the electricity sector, benchmarking in industry, Community-level reserves for new installations and the possibility of excluding small installations from the system. However, Latvia also considers it essential to improve specific aspects of the ETS review. For example, as soon as possible sectors qualifying for continued cost-free allocation of emission allowances must be identified and a decision must be taken on developing benchmarks for specific industrial sectors, with Member States being closely involved in the process. At the same time Latvia would like to see consideration given to harmonising auctioning at Community level, as there are doubts whether all Member States will be able to introduce harmonised, uniform auctioning systems which do not discriminate against small and medium-sized enterprises. Latvia sees as crucial that the bulk of auction proceeds should be channelled into introducing climate change mitigating policies and schemes, including measures to alleviate the social impact of the expected increase in thermal energy and electricity prices arising from the auctioning of emission allowances.

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<sup>1</sup> For information: Latvia's high costs derive from the anticipated large increase in N<sub>2</sub>O emissions owing to the planned coal-fired power station, as well as the rapid growth of emissions in the transport sector.

<sup>2</sup> For information: to date Latvia has reduced its GHG emissions by 58 %.

## CCS

### **3. *Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

Latvia sees carbon dioxide capture and geological storage (CCS) as a key technology which should lead to the future reduction of fossil fuel emissions. Latvia commends the very considerable work that the Commission has put in to drawing up a regulatory framework specifically designed to ensure the environmentally-safe capture, transport and storage of carbon dioxide. We consider that the rules under the proposal for a Directive are appropriate for ensuring that the environmental risks associated with the introduction of commercially-based CCS technology are properly understood and are minimised.

However, Latvia also realises that any widespread introduction of CCS technology is dependent on numerous other technological and market factors which lie outside the proposed regulatory framework. Latvia would therefore like consideration to be given to introducing additional conditions regarding the required availability of new CCS installations as soon as the Directive has entered into force. For Latvia it is essential to ensure that the requirement regarding mandatory CCS availability does not interfere with ongoing projects, for which the location has been chosen, the planning completed and the installations commissioned.

CCS is a new technology whose impact has to be carefully assessed in the individual Member States and the EU as a whole. We note that Latvia, and several other Member States, are not included in the assessment, especially as regards the transport and storage potential.

## Sustainability Criteria

### **4. *Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

In Latvia's view there can be no doubt that the introduction of sustainability criteria for biofuels is an essential and welcome contribution to balanced development, making for sustainable biofuel production. However, for the purposes of further discussion the environmental sustainability criteria and their various constituents need to be clarified and their validity and applicability examined<sup>3</sup>. Latvia would like to see practical recommendations developed at Community level and a summary of best examples of the cultivation of crops used in biofuel production. In order to ensure that biofuels are traded efficiently and Europe's biofuel production develops in line with sustainability criteria, it is important to provide for verification that third-country imports of biofuels comply with sustainability criteria. There should be restrictions on the purchase of third-country biofuels that have not been produced in accordance with those criteria.

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<sup>3</sup> For information: the forestry aspects of Article 15(4)(b) of the proposal for a Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources need careful scrutiny, as the definition of "continuously forested areas" seriously restricts the use of low-grade energy timber as a raw material for the production of biofuel.

## PORTUGAL

### Package

**1. *An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

1. Throughout most of last year, Portugal outlined its position following the Heads of State and Government political agreement on the climate action and renewable energy package. We mentioned then that the EU will require more ambitious policies to meet more ambitious targets. We are fully supportive of an integrated energy-climate package and welcome the Commission's proposals; we can generally support the approach outlined in the proposal as a good starting point for negotiations.
2. As a preliminary assessment, the package seems to provide for a balanced approach, outlining contributions from all sectors and all Member States to the overall EU objectives. In this context, the approach based on fairness, transparency and solidarity, in trying to devise an equitable level of effort among MS, seems to take due account of the principles outlined by Heads of State and Government.
3. Regarding the timeframe for the negotiations, and its link to negotiations under the UNFCCC, we see it, in a sense, as a false question, for two main reasons:
  - a. Firstly, because the EU is committed to the 2009 Copenhagen deadline for an international climate agreement. We obviously need to get our house in order in preparing for such thorough international negotiations where the EU will need to know how to position itself. Now, more than ever, leadership is based on example, i.e., whether we can demonstrate, through our actions, our commitment to and the feasibility of, reducing emissions without hampering development. We are therefore a sort of test case for wider negotiations.
  - b. Secondly, we have European Parliament elections in 2009. This means we need to negotiate the package before the change of the EP i.e. during this year, more or less.

### EU ETS/non ETS

**2. *Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?***

1. We are still analysing the package. We are, however, generally supportive of factoring in relative development – modulating the cost-efficiency approach to reflect different national circumstances – as the main criterion for sharing efforts between Member States. We believe this is a fairly accurate and just proxy for sharing the effort on emissions. And off course all the targets need to be seen in conjunction, i.e. the effort -sharing target, the ETS share, the renewables share.

2. We also agree generally with the "division of labour" between the ETS and the non-ETS sectors. We need, however, to be mindful of the particular challenge facing MS with regard to the non-ETS sectors as they form some of the most problematic sectors to manage, such as transport and building. In this regard it seems appropriate, as per the Commission proposal, that a larger share of the effort be assigned to the ETS sectors as there appears to be a greater potential for cost-effective reductions there.
3. We are still assessing the use of 2005 as reference for the package but it seems to make sense from the perspective of having clear and comparable data sets for all MS; we are, however, mindful that the assessment of the balance of the package will also take this element into account; another related issue is the need to explain clearly to third Parties that the overall EU reduction targets are still assessed against 1990.
4. We have been arguing for more harmonization of allocation and we support more auctioning -- including 100% for the power generation sector. Harmonization levels the competitive playing field and promotes early action and front runners. Harmonization should also entail clearer EU-wide rules on monitoring, verification and enforcement. There is, however, a balance to be achieved between harmonisation and centralisation of the ETS and the role Member States should and will continue to play in managing the ETS as a key policy instrument at the interface between the environment and the economy.
5. Notwithstanding a general positive assessment of the proposal, we would like to share some of our preliminary comments/concerns that will no doubt be thoroughly scrutinised in the months to come.
6. On the ETS Directive:
  - a. With regard to the scope of the ETS, we generally support broadening, although we need to fully assess whether including new gases and sectors will work.
  - b. We are also assessing the implications of the new definitions proposed, i.e., "combustion installation" and "electricity generator" in terms of both the scope of the ETS and implementation.
  - c. Most importantly, we will need to address the issue of small installations that account for a small percentage of emissions and the adequacy of the provisions envisaged for their exclusion. As a first reaction the advantages of the proposed scheme for these installations are not clear and we may be trading bureaucracy for more bureaucracy. We therefore need a clear and effective exclusion system.
  - d. As stated above, we support more auctioning but we consider that more clarity on modalities for auctioning may be required; we would also need to explore more thoroughly the impacts of 100% auctioning by 2020 has (??) for the proposal.
  - e. The proposal is a good starting point for discussions regarding the mobilisation of the increased financial effort required for the global response to climate change. Regarding earmarking, we are still coordinating at home. We are, however, supportive of a formula similar to that agreed during the Portuguese Presidency under the inclusion of aviation in the ETS.
  - f. We have some concerns about the limitations imposed on the use of credits and the effects both on limiting MS flexibility in achieving the targets – and in managing the implementation of policies to address emissions in the non-ETS sectors – and on the international negotiations. We need to get this one fairly right so as to send the right incentives both to third Parties in the international negotiations context and to the currently working carbon market.

- g. Furthermore, clarification is required as regards the process and timings for identification and assessment of the situation of energy-intensive sectors or sub-sectors exposed to significant risks of carbon leakage;
- h. We support provisions to automatically raise the level of ambition of the targets once an international agreement is in place, in the light of our Heads of State and Government deliberations last year, but need further clarification regarding the specifics.

7. On the effort- sharing decision:

- a. concerns about the management of the proposed linear annual emissions reductions pathway, in effect amounting to annual caps, and the degree of flexibility (2% carry forward and 3% use of credits) allowed to MS;
- b. concerns about the limitations imposed on the use of credits and the effects both on limiting MS flexibility in achieving the targets – and in managing the implementation of policies to address emissions in the non-ETS sectors – and on the international negotiations;
- c. support for provisions to automatically raise the level of ambition of the targets once an international agreement is in place, in the light of our Heads of State and Government deliberations last year.

**CCS**

***3. Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

1. Portugal has been favourable to the further development of environmentally-safe CCS. We consider this to be an important instrument in the policy toolbox to address global climate change. In this context we welcome the Commission's proposal for a regulatory framework on CCS.
2. Fossil fuels are and will continue to represent important parts of the EU and global energy mix. To bring about emission reductions on the necessary scale, policy options that address power generation from fossil fuels must be considered.
3. One important feature of the proposal is that it leaves it up to each MS to decide if and how it will support CCS demonstration in addition to research and development.
4. Several studies have shown that, by any account, CCS has the potential to deliver very significant emission reductions, complementing other policy options, such as renewables.
5. There are some concerns with the technology, granted. But that is an additional argument for taking early action and ensuring that the technology is developed within a sound framework that addresses these concerns and allows the EU to maintain leadership in developing this technology.
6. Global leadership in CCS technology makes sense from the point of view of economic development – as it will generate new technological opportunities for European business – as well as from a climate policy perspective – as it will amount to substantial emissions reductions from 2020 onwards.
7. Against the backdrop of the CCS proposal, it seems to make good sense to introduce already from 2013 provisions regarding CCS in the ETS.

### **Sustainability Criteria**

**4. Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?**

1. We welcome the Commissions proposal on renewables, including the criteria for biofuels.
2. We recall the criteria set out by our Heads of State and Government in March 2007 regarding the nature of the target for biofuels – sustainable production; availability of second generation biofuels; adequate levels of blending.
3. Given the fact that both the renewables Directive and the fuel quality Directive require the establishment of sustainability criteria we consider important to ensure a coherent approach between the two instruments.
4. We would like to share some of our preliminary comments and concerns that will no doubt be thoroughly scrutinised in the months to come:
  - a. What the 10% target for biofuels would mean in terms of effective emission reductions, also in the context of the proposed reduction target in the context of the fuel quality directive.
  - b. Further clarification as regards the assessment of options for ensuring that fuel standards are compatible with the efficient achievement of the 10% target.
  - c. Concerns about the way in which some of the aspects (e.g. food security impacts, social impacts, etc) are taken into account.

## SLOVAK REPUBLIC

### Package

***1. An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

The Slovak Republic deeply acknowledges the effort of the European Commission in preparing the CC-energy package and the key principles that have been applied, such as transparency, fairness, cost efficiency, solidarity and flexibility to meet the goals.

We also welcome the choice of integrated approach for meeting the targets for renewable energy sources and greenhouse gas emissions as this can effectively minimize the risk of negative synergy when applying specific policies and measures.

The Slovak Republic is fully aware of the need to transform the economy into a low-carbon and less energy-intensive one. In general we consider the measures in the package to be sufficient to meet the EU targets, but at the same time we have some concerns as to whether, given the time available, we will be able to meet the targets without negative socio-economic impacts.

Following the European Council conclusions of March 2007, we would deem it appropriate to define MS reduction targets also as GHG emissions in total with reference to the year 1990. It would increase the transparency of the overall package both in the international negotiation context (under the UNFCCC and the Kyoto Protocol) and also at the national level when dealing with measures aimed at stakeholders and citizens.

The economic, energy and environmental parameters of the Slovak Republic in the year 2005 i.e. the high dynamics of the GDP growth rate, relatively low GDP/p.c. compared to other MS, the high share of energy-intensive industries as a proportion of GDP and the given structure and technically utilizable potential of RES, with a forecast of future development put Slovakia among the countries with a high share of direct costs to meet RES and GHG targets. Even though estimated costs are lower than the EU-27 average, they are one of the highest for the new MS group. Owing to the significantly high proportion of energy-intensive industries, Slovakia considers it very important that the aspect of economic convergence is reflected and that adequate measures to minimize the risk of carbon leakage for energy-intensive industrial sectors are put in place.

Full auctioning in the power sector will immediately increase electricity prices not only for final consumers but also for goods and products from the industrial sectors. The risk of carbon leakage will be further increased with auctioning for industrial sectors, and it is not quite clear how effectively it can be compensated via the revenues from auctions.

## **EU ETS/non ETS**

### ***2. Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?***

The Slovak Republic welcomes the effort towards wider harmonization of rules in emissions trading scheme, the auctioning idea, the measures to reduce market distortions, the principle of solidarity and the use of flexible mechanisms to meet the targets.

The separate treatment of sources in the EU ETS and non- ETS will positively contribute to potential interlinkages with other trading schemes.

Provisions for meeting national reduction targets in separate ETS and non-ETS commitments can form significant obstacles in certain circumstances. Without greater flexibility in meeting commitments in the ETS and non-ETS sectors, such as trading of unused over- reduction in non-ETS among the MS, or the use of a project- based mechanism between ETS and non-ETS, costs will obviously increase, efficiency decrease and targets still remain unfeasible.

The issue of carbon leakage in global competitive markets should be treated properly and through adoption of predictable legislative framework. Therefore, defining which industries are particularly exposed to the danger of carbon leakage is an issue that should be addressed as soon as possible and in due time before 2011.

Without a reliable policy to address carbon leakage, European energy-intensive industries will be forced to scale back their European investment plans, which will result in a shift of their production to locations outside EU and will significantly undermine the concept of an efficient environmental policy, economic growth projections and employment in the EU.

Penalties for non-compliance will further raise the costs and would cause a delay in meeting environmental targets.

## **CCS**

### ***3. Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

Slovakia generally supports the draft Directive as presented by the Commission but the proposal still needs to be supplemented in several respects. To achieve its aim, the proposed CCS Directive should contain a broader range of suitable procedures for CO<sub>2</sub> storage according to different geological conditions in specific Member States.

One of the prospective techniques based on processes of mineral sequestration should be used for CO<sub>2</sub> trapping and storage. The use of ultrabasic rocks for mineral sequestration could be particularly convenient since carbon dioxide would be firmly bound in the rocks, so that the monitoring, which would be necessary if hydrocarbon formations or aquifers were used, could be avoided.

In eastern Slovakia testing of a geological formation near Kosice is being actually carried out and this could be a solid example of how to use geological sequestration of CO<sub>2</sub> emissions from the steel industry. After successful completion of the pilot project, the technology of geological sequestration could be used e.g. for implementation of global reduction targets in the framework of the CDM (clean development mechanism).

#### **Sustainability Criteria**

***4. Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

The Slovak Republic appreciates the sustainability criteria for biofuels and considers it possible to establish clear rules for the sustainable production of biofuels and also a transparent basis for trading.. However, it is important that such production will not represent competition with food stock production by ensuring significant greenhouse-gases savings. We support the initiative focused on establishing the key sustainability criteria for biofuels which should be included in a Directive on renewable energy and also in a fuel quality Directive. The establishment of an ad-hoc working group is considered to be a useful platform for resolving this issue.

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## UNITED KINGDOM

### Package

**1. *An adequate balance between promoting environmental sustainability and combating climate change, ensuring the competitiveness of European economies and increasing security of supply is of paramount importance. In this light, are the measures contained in the "Climate Action and Renewable Energy" package sufficient to meet the objectives and targets which were endorsed by the EU Heads of State and Government at the 2007 Spring European Council?***

The UK's short answer to this question is 'yes'. We believe that these measures match the ambition of the 2007 Spring European Council conclusions and we welcome the ambition of the Commission's legislative climate and energy package. Of course, Member States will also need to put in place measures to meet their targets in addition to Community measures, for example in energy efficiency.

The UK believes it is critical that we send the right messages internationally for the climate negotiations at Poznan and Copenhagen. There are some good messages in the package. For example, the Commission's proposals set out to the rest of the world how the EU would deliver the 30% reduction target in Greenhouse Gas emissions by 2020 as part of a global climate agreement. This is a very important signal to the rest of the world of the EU's ambition.

However, we can always improve our message. For example, it will be important for other Parties to the Climate Change Convention to see clearly the efforts of each EU Member State. This is why we would like to see the Commission set out whole economy figures for each Member State, rather than just targets for sectors not covered by the EU ETS.

The UK welcomes the Commission's proposals and looks forward to a final agreement within the legislative term of this European Parliament; indeed we believe there should be an agreement before the end of this year.

### EU ETS/non ETS

**2. *Do you agree with the way in which it is proposed to achieve the greenhouse gas emission reductions cost-effectively and equitably, in particular with the design features of the revised EU ETS and the non ETS effort-sharing?***

The UK supports the Commission's package of proposals on climate change and energy as the cornerstone in creating a framework for the EU to become a truly low-carbon economy and to show global leadership on climate change. To do this, it is necessary to have well-designed, cost-effective policies that make it easier for the EU to deliver aggressive reductions in GHG emissions.

In the **non-ETS proposal**, the UK will seek an equitable distribution of effort between Member States, and for this to be achieved in the most cost-effective way across our economies. The proposal sets some restrictions on Member States in terms of compliance against the target in the non-traded sector. In particular, a linear reduction path is prescribed, and the levels of project credits that can be used for compliance are limited. The UK will therefore look at whether the limits on the use of project credits are set at an appropriate level, and what other flexibilities might be appropriate to allow Member States to meet their targets in the most cost-effective manner.

In the **ETS proposal**, the UK supports the Commission's proposal for an EU-wide central cap of not more than 1.72 billion tonnes of CO<sub>2</sub> with a clear downward trajectory to 2020 and beyond. This is just the market signal that Governments, industry, traders and NGOs have been calling for.

The proposal provides a building block towards a global carbon market. Mandatory emissions trading schemes under absolute caps are under development at national, regional and sub-national levels outside the EU, and the ETS proposal envisages linking these schemes together. We support this: a broader and deeper carbon market is at the core of a global solution to climate change - it will drive global emission reductions and increase cost-effectiveness.

We support greater use of auctioning generally to ensure carbon is priced into decisions, simplify the scheme and avoid windfall profits. In line with the current situation for post-2012, we are not keen to see maximum levels of auctioning. Instead, we advocate a system of mandatory minimum rates where Member States have discretion to auction up to 100%.

We also support greater harmonisation of many aspects of the EU ETS, especially scope, monitoring and reporting and treatment of new entrants. Whilst we welcome the principle of a limit on the use of project credits from e.g. the Clean Development Mechanism, we are concerned that there is not a harmonised limit at an installation level, and we would also like to further analyse the impacts of the Commission's proposals before deciding on an appropriate level.

We cannot accept earmarking of auction revenues, nor can we accept the proposal to reassign auctioning between Member States. The EU ETS is not the right mechanism for dealing with solidarity and cohesion within the EU. We have the EU Budget and measures such as Structural Funds for these purposes, and a fundamental review of the EU Budget in 2013-2020 to help deliver this.

The question of international competitiveness, or more specifically carbon leakage, is an issue in a limited number of sectors. We must make sure that solutions are proportionate and do not create trade barriers.

### **CCS**

#### ***3. Is the proposed regulatory framework on the geological storage of carbon dioxide suitable to bring environmentally-safe carbon dioxide capture and storage to deployment?***

The UK very much welcomes (i) Commission's legislative proposal on the geological storage of carbon dioxide (ii) its proposals for including CCS in the EU Emissions Trading Scheme and (iii) its Communication on early demonstration. These measures recognise that CCS will be crucial in moving to a low carbon economy. To succeed in achieving our ambitious emissions reductions targets we need to create incentives for Member States to develop not just some, but all low-carbon solutions. The proposed Directive is an enabling framework for the environmentally safe deployment of CCS and as such is a vital step towards combating emissions from fossil fuels. Together with the Commission's communication on early demonstration, it paves the way for commercial scale demonstrations in the EU, which must be operational by 2015 if we are to prove the viability of CCS and ensure it can be deployed to tackle emissions from the biggest global emitters, including in the longer term.

CCS will be particularly relevant to tackling emissions from rapidly developing economies including China and India. We are therefore pleased to see that the Commission's Communication includes plans for an EU network of demonstrations that will share knowledge not only within the EU but also beyond, for example with developing countries.

In more detail, it is important that the proposed regulatory framework (CCS Directive) provides greater certainty for industry and removes barriers to environmentally safe and reliable demonstration and deployment of CCS across the EU. The provisions requiring the Commission to provide within six months its opinion on each decision by a national regulator to issue or terminate a CO<sub>2</sub> storage permit do not seem consistent with Better Regulation principles. These provisions could create delays, commercial uncertainty, and deter investment in CCS. The UK will seek to ensure that the Directive balances the need to make sure that CO<sub>2</sub> will be stored safely and reliably with the need to avoid unnecessary and burdensome technical requirements that will not improve reliability or safety.

#### **Sustainability Criteria**

***4. Sustainability is one of the pillars of Climate-Energy policy as well as an objective for several other EU policies; trade in biomass and biofuels will be required for the EU to achieve its targets. In that light, how do you assess the effectiveness of the sustainability scheme (will it ensure sustainable production of biofuels on the one hand and enable efficient trade to and within the Community on the other)?***

The EU needs to ensure that biofuels are sustainably produced, deliver real reductions in greenhouse gas emissions and support the development of new biofuels technologies. Robust and comprehensive sustainability criteria, which fulfil the mandate set out at the Spring Council <sup>1</sup>, are essential, especially because of the growing public concern about the environmental impact of biofuels. The criteria proposed by the Commission while a good starting point, but need to be wider and more challenging.

We very much welcome the decision of the Committee of Permanent Representatives to co-ordinate further work on bringing together the separate sets of criteria that have been proposed for this Directive and for the Fuel Quality Directive. It is essential that the key elements of both should be included in a single set of criteria that applies to both Directives.

We must also recognise that sustainability criteria for biofuels cannot adequately address 'indirect' impacts, where additional demand for biofuels feedstocks displaces existing production and results in unsustainable land use elsewhere. It is therefore essential that biofuel targets must be set with caution and accompanied by monitoring and review mechanisms in addition to standards, so that the policy can be appraised on a regular basis, against some pre-determined criteria. The UK has announced a review to consider the emerging evidence on the indirect impacts of biofuel production, and what these mean for future biofuel policies and targets

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<sup>1</sup> The binding character of the Biofuels target is to be introduced in a cost-effective way and is appropriate subject to production being sustainable, second generation biofuels becoming commercially available and the Fuel Quality Directive being amended accordingly to allow for adequate levels of blending.

The UK also welcomes the Commission's draft renewables directive, setting out the framework for the EU to meet a 20% renewable energy target by 2020. The UK is committed to meeting its fair share of the EU renewables target and the Directive should provide for a credible framework to allow Member States to meet this target cost-effectively. The UK believes the Renewable Energy Directive should promote the production only of biofuels meeting robust sustainability criteria. In particular, there must be provision for the target to be reviewed if it becomes clear that it cannot be met solely through sustainably-produced biofuels.

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