

# **THROUGH THE GLASS DARKLY - EUROPE AND THE POLITICS OF CLIMATE CHANGE**

## **A MISSION AND PUBLIC AFFAIRS BRIEFING PAPER**

No one now disputes the overwhelming scientific evidence that suggests that climate change is a serious global threat, which demands an urgent global response. Evidence provided by the Stern Report in 2006 and the Fourth Report of the Intergovernmental Panel on Climate Change in 2007 underlines the magnitude of the problem and the challenges involved in managing the transition to a low carbon economy and the efforts needed to ensure that societies can adapt to the unavoidable consequences of climate change.

In developing an integrated approach to climate change, there is an emerging political assumption amongst governments that mitigation of greenhouse gas emissions should be carried out by heavily industrialised countries, who should also provide assistance to less developed countries, both with pursuing less carbon intensive developments paths and with adaptation to climate change impacts. This principle, of common but differentiated responsibilities, is central to the United Nations Framework Convention on Climate Change (UNFCCC), to which both the EU and its Member States are signatories.

In view of the EU's responsibilities both under the UNFCCC and the Kyoto Protocol and given the importance of

the EU as a regional and international actor, this briefing paper analyses the effectiveness of the EU's response to global climate change. It does so with respect to the proposals for mitigation and adaptation, both within the EU and between the EU and its external partners. The paper provides a critical assessment of the Emissions Trading Scheme, the jewel in the crown of the EU's climate change programme, which is often seen as the prototype for a global carbon market. The paper also assesses the EU's response to climate change with respect to development cooperation and the level of assistance that the EU is providing developing countries, both to pursue less carbon intensive developments paths, and also to build the necessary capacity to support their own adaptation efforts.

There are a number of reasons why a European level of analysis is necessary. Taken as a single entity, Europe is the world's largest aid donor, providing approximately 55% of development assistance. This is roughly equivalent to \$50 billion per year, more than twice what the US provides. As the world's largest single market the EU is also the most important economic and trading partner for developing countries, offering specific trading benefits to developing countries, mainly to the Least Developed Countries (LDC) amongst them. Assessing the effectiveness of the EU's response to climate change to date provides conclusions as to how its efforts might be better calibrated to meet the needs of the world's poorest.

This briefing paper builds on the previous MPA briefing paper, *Climate Change – Not Just a Green Issue*. It approaches climate change from the understanding that it poses a serious, ongoing threat to human development

and human security, which if left unaddressed threatens to push many communities yet still further into poverty. The world's rich countries, including those in Europe, will be able to adapt to many of the expected changes, but most parts of the world, will be unable to avoid the unwanted effects of global climate change. If their peoples are to prosper, and in some cases even survive, they will need significant financial assistance over and above that which is already provided by traditional forms of development assistance. Failure to provide the necessary assistance is not an option. Seen from this perspective, the predicted impact of climate change presents a global ethical challenge as well as a development and scientific challenge.

### **A brief history of the EU's Climate Change Programme**

Any analysis of the EU's response to climate change must start with the parameters within which EU policy is debated and negotiated. The EU's climate change policy represents a multi-level game involving a complex distribution of power and responsibilities between the EU and its Member States. The EU institutions (comprising the Council of Ministers, the European Commission, the European Parliament and the European Court of Justice) can only act to the extent that they have been given powers to do so by the Member States in the Treaties establishing them.

Article 174 (1) of the Treaty of Maastricht (1992) set as one of the objectives of the EU's environmental policy the aim of "promoting measures at international level to deal with regional or worldwide environmental problems". To this end, the EU can

adopt internal legislation but it can also "co-operate with third countries and with the competent international organisations" by concluding international agreements. When the multilateral negotiations started in the UN, the EU Member States agreed that it made more sense to negotiate as a single block on the basis of a common position. Hence, the EU became a central player in the negotiations leading to the UNFCCC even though it had yet to adopt any internal legislation in this field. Its common position during these negotiations reflected the political consensus between Member States and an aggregation of their emerging national policies. Gradually these national policies were complemented and supported by "common and co-ordinated" policies and measures at the EU level, including a number of important legislative measures.

Except in two specific cases the EU institutions can adopt environmental legislation by a Qualified Majority Vote of its Member States. Under Article 175 (2) unanimity is still required for any "provisions primarily of a fiscal nature" as well as for "measures significantly affecting a Member State's choice between different energy sources and the general structure of its energy supply". The first exception was invoked in 1992 to block a Commission proposal for a harmonised carbon/energy tax to be introduced throughout the EU as a climate policy measure. This reflected national sensitivity to allowing the EU any competence in the field of taxation.

The second exemption has not so far been invoked. It is, however, looming in the background in all political decision-making on climate change, especially as the impact on climate

measures on energy policy is becoming more apparent. Member States have been reluctant to formally delegate part of their sovereign powers over energy policy to the EU institutions, even though they have accepted EU legislation on particular aspects of energy policy, which can be justified under other provisions of the EU Treaty. Thus, legislation to liberalise the market for electricity and natural gas was passed in the mid-1990s using the EU's powers to establish a single market. As a result of growing concerns over energy security and climate change, a political consensus has developed gradually between Member States on the need to establish a stronger EU role in this area. This consensus will be formalised in the 2007 Reform Treaty.

After signing the Kyoto Protocol, the EU started considering the respective role of common and coordinated versus national policies and measures as a means of fulfilling its collective quantified emissions reduction target of 8%. This debate involved conflicting interpretations of the so-called principle of subsidiarity laid down in Article 5 of the Maastricht Treaty. Article 5 provides for common action to be taken "only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community". Some Member States argued that national measures would be sufficient to reach their targets. Others considered a range of harmonised measures at the EU level necessary. In June 1998, the EU Council reached a political agreement on internal burden sharing as well as the need for the future development of common positions. Following the earlier rejection of the Commission's

carbon/energy tax proposals, attention shifted to other instruments, and in 2001 the Commission proposed the Emissions Trading Scheme, a cap and trade system, as the flagship measure of EU's climate change policy.

The Emissions Trading Scheme is pivotal to the success of the EU's climate change policy and reflects the most significant response to the EU's Kyoto Protocol obligations. It is, however, one amongst many policies that the EU has adopted under its European Climate Change Programme. The ECCP is a multi-stakeholder consultative process that has brought together all relevant players, such as the Commission, national experts, industry and the NGO community. Phase I of the ECCP ran from 2000-2005. It identified and implemented around 30 measures including the ETS, the Directive on the promotion of electricity from renewables and the voluntary agreements with car producers to reduce CO<sub>2</sub> emissions from cars.

The Commission launched Phase II of the ECCP with a Communication, *Winning the Battle Against Global Climate Change*, 9 February 2005. This Communication acknowledged that "a strategy to combat climate change represents a four-fold challenge: the climate risk itself and the political will to face up to it; international participation in efforts to tackle climate change; the innovation needed for changes in the production and use of energy; and adaptation of countries to the unavoidable consequences of climate change." The Commission believed that consideration should be given to these elements through the following actions:

- First, immediate and effective implementation of agreed policies in

order to meet the target of 8% reduction in greenhouse gas emissions agreed in the Kyoto Protocol;

- Second, increased public awareness to encourage people to change their behaviour;
- Third, more and better focused research to further improve knowledge on climate change and its global and regional impact and to develop cost-effective climate change adaptation and mitigation strategies;
- Fourth, stronger co-operation with third countries at the scientific level and through climate-friendly technology transfer as well as through specific measures with developing countries to draw up climate-friendly development policies and strengthen the adaptive capacity of the most vulnerable countries;
- Fifth, a new phase of the European Climate Change Programme in order to determine new measures to be taken in synergy with the Lisbon strategy - the EU's strategy for economic growth and employment - particularly in relation to energy efficiency, renewable energy, the transport sector and carbon capture and storage.

This Commission Communication has led to an impressive array of policy announcements. In January 2007 the Commission proposed that the EU undertake a "unilateral" 20% reduction below 1990 levels in greenhouse emissions by 2020 and a possible 30% reduction below 1990 levels by 2020 provided that, as part of global and comprehensive post 2012 agreement, other developed countries commit to comparable reductions and advanced developing countries also contribute adequately to the global effort according to their respective capabilities. The Commission also proposed a comprehensive package of measures to establish a new energy policy for Europe to help combat

climate change and to boost the EU's energy security and competitiveness. As part of this energy initiative the Commission proposed the development of a comprehensive African-EU partnership and an international agreement on energy efficiency. The EU Heads of State and Government, in March 2007, broadly endorsed the Commission's proposals and agreed on a two-year action plan to launch a common European energy policy.

Yet despite the flurry of activity over the last few years, statistics show that the EU is still struggling to meet its current climate change commitments. In October 2006 the European Environment Agency (EEA) warned that, within the existing mechanism only two EU countries (Sweden and the UK) would reach their reduction targets, with the EU as a whole only set to reduce its emissions by 0.6% by 2010. The EEA's warning raises questions as to whether the EU's climate change programme is more rhetoric than substance.

### **Emissions Trading Scheme**

The Emissions Trading System is central to the European Union's strategy to meet its climate change commitments under the Kyoto Protocol. The Kyoto Protocol provided for emissions trading between countries as one of the 'flexibility mechanisms', which allow parties to the Protocol to meet their targets at the lowest possible cost. Although the ETS was not the first emissions trading scheme it remains the first trans-national scheme and by far the largest covering 23 of the 38 countries with Kyoto caps. As such the ETS has been closely monitored throughout the world and is seen by many as the

prototype for a future global emissions trading scheme.

The EU-ETS is intended to provide a cost effective and economically efficient way of reducing greenhouse gas emissions by enabling reductions to be made wherever they are cheapest. The logic behind the Scheme is that it does not matter where greenhouse gas emissions come from – an emission in Manchester will have the same impact on the climate as one from Madrid. If it doesn't matter where emissions come from, it doesn't matter where emissions reductions come from either, so action to lessen emissions should be taken wherever it is cheapest to do so. If it is cheaper for company X to buy so many allowances from company Y than to, say, invest in high-technology efficiency savings, then X should be allowed to do so. The emissions reductions will have to have been made otherwise Y would have no allowances to sell. The EU-ETS is an example of what is known as a 'cap and trade' scheme.

Even though the EU-ETS will ultimately be judged on the basis of its effectiveness as a tool to reduce GHG emissions, the underlying rationale for choosing emissions trading was based on economic considerations. The European Commission estimated that "the Scheme would allow the EU to achieve its Kyoto target at a cost of between Euro2.9 billion and Euro3.7 billion annually. This is less than 0.1% of the EU's GDP. Without the scheme, costs could reach up to Euro6.8 billion a year." A particular advantage of the system, as recognised by British Energy, is that it doesn't prescribe particular solutions, but leaves it up to the market to decide where it is cheapest to make reductions. The system therefore encourages an enterprising, individualist approach,

rather than a top-down, centralising conformity. Giving evidence to the House of Lords Environmental Committee in 2004, the Chairman of BP stated: "In its perfect form, an ETS is a vehicle for incentivising investment. But if badly implemented, it can become merely a means of costly compliance with little environmental benefit."

#### *Background to the ETS*

The ETS originated as a recommendation from the European Commission's European Climate Change Programme in a report to the European Council in June 2001 "to help identify the most environmentally friendly and cost effective additional measures enabling the EU to meet its target under the Kyoto Protocol, namely an 8% reduction in greenhouse gasses from 1990 levels by 2008-2012." The ETS was established by a European Council Directive (2003/86EC) in October 2003. It came into force on 1 January 2005.

A EU Directive is a binding legislative act as to the result to be achieved, but it leaves Member States considerable discretion in the choice and method of implementation. Member States are nonetheless obliged to transpose the Directive into binding provisions of domestic law and ensure the practical enforcement and application of the Directive. Phase 1 of the Scheme runs from January 2005 to the end of 2007. Phase 2 covers the period from January 2008 until the end of 2012: the Kyoto commitment period in which developed country Parties will have to reduce their emissions by the targets agreed in the Protocol.

The Directive applies to specific major sources of EU greenhouse gas emissions including power stations, oil refineries, coke ovens, iron and steel

plants and factories making glass cement, pottery and bricks. The scheme covers some 11,500 installations in total, which are responsible for about 40% of the EU's total CO<sub>2</sub> emissions. As part of the negotiations EU Member States secured a number of exemptions to the initial phase of the Scheme. Sectors excluded from Phase 1 include the aviation sector, and buildings, which represent the largest share of CO<sub>2</sub> emissions after the power generation and energy intensive industries. Under Phase 2 all sectors and facilities with capacity greater than 20 MW are covered by the Scheme, with no possibility of a 'opt out'. Governments retain the discretion under Phase 2 to 'opt-in' additional sectors, facilities and other gasses provided that the requirements of the Scheme are met.

Under the Scheme all installations are required to possess a GHG emissions permit. A competent national authority issues these permits. Each installation is allocated an emission cap expressed in a number of allowances (the right to emit one metric tonne of CO<sub>2</sub>). These caps are determined by a National Allocation Plan, which is submitted by Member States and approved by the European Commission. The first set of NAPs covered the period 2005-2007; the second will cover the period 2007-2012.

Companies exceeding their quotas are allowed under the ETS to buy unused credits from those doing better at cutting their emissions. Those companies not complying with their obligations are liable to a fine of Euro40 per excess tonne of CO<sub>2</sub> emitted rising to Euro100 in 2008. The ETS is linked with the Kyoto Protocol's Joint Implementation (JI) and Clean Development Mechanism (CDM). Under certain conditions Members States are allowed to buy

carbon credits from carbon reduction projects outside the EU that can then be offset against their own national emissions reductions target. The intention behind this flexible mechanism is to help foster technology transfers to developing countries (CDM) and other industrialised nations (JI).

The manner in which Member State governments decide how many allowances they issue has a significant impact on the EU-ETS. If industries are allocated as many allowances as they need (a business as usual approach), they will have no incentive to cut back or invest in emissions-reducing technology. Consequently they will have no need to buy allowances, and the price will drop. Under these conditions, the Scheme becomes little more than an expensive process in allocating and monitoring without environmental benefit. If this were to occur, the low prices would signal that tougher allocations would be required in the future.

If, on the other hand, Member States are less generous in issuing allowances, installations will be forced either to reduce emissions or to buy equivalent allowances. Then the prices of allowances will be higher. Sooner or later it will reach a price at which it is cheaper for an installation to invest in say, a new piece of energy-saving equipment than it is for them to buy allowances. In extreme cases, it may even be cheaper to cut back on production than to buy allowances. In either case, the emissions reductions will have to be made, wherever they come from, which is the aim of the Scheme.

#### *Phase 1 and 2 of the EU-ETS*

The success of the ETS to date has been dependent in part on the National

Allocation Plans submitted by Member States and approved by the European Commission. Although the ETS Directive provides certain broad criteria and guidance on the setting of NAPs, they are subject to interpretation and at times abuse. Member States have had to strike a fine balance in drawing up their NAPs. They have had to ensure they are on course to meet their emissions reductions targets under the burden sharing agreement – targets that will be legally enforceable from 2008. Yet they have also been subject to political pressures. For example, a company's decision to relocate as a result of a tough emissions target, with its knock on effect on unemployment, could have political ramifications domestically.

The evidence from Phase 1 is that most Member State governments have fallen foul of intense lobbying from industry by issuing allowances that support a business as usual model. Some Member States have even deliberately misstated their emissions projections during the allocation process in order to escape punitive charges. When the verified 2005 emissions were released in May 2006, the extent of the over allocation was clear. A number of large polluting countries like Germany, for instance, were left with 44.1 million tonnes of extra CO<sub>2</sub> allowance for the year 2005. Of the EU's major polluters, only the UK had emitted more than its quota, forcing it to buy over 30 million tonnes of extra allowances on the EU carbon market. The net result of this supply surplus contributed to the bottom falling out of the carbon market. Carbon permit prices plummeted from over Euro15/tonne to less than Euro5/tonne. The current price stands at less than Euro1/tonne.

The discretion provided to Member State governments in setting the NAPs threatens the establishment of a truly single market in carbon and with it any serious reductions in carbon emissions. As a result, the ETS has been subject to pointed criticism. A December 2006 report by the Institute for Public Policy Research stated: "In the first year of trading, 2005, the EU-ETS did not yield any emissions reductions. Member States themselves decide the emissions reductions they will make. Many are anxious to avoid making more effort than their neighbours. Such a 'race to the bottom' can only lead to failure". This criticism was upheld by a March 2007 report from the House of Commons Environmental Audit Committee: "While the Scheme has so far been an administrative success, its record in reducing carbon emissions is far less impressive. It appears to us that Phase 1 will have very little impact on carbon emissions across the EU. Allocations of allowances to emit carbon were too generous, and the price of carbon consequently too low, to drive a transformation in business strategies and technical processes. Overall, the emissions projections appear to have been inaccurate and inflated, and the national caps derived from them too unambitious."

Many of the problems arising from Phase 1 of the EU-ETS stem from the unusually rapid timeframe from the agreement on the Directive to the beginning of the Scheme. Many issues had not been thought through with as much rigour as would have been ideal. It was felt at the time, however, that an early start to the Scheme would mean that any problems could be worked through before the international treaty obligation of the first Kyoto commitment period began in 2008. It is also difficult to see how the Commission, in the absence of detailed

technical knowledge of installations' histories and trajectories, could have ensured that decisions on allocations were made centrally and uniformly.

The low price of carbon trading indicates that tougher allocations need to be made in the future. This means introducing a more uniform approach to help ensure that the real worth of an allowance is precisely the same across the EU. This would ensure that all Member States compete on a level playing field. Early evidence suggests, however, that Member States are once again submitting over generous National Allocation Plans for the period 2008-12. A report by the Institute for European Environmental Policy in April 2007 showed that of those ten member states that had submitted allocation plans there has been a noticeable trend by Member States not to cut below 2005 levels or even first period caps. In some instances, new Member States like Latvia, Lithuania, Malta and Slovakia collectively proposed caps that were fully 87% above the 2005 verified emissions.

The European Commission has reacted strongly to these second NAPs by indicating that it will impose cuts amounting to 7% below what was requested and 7% below 2005 emissions. In the case of new Member States the Commission has cut their proposals back to a rise of 23%. The Commission's decision should make it more likely that the EU-ETS begins to deliver on its promise of real carbon abatement and in so doing increase the credibility and viability of the Scheme and its future development. While the Commission's decision should be welcomed, the inadequacy of the proposed NAPs for Phase II point to a worrying lack of public and political understanding of the dangers of

climate change, and of the need to tackle it, across the EU as whole.

Reaction to the Commission's cuts has by and large been positive, particularly by carbon traders and environmentalists. Governments, however, have been less pleased and have found themselves in heated discussion with industry and with the Commission over the figures. Germany's Economy Minister, Michael Glos, initially called the cuts "totally unacceptable", but Germany ultimately published a revised plan as demanded by the Commission. Other governments have been less understanding. Six Member States (Poland, Hungary, the Czech Republic, Slovakia, Latvia, Estonia) have initiated legal action against the European Commission.

Decisions in the six cases could take up to two years. Experts predict that if the European Court of Justice rules against the Commission, and the Commission was forced to increase the CO<sub>2</sub> allowances, then it would throw the entire carbon market out of balance. If, however, the European Commission is successful in forcing Member States to introduce a significant reduction in national allowances for the second period of the EU-ETS then it should help to spur innovation and emission reduction, which everyone agrees has not been the case in Phase I. The legal battle does highlight growing tension in the EU over the sacrifices needed to fight climate change ahead of a tough debate between governments, later this autumn, over how the 27 Member States should share out the burden of cutting CO<sub>2</sub> emissions by 20% by 2020 – a target agreed by EU leaders at the March 2007 European Council.

*Review of the EU-ETS*

Although the Commission has sought to fine-tune Phase 2 of the EU-ETS, it has also undertaken a far-reaching review of the Scheme.

On 13 November 2006, the Commission presented a report outlining its first evaluation of the EU-ETS. The report acknowledged that the over allocation of allowances by Member States had meant that the environmental impact of the EU-ETS had been negligible: “The environmental outcome of the Scheme in the first period will not be as large as it could have been or as large as will be necessary to adequately address climate change.” The Report, however, acknowledged that the EU-ETS remained a project under construction and that valuable lessons needed to be learnt in order to improve both the simplicity and predictability of the Scheme. Environment Commissioner Stavros Dimas stated: “Climate change is the gravest challenge facing mankind and emissions trading is the most effective policy instrument for tackling it. We now need to see how we can further improve the EU Scheme. The better its design, the easier it will be for other countries to adopt similar policies”.

To this effect the Commission established a separate Working Group to review EU-ETS within the framework of the European Climate Change Programme. The WG was mandated to look at four clusters of issues: the scope of the Directive; further harmonisation and predictability; robust compliance and enforcement; links to third countries. The review was also asked to take account of developments in the wider international negotiations for addressing climate change beyond 2012. The Working Group concluded its study in June 2007 and it is anticipated that the Commission will

make legislative proposals later in 2007. The Commission has already suggested that for reasons of regulatory stability and predictability any changes to the Directive emanating from this review will not come into force until the start of the third trading period in 2013.

Any legislative proposal by the Commission needs to be judged from the perspective of environmental effectiveness and the degree to which a reformed EU-ETS can stimulate the innovation necessary to achieve a low carbon and sustainable economy. With these criteria in mind a number of recommendations can be made as to how the ETS might be further improved. First, the scope of the Directive needs to be expanded to include other sectors and other greenhouses gasses besides carbon dioxide. This could include, for instance, nitrous oxide from ammonia production and methane from coalmines. The Scheme will already be widened to include CO<sub>2</sub> emissions from all intra-EU flights from 1 January 2011 and expanded further to encompass all flights arriving or departing from EU airports from 1 January 2012. This is a welcome move but consideration also needs to be given to including surface transport (i.e. road transport) and shipping.

The central argument for widening the scope of the Directive lies in the opportunities to increase the options for emissions reductions with the ETS. This would lower the total costs for reaching climate change targets. It would also bring other emitters into the Scheme. It needs to be remembered that the EU-ETS only covers 40% of the EU’s carbon emissions, and only a third of the EU’s total greenhouses gas emissions. While the ETS will assist the EU to meet its Kyoto Protocol

obligations, the Kyoto targets are themselves only a first step, and much steeper cuts will need to be made in greenhouse gas emissions soon after 2012 in order to meet EU targets and to minimise the effects of global warming.

Second, in order to assist the development of and then investment in new low carbon technologies the Commission needs to consider changing the cycle of allocation periods to coincide with investment cycles. The current trading period cycle of 5 years is considered by most industry experts to be too short. It needs to be lengthened to 10 or 15-year periods. In addition, carbon pricing needs to be much higher and more credible in the long-term so as to make investment in research and development more profitable. If the ETS moves to longer cycles, further thought will need to be given to how Member States might be able to intervene if the objectives of the ETS are not being met due to low carbon pricing.

Third, the Commission at the very least needs to consider measures to harmonise national allocation strategies so as to avoid distortions in the internal market that arise from the high level of discretion currently afforded to Member States. This requires precise criteria for national caps based on EU-wide methodology. A common methodology, and even a EU-wide cap, would help to depoliticise the EU-ETS and remove the discretion of Member States resulting in adverse and distorting effects. This approach would also lead to a higher level of transparency, which would make the EU-ETS more comprehensible to the outside world.

Fourth, further consideration needs to be given to the linkage between the ETS and other national or regional emission trading schemes. This is already envisaged under Article 25 of the ETS Directive and is predicted to be a key feature in the post-2012 international negotiations. Any step to link emissions trading schemes needs to ensure that the environmental effectiveness of existing schemes are not watered down by various factors such as weak enforcement or a low price cap. Given the challenge involved in linking emissions trading schemes, the ETS Directive needs to take greater advantage of existing opportunities for linkage, such as that provided by the Kyoto Protocol's JI and CDM. However, it is important that some instrument is devised to ensure that those companies that take advantage of the Joint Implementation (JI) and Clean Development Mechanism (CDM) are funding genuinely additional emissions reductions and that they make a positive contribution towards sustainable development. Access to the CDM market needs to be closely monitored and controlled. As noted by the UK Environmental Agency: "A Scheme that allows unrestricted access to the CDM market will drive down allowance prices making it more attractive to buy allowances rather than achieve domestic emission reductions".

### **The EU and the Challenge of Sustainable Development**

As argued in *Climate Change – Not Just a Green Issue*, climate change is not just an environmental issue, but of great significance to development and developing countries. Climate change puts at risk efforts to reduce poverty and progress towards the Millennium

Development Goals. As illustrated by the 2006 Stern Report and the 2007 Report of the Intergovernmental Panel on Climate Change, those already suffering most from climate change are those who contributed least to the problem. The negative impact of climate change is felt more severely by poor countries, since they are most immediately dependent on natural resources and often lack the capacity to cope with climatic variability and extremes. It is not enough for the heavily industrialised countries to cut significantly their CO<sub>2</sub> emissions; they need to offer assistance to those most susceptible to climatic variation.

For donors of development assistance, such as the EU and its Member States, it is essential that climate change be mainstreamed into their development cooperation activities. To do otherwise risks making ineffective their efforts to promote poverty reduction in developing countries. The challenge for donor governments and organisations is to re-shape their development strategies in such a way that development goals are secured, while at the same time reducing partner countries vulnerability to climate change. Development needs to be truly sustainable in that it must realise economic, social, local and global environmental goals.

Although there are many definitions of what sustainable development means, that commonly used is provided by the 1987 Brundtland Report, *Our Common Future*: “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. This entails development based on consumption and production patterns that do not degrade natural resources, that protect the environment, promote equitable sharing of well being to all

and alleviates poverty. Sustainable development does not focus solely on environmental issues nor should it be confused with the concept of environmental sustainability, normally defined as the ability of the environment to continue to function properly indefinitely.

Sustainable development has been a core principle of the European project since its inception. Article 6 of the European Community Treaty stipulated that environmental protection requirements must be integrated into the definition and implementation of all Community policies and activities with a view to promoting sustainable development. In 1997, sustainable development became a fundamental objective of the European Union when it was enshrined as Article 2 of the Treaty of Amsterdam. Sustainable development is therefore meant to underpin all EU policies and actions as an over-arching principle.

International development was only incorporated in the EU Treaty in 1992 with the Treaty of Maastricht. The Treaty stipulated that development cooperation should be a shared competence between the European Community and the Member States. This move reflected the increasing impact that Community policies (e.g. trade, agriculture, fisheries and migration policies), have on the EU’s external relations. The European Community’s international influence is illustrated by the Commission’s presence as a development partner in more countries than even the largest of its Member States and in some cases it is the only EU partner substantially present. It has a common trade policy, cooperation programmes covering practically every developing country and region and political dialogue

conducted together with the Member States. It has an extensive network of delegations across the world, which enables it to respond to a wide variety of situations, including fragile states, where Member States have withdrawn. To facilitate greater cohesion in EU decision-making, and to ensure that non-development policy areas accommodate development related inputs, the EU and its Member States agreed, February 2006, *The European Consensus on Development*. This statement presents a shared vision to guide the EU's activities in the field of development cooperation, both at Member State and Community level. The Consensus holds that "the primary and overarching objective of EU development cooperation is the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals". The Consensus adopts a 'development first' approach by stressing "that the EU shall take account of the objectives of development cooperation in all policies that it implements which are likely to affect developing countries and that these policies support development policies".

Within this broad vision the Consensus clearly stipulates the boundaries of the European Community's responsibility in the area of environmental policy. The European Community is responsible for supporting partner countries in incorporating environmental considerations into their development strategies and helping increase their capacity to implement multilateral environmental agreements. To this end the Community is to give particular attention to initiatives ensuring the sustainable management and preservation of natural resources and to the implementation of international agreements such as the

United Nations Convention on Biological Diversity and the United Nations Convention to Combat Desertification. With regard to climate change the Consensus stipulates: "... the Community will focus on the implementation of the EU Action Plan on Climate Change in the context of development cooperation, in close collaboration with the Member States. Adaptation to the negative effects of climate change will be central in the Community's support to Least Developed Countries and small island development states.

*The EU's Action Plan on Climate Change in the Context of Development Cooperation*

The EU's General Affairs and External Relations Council, 22 November 2004, adopted the EU's *Action Plan on Climate Change in the Context of Development Cooperation*. The catalyst for the Action Plan was the conclusion of the Cardiff European Council Meeting, June 1998. This recommended the integration of environmental considerations into all Community policy areas. The negotiations for the implementation of the UNFCC and the Kyoto Protocol delayed this process until 2003 when the Commission issued a Communication to the Council and the European Parliament titled, *Climate Change in the Context of Development Cooperation*.

The central objective of the Communication and the subsequent Action Plan is to assist EU partner countries in meeting the challenges of climate change, in particular by supporting them in the implementation of the UNFCC and the Kyoto Protocol. For this purpose the Commission argued: "Climate change concerns and its potentially disastrous long term implications need to be fully

mainstreamed into EU development co-operation so that they receive a higher profile in priority setting in a way that is completely coherent with the overarching objective of poverty reduction.”

The Action Plan, the first stage of which runs from 2004-2008, proposed four strategic priorities: (1) Raising the policy profile of climate change, both among EU development policy makers and practitioners and in EU partner countries, (2) Support to EU partner countries for adaptation to the adverse effects of climate change, (3) Support to EU partner countries’ mitigation of emissions of greenhouse gases causing climate change, and (4) Capacity development in EU partner countries by working with the public sector, the private sector and civil society to enhance their capacity to deal effectively with climate change issues. The Action Plan translates the strategic recommendations into concrete action by providing a menu of options from which the Member States can select.

Commenting on the adoption of the Action Plan, the then EU Commissioner for Development and Humanitarian Affairs, Poul Nielson, stated: “Climate change is as much a development problem as it is an environmental problem. Its adverse effects will disproportionately affect poorer countries with economies predominantly based on natural resources. What’s more, the ability of developing countries to adapt to climate change is undermined by a lack of financial resources, adequate technology and stable and effective institutions. The Commission is committed to assisting developing partners in reconciling their legitimate needs for economic development with the protection of the environment and sustainable use of resources. We

believe the best way to do this is by addressing climate change concerns within EU development co-operation activities in complete coherence with the overarching objective of poverty reduction”.

The European Commission’s Directorate General for Development is currently reviewing the results of the first stage of the Action Plan. The intention is to propose a modified Action Plan to be launched from 2009. Preliminary findings presented by DG Development in July 2007 suggest that the Action Plan has contributed to climate change being a regular topic of high level dialogue and outreach between the EU and its partner countries. The Commission holds that it has also contributed to a heightened awareness of climate change across EU agencies and the subsequent funding of activities in all four strategic areas. The Commission accepts, however, that while the Action Plan has delivered results and continues to provide a base for strengthened and joint EU action, further steps are needed to ensure a more coordinated approach. It acknowledges that the effectiveness of the Action Plan has been curtailed by a lack of detailed timeframes and responsibilities setting out who delivers what, by when. There is a growing appreciation of the need to move away from an all encompassing approach, to producing a more tailored service better suited to meeting the specific needs of particular countries and regions. It recognises that this requires moving beyond statements of principle to targeted and concentrate adaptation and mitigation measures. Recommendations for future action are to be made by the Commission by the end of 2007.

*The Commission’s 2007 Green Paper on Adaptation*

In response to the February 2007 Fourth Report of the Intergovernmental Panel on Climate Change, the European Commission published in June 2007 a Green Paper on adaptation and climate change: *Adapting to Climate Change in Europe - Options for EU Action*. The Green Paper aims to generate a broad discussion in Europe that helps to put the need for adaptation to climate change at the top of the political agenda. The results of this public consultation process will be made available in early 2008 and should provide guidance in setting priorities for further development of the EU's adaptation policy by the end of 2008. Introducing the Green Paper, the Environment Commissioner, Stavros Dimas, noted: "We need to fight the battle against climate change on two fronts. We must sharply reduce global greenhouse gas emissions to prevent future climate change from reaching dangerous levels, but at the same time Europe must also adapt to the climate change that is already happening." He went on to argue that while mitigation is necessary "to avoid the unmanageable", adaptation is necessary in order "to manage the unavoidable."

The Green Paper focuses heavily on Europe's own vulnerability to the unavoidable effects of climate change. It acknowledges that the main responsibility for adopting adaptation measures will fall on local, regional and national authorities. It argues, however, that since certain sectors (e.g. agriculture, water, biodiversity, fisheries and energy networks) are already largely integrated at the EU level through the single market and common policies, that it makes sense to integrate adaptation goals directly into existing and forthcoming legislation and policies where the

Commission has competence. To this effect, it proposes the creation of a European Advisory Group on Adaptation to Climate Change, under the European Climate Change Programme, to undertake a systematic check of how climate change is going to impact on all Community policy areas and legislation by 2009. It suggests further the need to integrate adaptation into existing Community funding programmes such as the Cohesion Fund, Regional Development Fund, European Social Fund, and the Fisheries Structural Fund.

As the adaptation challenge is by its very nature global, the Green Paper also considers the international dimension. It looks at adaptation measures in Europe that could also apply to other parts of the world, and the opportunity for the EU to provide international leadership in this area. The Green Paper recognises that the development of effective adaptation strategies, both within the EU and between the EU and its partners, is itself dependent on the creation of a global market for environmental technologies that fosters trade in sustainable goods and services as well as technology transfer. An important way of achieving this, it argues, is by the EU using its bilateral and multilateral trade negotiations to address the question of trade and investment in green technologies and environmental goods and services in a cooperative and incentive based approach.

The Green Paper makes two concrete suggestions. First, that in the context of the UNFCCC, the EU should continue to advance the issue of adaptation and promote the integration of adaptation into national development plans (e.g. through the National Adaptation

Programmes of Action). It recognises that continued EU leadership will be needed to help ensure the availability of sufficient financial and technical resources (e.g. through the Kyoto Protocol's Adaptation Fund, the Global Environment Facility and bilateral channels) to implement these action plans and other strategies.

Second, to facilitate enhanced dialogue and cooperation between the EU and developing countries on climate change, the Green Paper proposes the building of a Global Climate Change Alliance (GCCA). In addition to fostering dialogue, the Alliance would support developing countries through targeted mitigation and adaptation measures such as concrete pilot projects that help integrate adaptation activities into key sectoral policies. A budget of 50 million Euros has been earmarked to underpin the work of the Alliance over the period 2007-2010. The Commission pre-empted the finding of its own consultation exercise by announcing its intention, September 2007, subject to the European Parliament's approval, to set up the GPCA to run from 2008-2010.

NGOs and civil society have welcomed the GPAC initiative but they remain critical of the amount of funding provided. Earlier in 2007, Oxfam called for rich countries to provide \$50 billion annually to help poor countries face the "unavoidable consequences" of climate change since they are the "worst affected, facing greater droughts, floods, hunger and disease". The Commission remains sensitive to the question of funding. Commissioner Michel described the Euro 50 million, as "only a start-up" and that he wanted EU Member States to add their contributions, as "other resources are necessary to respond to the scale of the needs".

#### *Assessment*

It is difficult to provide an objective assessment of the effectiveness of EU activity in the area of climate change and development. The mainstreaming of climate change into the EU's development policy is obviously a new and emerging area. Most EU projects are still at an early stage of implementation or in the process of being reviewed. A 2007 OECD study, *Adaptation: Stocktaking of Progress on Integrating Adaptation into Development Co-operation Activities*, notes that while some donors have initiated studies and pilot projects to examine the actual implications of climate change on their activities, this process has only just started and therefore little can be said about any follow-up actions. The work on developing operational measures that actively integrate climate change in development programmes and projects is still at a very early stage. The EU's response to date should therefore be seen as the first steps in what will be an evolving and unfolding area of activity.

Steps to mainstream climate change into development, whether through the 2006 European Development Consensus or more scientific programme work are to be welcomed. They are evidence that there is now significant high-level endorsement within the EU for this approach. This has helped to reframe the development work not only of the EU but also of its Member States. At a Member State level there have been a raft of policy announcements (e.g. *A Strategic Vision for Portuguese Development Cooperation* [2006], *Norwegian Action Plan for Environment in Development Cooperation* [2006]) all of which prioritise the need to climate proof development. These national

programmes have been shaped by, but in turn have helped to shape the EU regime on climate change and development.

This consistency and coherency between the levels of EU governance has helped the EU be a more effective actor internationally. It has resulted in the *Joint ACP-EU Declaration on Climate Change and Development* (2006), as well as the impetus to the *G8 Gleneagles Plan of Action: Climate Change, Clean Energy and Sustainable Development* (2005) and the subsequent proposal for a *Clean Energy and Development Investment Framework* by the World Bank (2006) and the *OECD Declaration on Integrating Climate Change Adaptation into Development Cooperation* (2006). While each of these initiatives needs to be evaluated on their own terms, collectively they contribute to the shaping of an international regime on climate change and development.

Much has been made by development and environmental NGOs as to the limited funding that donors, such as the EU, have so far provided for climate friendly development projects. The Euro50million that the Commission has allocated for the creation of the Global Climate Change Alliance in 2008-2010, complements the Euro300 million EU funds currently earmarked for similar projects. There is always a temptation to see additional funding as the solution to development. It is self-evident that significant resources will be needed in the future to assist developing countries adopt appropriate adaptation and mitigation strategies, but the problem at the moment is less one of resources and more one of limited absorption capacity. The 2007 OECD report notes: "...while the case has now been made as to why

development cooperation activities should pay attention to climate risks, considerably less information is currently available in terms of precisely *how* development planners should change existing practices, and at what cost, to take climate change adaptation into account. Addressing these barriers and constraints in a comprehensive manner is therefore likely to do more to better integrate climate risks within a wide range of development activities than funding commitments alone". It is to be hoped that a revised EU Action Plan and the work of the GCCA will assist this process by moving away from generic statements of principle to specific project work that will lead to a wider change in development and donor practices.

## **Conclusion**

This briefing paper has examined the steps the EU has taken to reduce its own emissions through the ETS and its efforts to mainstream climate change into development. The EU's attempts to mitigate its CO<sub>2</sub> emissions are more advanced than its efforts to climate proof development. Both spheres, however, remain extremely fluid and are subject to review, amendment and further development. The fluidity of the situation reflects the growing awareness of the impact of climate change and the steps that are needed to secure a stable climate. Climate change is no longer a peripheral political concern but a core strategic priority. The political situation will remain fluid as governments continue to grapple with how climate change impacts on a range of policy issues.

Without doubt, the ETS is a very ambitious project, and the EU deserves much credit for establishing it in 2005.

So far, the ETS has been a qualified success, but it requires substantive reform if it is to make a significant contribution to meeting the EU's emissions targets. A carbon market is only as effective as the institutions that oversee it and at present the lack of a strong central authority and short time frames undermines the Scheme's effectiveness. Despite the best efforts of the Commission, the second phase of the scheme, 2008-2012, will only be a small step forward and will do little to depoliticise the allocation of CO2 allowances by Member State governments. The results of the Commission's review of the ETS offers the scope for a more comprehensive review. Unless the Commission can show a sufficient degree of determination in its management of the Scheme, consideration should be given to the creation of an independent European carbon market authority.

The EU also deserves credit for taking steps to mainstream climate change into its development policy. It is encouraging that the linkage between the two policy spheres is now well recognised and embedded in various programmatic work at both a EU and national level. The change in development mindset has not as yet been matched by a change in development practice. The EU's approach remains very much top down with little progress yet been made in developing local or regional adaptation strategies. Adaptation efforts continue to be hindered by a lack of data as to the vulnerabilities and priorities for adaptation of a number of least developed countries. Until such data exists it will be difficult to develop targeted adaptation strategies. None of this is to suggest that the EU's efforts have been misguided. But, if the EU cannot develop effective

climate change policies then the global implications are truly dire. Given its substantial internal diversity, the EU is a global microcosm and regional laboratory when it comes to climate change. The EU's climate change experiment is certainly more advanced than other parts of the world. Despite its sometimes complicated system of governance, it is better positioned than others to develop integrative package deals which link climate change to other policy areas, such as development. The success or failure of the EU's own climate change regime therefore has great symbolic importance at a time when the international community is starting to negotiate a post 2012 Treaty.

The fluidity of the situation allied to the gravity of the issue requires constant public and political scrutiny and evaluation. Churches have played an important role at the national and international level in lobbying their governments to develop more ambitious climate change programmes. Important though these efforts are, it is important that churches do not overlook the European dimension. More effective coordination of advocacy strategies between European churches could assist in the further development of an effective climate change regime. The progress that Europe has made to date, while welcome, needs to be measured against the progress that has yet to be made. A Europe wide consensus between churches on climate change, that equips the EU institutions with a moral compass to take the necessary next steps, is long overdue.

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