

**House of Representatives Select Committee on Energy Independence and Global Warming**

**Hearing: "Roadmap from Poznan to Copenhagen - Preconditions for Success"**

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**What progress has the international community made since the negotiations in Bali?**

2008, the year between the UN climate meetings in Bali and Poznan, was a period for getting ideas on the table and for building understanding. The UN process was complemented by discussions between the largest economies and emitters in the G8 meetings and the Major Economies Meetings, which helped focus minds on areas where agreement needs to be found, including at the highest levels. This allows all parties to come forward with their position for Copenhagen, now that the Poznan conference has marked the shift to full negotiating mode. We expect negotiating texts on the table by the meeting in Bonn in June 2009.

At the same time, developed and developing countries have continued working to put in place policies which tackle climate change.

The European Union has moved a step closer to meeting its Kyoto targets, reducing emissions whilst achieving very healthy economic growth. The 15 Member States that were part of the EU at the time of ratification (EU-15) had reduced their emissions of greenhouse gases by 2.2% below 1990 levels by 2006 (latest data published in 2008). Over the same period, their economies grew by almost 40%. It is worth noting that while the economies of the 12 Member States that joined the EU in 2004 have seen significant growth since 1990, their emissions were 25.3% below 1990 levels in 2006; their emissions growth had virtually levelled off after the drop resulting from economic restructuring in the early nineties. The EU also used the year to agree a comprehensive package of climate and energy legislation that will allow us to further reduce our greenhouse gas emissions up to 2020 and beyond, a package which allows us to meet our commitment to cut our emissions by 20% by 2020 relative to 1990 levels. We are also committed to cutting emissions further - by 30% relative

to 1990 - if there is a satisfactory international agreement, provided other developed countries make comparable efforts.

Since Bali, whilst pushing forward with the international negotiations under the Bali Action Plan, we have worked fast at home to put in place the policies needed to reduce emissions in the EU up to the year 2020 and processes to allow us to react quickly to the agreement in Copenhagen. It took the EU, with its 27 Member States less than a year, with intense negotiations, to agree a broad package of measures that allows us to meet our ambitious targets, which remain unchanged from the levels set in 2007. The package also addresses the concerns of the 27 Member States that face very diverse situations, especially the poorer Members in Central and Eastern Europe, and a number of countries that rely heavily on the use of coal. The resulting climate and energy package covers all sectors of the economy. It extends the EU Emissions Trading System (EU ETS), and includes binding targets and new measures to increase renewable energy consumption, binding commitments by Member States to reduce emissions in all sectors not covered by the ETS, a framework for carbon capture and storage (CCS), and binding targets for emissions from the new car fleet along with standards on the carbon content of fuels. Most importantly, we were able to take full account of the lessons learnt during the learning phase of the EU's cap and trade system.

A number of improvements have been made to the functioning of the EU ETS:

- a fundamentally new approach to cap-setting, with an EU-wide cap that extends to 2020 and beyond, decreasing linearly by 1.74 % per annum from 2013 onwards;
- a gradual broadening of the scope of the European carbon market, to include more large-scale stationary emitters and aviation - the first time we have moved beyond stationary sources;
- auctioning is set to become the default allocation method and is being gradually introduced; we are now preparing for the largest ever emission allowance auctions;
- transitional free-allocation governed by EU-wide rules;
- tighter rules for recognition of international offsets, with a more restrictive and strategic clean development mechanism (CDM) import policy;
- important incentives for the next generation of abatement technologies, in particular CCS and renewable energy.

At the same time, we have set out our vision for a transatlantic and OECD-wide carbon market.

Coming at a time of economic crisis, the package sets a framework for a shift to a lower carbon economy, green jobs and more sustainable economic activity. It will also save costs by cutting imports of fossil fuels and improving air quality. Furthermore, the EU's economic recovery plan will contain measures to make the EU's economy more energy-efficient and energy-secure.

Some media reports have suggested that the package agreed in December 2008 represents a weakening of the EU's commitments to reduce emissions. On the contrary, our commitments remain unchanged. The EU will reduce its emissions by 20% relative to 1990 levels by 2020 and by 30% if there is a satisfactory international agreement - just as agreed in 2007. There has been no compromise on our environmental ambition, only in the fine-print on how to get there. The main changes compared to the proposals for the package made by the Commission are firstly the speed and conditions under which we phase out free allocation for energy-intensive industry, and secondly giving the poorer Member States that are more heavily dependent on coal than others the option of moving more gradually towards auctioning in the power sector. It should be noted however that countries who decide to take up the option to delay auctioning do so at the cost of lost auction revenues. Small changes were made on CDM access, although the amount of CDM importing allowed has not changed much.

Developing countries have been pushing ahead with drafting and implementing strategies and plans for climate action. China has a National Climate Change Program published in 2007 and energy efficiency targets set in the 11th Five Year Plan, with a series of measures and targets to be implemented by 2010. India published its first ever Climate Change Action Plan in June 2008, complementing a number of existing policies – on for example energy efficiency, renewable energy and urban transport – which were not adopted to tackle climate change, but which do help reduce emissions. South Africa has been leading the way with proposals for developing country actions. In July 2008, the South African government outlined its vision for the road ahead, with a substantial, quantified deviation from baseline, enabled by international funding and technology, whereby South Africa's greenhouse gas emissions would peak in around 2020-2025, stabilise for up to ten years and then decline in absolute terms. Mexico has also continued to be proactive, proposing no-lose targets for advanced developing

countries, including itself. Its 2007 National Strategy on Climate Change identified specific mitigation measures for the energy, forestry and land use sectors, with substantial emission reductions.

### **What are the major challenges we face on the way to Copenhagen?**

The first challenge is to get an outcome at Copenhagen which is sufficiently ambitious and which is open to new scientific information, for example on the level at which greenhouse gas concentrations need to be stabilised in the atmosphere. The EU's agreed objective is to limit the average global temperature rise to less than 2 degrees Celsius above pre-industrial levels. This will avoid some of the worst impacts of climate change, but would still require significant adaptation. New research findings have led an increasing number of scientists to call for the level of greenhouse gases in the atmosphere to be stabilised at a significantly lower level than previously recommended: as low as 350 ppmv CO<sub>2</sub> equivalent.

To have a reasonable chance of staying below the 2°C threshold, global greenhouse gas emissions must be reduced to less than 50% of 1990 levels by 2050. In addition, global GHG emissions, excluding emissions from land use, land-use change and forestry, will have to peak before 2020.

For a successful international climate policy, which can deliver the scale of global emissions reductions needed, we see the need to address three essential elements:

- targets for developed countries and actions by developing countries
- finance for mitigation and adaptation
- the development of a robust international carbon market.

The first two will form the essential parts of a successful Copenhagen agreement under the UN framework to tackle climate change post-2012. The last, the development of the international carbon market, will take place largely outside the UN negotiations, for instance through bilateral engagement between the EU and the US.

Developed countries, as a group, should reduce their emissions by an amount consistent with the 2° objective. The Fourth Assessment report by the Intergovernmental Panel on Climate

Change (IPCC) indicates that this would require emission reductions for developed countries in the range of 25-40% by 2020 and 80-95% by 2050.

A significant contribution is needed from developing countries, especially from the more economically advanced. The greenhouse gas (GHG) emissions of developing countries are increasing rapidly and, if not addressed, will outweigh the efforts by developed countries to reduce their own emissions. To stay within the 2 degrees Celsius rise, a recent scientific report indicates that developing countries, as a group, will need to limit the rise in their GHG emissions through nationally appropriate actions to 15-30% below baseline by 2020. In addition, gross tropical deforestation should be reduced by at least 50% compared to current levels by 2020 and global forest cover loss should be halted by 2030.

One of our biggest challenges is to make sure that sufficient financing is available to allow the implementation of a Copenhagen agreement for adaptation and mitigation. This will involve significantly scaling up, redirecting and optimising finance and investment, as well as finding mechanisms to ensure that goals are met cost-effectively. Increased financial flows must be accompanied by appropriate governance.

Estimates suggest that the net incremental investment needed globally is of the order of €175 billion or \$224 billion, more than half of which would need to be invested in developing countries. In addition, developing countries may need €23-54 billion or \$29-69 billion, per year in 2030 to adapt to the unavoidable impacts of climate change. In addition, the fall in funding for research, development and deployment of clean energy technologies needs to be reversed. To raise the overall investment needed globally, we need to look across the board at private and public funding, and at international, multilateral and bilateral grants and loans. The carbon market will have an important role to play.

While the amounts of finance are significant, they are small in relation to the costs of inaction. The Stern report for example estimates that failure to act against climate change could cost us 5 to 20% of global GDP by 2030. It is also important to remember that the investment required across our economies to reduce emissions is also investment in our future - in new technologies, skills, infrastructure and innovation - which are the ingredients for energy security, economic growth and high quality jobs that can be maintained into the future.

The international carbon market is important in terms of achieving low-cost mitigation and in terms of shifting private investment into low-carbon projects. Domestic cap and trade systems are one of the best policy measures available. The cap ensures the environmental outcome and trading provides the flexibility to companies to find the most cost-efficient emissions reductions. Auctioning of allowances also provides an important source of revenue. This can be used to tackle climate change, and for those who lose out in the shift to a lower emissions economy or for other public policy objectives. Domestic schemes can be linked, to build a more effective international market with greater potential to reduce the costs of mitigation and redirect finance.

A big challenge on the way to Copenhagen is the limited time available. In this respect, it is very much appreciated that President Obama has set out a long-term vision of reducing emissions by 80% relative to 1990 levels by 2050, and that he has already appointed core members of the new 'climate team' who bring with them tremendous experience. It is also encouraging to hear that, alongside this, the House and Senate are pressing ahead with hearings and drafting of domestic legislative proposals, some to be voted through Committee by Memorial Day. The dual process of getting domestic legislation in place and engaging in the international negotiations is already off to a good start.

**How is the EU proposing to contribute to the international regime and a success in Copenhagen? What are the EU's views on how other countries – developed, developing and emerging economies – should contribute to international efforts on climate protection?**

The European Commission's proposals for Copenhagen are hot off the press. We adopted our "Copenhagen Communication" a week ago (28 January 2009). This sets out what are effectively draft EU proposals, which now go to our Member States for discussion and adoption. The European Council conclusions will be adopted at the beginning of March, building on the Commission proposals, giving a clear political mandate for the negotiations.

Our communication sets out a broad set of proposals. The full text is annexed. The key elements that address the challenges set out above are:

- criteria to ensure the comparability of developed country targets;

- how to step up nationally appropriate mitigation action in developing countries and emerging economies;
- the financial architecture;
- our vision for the international carbon market, including reform of the Clean Development Mechanism (CDM).

It is important that the Copenhagen agreement provides a fair distribution of effort between developed countries. To **ensure that the targets of developed countries are comparable**, the following **four criteria seem to be key when assessing the proposals of different countries**:

- GDP per capita: recognising the capacity to pay for reductions, also via the carbon market;
- GHG emissions per unit of GDP: indicating the energy intensity of an economy;
- trends in emissions between 1990 and 2005: to recognise early action;
- population trends: recognising population growth (such as in the US) or decreases (such as in Russia and Japan).

Such criteria should be used to establish targets that allow all developed countries collectively to reduce their emissions by 30% relative to 1990 levels by the year 2020.

We are also looking for **increased action from developing countries**. As a group, they need to collectively reduce their emissions by 15 to 30% below business as usual by 2020, respecting the principle of common but differentiated responsibilities and respective capabilities, so that they can continue to grow their economies rapidly and reduce poverty.

**We do not propose that developing countries commit to targets.** Instead we propose that each developing country draws up a Low Carbon Development Strategy, which is consistent with the general ambition of developing countries as a group reducing emissions by 15% to 30% compared to business as usual. This should cover all key emitting sectors, including the power sector, transport, energy-intensive industries, forests and agriculture. These strategies should map out concrete actions to limit their emissions, and indicate where support is required to implement these actions. The strategies should provide the basis for a discussion between the developing country and donors that can support the implementation of actions.

All developing countries, with the exception of the least developed, should commit to adopting a Low Carbon Development Strategy by the end of 2011. However, economically more advanced countries should update their strategies during the course of this year and before the Conference in Copenhagen.

Robust and verifiable Low Carbon Development Strategies should be a prerequisite for access to international support for mitigation action. Developing country action should also be entered in an international registry, showing emissions reductions achieved based on transparent and robust measurement, reporting and verification.

We also propose that independent technical analysis is provided to ensure a sufficient level of ambition in terms of the actions and the support provided. A new platform should be created to match proposed actions with appropriate bilateral or multilateral support; we have called this the Facilitative Mechanism for Mitigation Support.

A credible financing package will be essential for a deal in Copenhagen. A large part of these additional investments will come from developing countries themselves, including in loan programs. But we will also need to significantly increase our support for developing countries. The bulk will have to come from the private sector and through the global carbon market. But part will also need to come through additional public investment. It is clear that for sufficient public funds to be made available, assurances of performance will be required.

We need to improve the coordination of climate finance, as it will come from many different sources. We propose a high-level forum on international climate finance to bring together key decision-makers from the public and private sectors and international financial institutions. This forum would review funding availability and expenditure and provide recommendations for improvements.

We have explored **two options to generate this additional public financial support for developing countries which are both on the negotiation table**. The first is that we determine a financial contribution from each developed country taking into account its emissions and its per capita GDP, broadly along the lines of a proposal put on the table by Mexico. The second is that part of each country's emission budget is withheld and subsequently auctioned centrally to governments, with the revenue used to finance climate action, along the lines of a proposal from Norway. Elements of these options could also be



combined. We suggest also that developing countries should start contributing according to their financial capability.

We see the development of the **international carbon market** taking place in parallel with the UN negotiations. A robust carbon market needs to be underpinned by strong domestic legislation. We regard the post-2012 agreement as a political framework that guides the further development of sound domestic carbon markets. We suggest that OECD countries put a domestic emissions trading system in place by 2013, to allow linking of compatible systems by 2015. Moreover emissions trading is also a good tool for key sectors in developing countries, and should be encouraged.

The integration of EU and US carbon markets would be a major step in this direction. Together, the EU and US carbon markets will be the major drivers of the carbon market at OECD and international level. While domestic trading systems do not have to be identical, the successful creation of a wider international market depends on intensive cooperation between the EU and US for the development of effective, robust and compatible systems.

The Clean Development Mechanism, the CDM, as an international offset mechanism, has enabled developing countries to participate in the carbon market. It has provided financing for clean technology projects, it has given a price signal and has acted as an incentive to reduce emissions and build capacity for climate policies in developing countries. But for reasons of environmental integrity it is **necessary to reform the CDM**, as part of the Copenhagen agreement. In the future, CDM should only credit those projects that are additional and go beyond low-cost options. For advanced developing countries and highly competitive economic sectors, this should go further: the project-based CDM should be phased out in favour of moving to a sectoral carbon market mechanism. This would be an efficient mechanism to drive development and deployment of low-carbon technologies in developing countries. It would pave the way for the development of cap and trade systems.

Of course it would be desirable to see cap and trade systems implemented in developing countries sooner rather than later. However, cap and trade is a policy that requires strong domestic environmental institutions and governance structures, which are not in place in countries that are only now building up the environmental institutions that were put in place in Europe or the US three or four decades ago. In such cases CDM offers an attractive first step to build capacity and engage developing countries in global mitigation efforts. The lack of

domestic institutions is substituted by institutional infrastructure built up under the UN umbrella.

New clean technologies will be needed to achieve our objectives. Research, Development and Demonstration (RD&D) of low-carbon and adaptation technologies in all economic sectors and activities will require a major financial boost. Globally, it would be desirable to at least double energy-related RD&D by 2012 and increase it to four times its current level by 2020, with a significant shift in emphasis towards low-carbon technologies, especially renewable energy sources. Likewise research on impacts, adaptation and other mitigation options to climate change need to be strengthened at international level. A commitment to do so should form an integral part of the Copenhagen Agreement.

The EU has a number of new RD&D initiatives on the table:

- the European Strategic Energy Technology Plan (SET-Plan) to accelerate the development of and kick-start the deployment of strategically important low-carbon technologies;
- the first Knowledge and Innovation Communities on climate mitigation and adaptation as part of the European Institute on Innovation and Technology (EIT).
- support for Carbon Capture and Storage and innovative renewable technologies; 300 million allowances are being set aside under the revised EU ETS to help stimulate the construction of CCS demonstration plants and innovative renewable energy technologies; there will soon be a communication on the financing of low-carbon technologies, focused on CCS demonstration in developing countries.

One final point: after ten years of discussions in IMO and ICAO there are no mature proposals for effective mandatory measures to reduce GHG emissions from aviation and maritime transport – and none are likely before Copenhagen. Yet emission reductions from these two sectors are possible using currently available technologies and strategies, including air traffic management, tracking and tracing, maritime engines and equipment. Aviation and maritime emissions should be included in the Copenhagen agreement to help IMO and ICAO deliver global reduction measures.

For further details and information on further proposals not covered in this testimony, please see the attached communication, also available at:

[http://ec.europa.eu/environment/climat/pdf/future\\_action/communication.pdf](http://ec.europa.eu/environment/climat/pdf/future_action/communication.pdf)

## **What are your visions on EU-US cooperation in this context?**

Clearly there are a number of areas where further cooperation would be very fruitful. We have well established cooperation on clean technologies. We need to work closely together on international and related domestic policy development.

Firstly the US and EU should develop as much common ground as possible in the lead up to Copenhagen. We should also be working with other parties, including other major emitters through the G8 and a follow up to the Major Economies Meetings to generate shared understanding and convergence of positions.

We need to work together on what type and intensity of actions we expect from developing countries. As developed countries we also need to engage far more in terms of our targets, and what we will offer developing countries in return for stepping up their actions, including:

- finance and technology;
- incentives through our combined carbon markets, for example through access to carbon offsets and credits but also through the potential use of auctioning revenues.

We can gain a lot of ground and save valuable time by learning from each other's policy experience.

The development of the international carbon market is an area where such US-EU cooperation has a very important role to play. In the near future, the EU and US cap and trade systems are expected to make up the bulk of an international market. If we link together to form a transatlantic carbon market, our markets can be the twin engines driving the global market. We are keen to set up an EU-US working group on the design of carbon markets. This is an area where we can both benefit from technical exchanges. While we drew heavily on US experience in SO<sub>2</sub> trading when we were setting up the EU ETS, we have now built up considerable practical experience in developing and implementing the largest cap and trade system for CO<sub>2</sub> emissions. We are happy to share this experience.

The reform of the CDM is a related area where the EU and US should also seek common ground, including with other countries that have cap-and-trade systems, to generate demand

for offset credits in a coordinated manner. Allowing competing approaches for generation and/or recognition of international credits or offsets into our systems could be counterproductive; it could weaken the incentive we send to developing countries to step up their climate actions, and weaken our systems, reducing prospects for linking. Quantitative and qualitative limits, such as those used to govern the use of CDM offsets in the EU ETS provide a means of safeguarding the environmental integrity of our cap and trade systems, whilst rewarding projects in developing countries with high environmental performance. By working together on such approaches for access to our combined markets, especially as we look to reform of the CDM, we can use the weight of our markets to leverage high quality emissions reductions in developing countries.

Cooperation needs to be stepped up without delay. The next session of the negotiations will take place in Bonn at the end of March, with parties expected to come forward with positions. The following negotiation session will take place in June, and by then we should have a text on the table for negotiation. There are also a number of high level meetings outside the formal negotiations which we need to use to full effect to push for ambitious global climate action and a good agreement in December, including the G8 Environment Ministers meeting in April and the G8 Leaders Summit in July. We also see value in a follow up to the Major Economies Meetings. High level officials from the European Commission visited Washington DC last week and held a series of productive first meetings with their counterparts in the new administration. We trust this will mark a new beginning in a process of valuable cooperation to tackle climate change.