

# Open Europe Parliamentary briefing # 8

## Climate change

### Key points

- Those who say the Lisbon Treaty will help fight climate change either haven't read the text or are being intentionally misleading. Supporters of the treaty, including the UK Government, claim that the Lisbon Treaty is essential to enable the EU to 'take action' on the environment and climate change. This is totally untrue - the Government is using the environment as a political pawn to try and win support for a treaty the public don't want.
- Lisbon will make no difference to the EU's capacities in fighting global warming. The original EU Constitution made no changes to the existing article on the environment. The Lisbon Treaty merely adds a few words to emphasise the importance of the objective of combatting climate change - but this does not significantly affect the substantive powers of the EU to take action on climate change. In fact, the EU currently has (and already exercises) plenty of power over environmental policy, but has simply failed to use it effectively due to flawed policies and lack of political will.
- The extra words on climate change are pure populism. During the process leading up to the revival of the rejected EU Constitution, the German Government planned to use the extra words on climate change as a populist 'hook' for the new treaty - and a way of blunting demand for referendums. The FT noted in March 2007: "Germany wants to mobilise public concern over climate change to resolve another of the European Union's trickiest problems: the relaunch of the bloc's draft constitutional treaty. Berlin, which holds the EU presidency, is working on ways to include the need for united action against global warming in proposals on the treaty, the Financial Times has learned. The aim would be to give the treaty a populist push by tapping into an issue that has captured the imagination of people across Europe...German Foreign Minister Frank-Walter Steinmeier argued that 'if we want to open this discussion [on revising the draft treaty] then climate protection is, in my view, the obvious candidate for an additional element'. A German official told the paper that the EU's targets for greenhouse gas reductions 'needed to be reflected' in Germany's constitution plans."<sup>1</sup>
- The British Government has clearly adopted a similar strategy. British Foreign Secretary David Miliband has on many occasions spoken of the need for the EU to be seen as an "Environmental Union", arguing that the European leaders should try and tap popular concern over transnational issues such as global warming as a means of bolstering flagging support for the "project" across the continent.<sup>2</sup> In January 2007, Telegraph Brussels correspondent Bruno Waterfield noted that

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<sup>1</sup> <http://www.ft.com/cms/s/0/3bf79280-d688-11db-99b7-000b5df10621.html>

<sup>2</sup> Miliband D. "Towards an environmental union", October/November 2006 - *Centre for European Reform Bulletin* (Issue 50)

“Senior Labour strategists believe climate change can draw the sting from Eurosceptic hostility to new EU powers.”<sup>3</sup>

- **Devoting a whole day of Parliamentary debate to the Treaty and the environment is a political stunt.** Given the Treaty does not make any real changes to EU environmental powers, it is incredible that the Government have allotted an entire day of Parliamentary debate (out of a total of thirteen) for this issue. This reflects the Government’s strategy of trying to direct the Parliamentary debate to its own agenda by focusing on ‘thematic’ issues, in order to avoid technical and detailed discussion on the parts of the Treaty that actually do make important changes.
- **The EU does not need this treaty to fight climate change - it simply needs the political will to develop policies that work.** It is entirely proper that the EU does take responsibility for helping to deal with climate change - but needs to fundamentally rethink the way it does this, and adopt policies that work.
- **Real environmentalists should be very sceptical indeed of the EU’s record on the environment.** The Union should focus on reforming existing policies, rather than trying to promote false arguments for the new Treaty. Currently, EU environmental policy is more about being seen to be ‘doing something’, rather than about doing the right thing. It is motivated by political interest rather than environmental interest. In some cases, EU policies will do more harm than good. Over the past three years, the EU has announced a series of highly significant measures intended to deal with climate change:
  - 1) The EU Emissions Trading Scheme has failed to cut emissions and has been converted by politically powerful corporate interest groups into a means of covert industrial subsidy.
  - 2) EU targets for biofuels are less about helping the environment than bolstering the CAP. It is likely that targets will increase emissions and contribute to rainforest deforestation.
  - 3) EU renewable targets will push investment away from more cost effective options for reducing carbon emissions - this is a misallocation of limited resources in the fight against climate change.

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<sup>3</sup> Telegraph (29/01/2007)

## In detail

### What does the Lisbon Treaty *actually* say about the environment?

- There are no substantive changes to the article on the environment. The article in original EU Constitution was exactly the same as the article in current treaties. In the Lisbon Treaty, paragraph 1, indent 4 has some new words mentioning climate change - but this does not in any way affect the Union's actual powers to deal with this issue. The text of this paragraph of the article is below, with the new features underlined:

*ARTICLE 191 [174]*

*Union policy on the environment shall contribute to pursuit of the following objectives:*

- *preserving, protecting and improving the quality of the environment,*
- *protecting human health,*
- *prudent and rational utilisation of natural resources,*
- *promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.*

- Other parts of the treaty make similar moves that tinker round the edges, but don't change anything substantive. The best thing the EU Commission can say about the environmental provisions of the treaty is that they help clarify *existing* objectives:

*The Treaty of Lisbon states that one of the Union's objectives is to work for the sustainable development of Europe based, in particular, on a high level of protection and improvement of the quality of the environment. Although the idea of sustainable development was included in the existing treaties, the Treaty of Lisbon will reinforce and better define this objective. Sustainable development is also affirmed as one of the fundamental objectives of the Union in its relations with the wider world.*

- The lack of change in the EU's powers over the environment is not a problem in itself - we believe the Union already has sufficient (and fairly substantial) powers in this respect.
- However, it is misleading for supporters of the Treaty - including the UK Government - to claim that Lisbon will help to fight climate change: it makes absolutely no difference. It is inappropriate for an entire day of debate to be devoted to this issue in the UK Parliament, and says more about the UK Government's ratification strategy than about the actual effects of the Treaty.

## EU governments are using the environment as a political pawn to build support for a Treaty the public don't want

- The British government has made no secret of attempting to use the issue of the environment as a means to the end of trying to resuscitate flagging public enthusiasm for the EU "project". Former Environment Secretary David Miliband has argued,

*Europe needs a new raison d'être. For my generation, the pursuit of peace cannot provide the drive and moral purpose that are needed to inspire the next phase of the European project. The environment is the issue that can best reconnect Europe with its citizens and re-build trust in European institutions. The needs of the environment are coming together with the needs of the EU: one is a cause looking for a champion, the other a champion in search of a cause.*<sup>4</sup>

- Whilst the new version of the Constitution was being drawn up, in January 2007, Telegraph Brussels correspondent Bruno Waterfield noted that "Senior Labour strategists believe climate change can draw the sting from Eurosceptic hostility to new EU powers."<sup>5</sup>
- This strategy is by no means unique to the UK. In fact, during the process leading up to the revival of the rejected EU Constitution, the German Government planned to use climate change as a populist 'hook' for the new treaty - and a way of blunting demand for referendums. The FT noted in March 2007: "Germany wants to mobilise public concern over climate change to resolve another of the European Union's trickiest problems: the relaunch of the bloc's draft constitutional treaty."
- The article even suggests that the additional wording on climate change was inserted for this exact reason: "Berlin, which holds the EU presidency, is working on ways to include the need for united action against global warming in proposals on the treaty, the Financial Times has learned. The aim would be to give the treaty a populist push by tapping into an issue that has captured the imagination of people across Europe". German Foreign Minister Frank-Walter Steinmeier argued that "if we want to open this discussion [on revising the draft treaty] then climate protection is, in my view, the obvious candidate for an additional element". A German official told the paper that the EU's targets for greenhouse gas reductions "needed to be reflected" in Germany's constitution plans.<sup>6</sup>

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<sup>4</sup> Miliband D. "Towards an environmental union", October/November 2006 - *Centre for European Reform Bulletin* (Issue 50)

<sup>5</sup> Telegraph (29/01/2007)

<sup>6</sup> <http://www.ft.com/cms/s/0/3bf79280-d688-11db-99b7-000b5df10621.html>

## The Lisbon Treaty and the environment - what they've said

When discussing the Lisbon Treaty, the Government continually chooses to make the false intimation that the Treaty has relevance to fighting climate change.

**Europe Minister, Jim Murphy:**

"...reforms contained in the Treaty will enable an EU of 27 or more nation states to respond effectively to the challenges of globalisation and to deliver on key issues like jobs, security and the environment." (Blog 17/12/07)

**Foreign Minister, David Miliband:**

"[The Lisbon Treaty] brings national Parliaments into day-to-day decision making to strengthen subsidiarity and focuses the EU on the big external challenges from climate change to migration." (Hansard, 21 Jan 2008)

"it does indeed lay the basis for us to ensure that the EU gets on with its proper business, which is about climate change, jobs, crime and immigration." (Hansard, 9 Oct 2007)

"The EU needs to complete institutional reform in order to focus on such issues as climate change, which matter immensely to people right across the European Union." (Hansard, 3 July 2007)

**Foreign Office Minister, Kim Howells:**

"it will focus the EU on the big external challenges, such as climate change and migration." (Hansard, 28 Jan 2008)

## Real environmentalists should be sceptical over the EU's record on the environment

- 1) **The ETS: an environmental and economic failure.** The first phase of the EU's Emissions Trading Scheme (ETS), which runs from 2005 to 2007 was a failure. Huge over-allocation of permits to pollute led to a collapse in the price of carbon from €33 to just €0.20 per tonne, meaning that the system did not reduce emissions at all. The cross-party Commons Environmental Audit Committee noted: "there is little or no evidence that Phase I is leading to any cutbacks in actual emissions at all, whether in the UK or elsewhere in the EU." In its first year of operation (2005 to 2006) emissions covered by the ETS *rose* 3.6% in the UK, and rose by 0.8% across the EU as a whole.

Defenders of the system stressed that these were just 'teething problems'. It was hoped that pressure from the Commission would succeed in making member states set caps for the second phase (2008-2012) which would be tight

enough to build a workable market in carbon. The goal is to impose a stable “cost” on carbon emissions sufficient to incentivise investment in cleaner technologies, and eventually moves towards a low carbon economy. At first glance the second phase of the ETS will indeed create some ‘scarcity’ in allowances to pollute. In other words, there should be fewer permits to pollute than there is pollution in the EU. However, in an important respect the system has actually gone backwards. Unlike in the first phase, in the second phase member states will be able to “import” Kyoto “credits” in order to meet their targets for reductions.

In order to get a speedy agreement on a piece of legislation which allows the import of these Kyoto credits (the Linking Directive<sup>7</sup>) before the 2004 European elections, it was agreed that member states would be able to decide for themselves how many permits they would import. Professor Catrinus Jepma argues that “The Linking Directive was clearly a political compromise to enhance acceptance of the EU ETS.”<sup>8</sup>

Collectively, member states have set themselves import allowances which are more than enough to cover all the likely scarcity in the system. The World Bank estimates that the overall scarcity of permits in the second phase will be around 1.2 billion tonnes of CO<sub>2</sub>. But EU member states have allowed themselves to import about 1.3bn tonnes worth of credits to meet this target. **The Commons Environmental Audit Committee has noted that “it is theoretically possible the EU ETS might not be responsible for any emissions reductions within the UK at all.”** The Government’s response to the Committee report states that “The Committee’s theoretical observation is correct”.<sup>9</sup>

In principle, it would be unobjectionable for reductions to take place elsewhere in the world if this meant they could be achieved at lower cost. However, these credits have already been exposed as highly flawed, and often fraudulent. They don’t always reflect absolute reductions in emissions, whilst many of these credits are generated from projects in developing countries that would have happened anyway. Such credits actually mean increased pollution.

Furthermore, many credits will be generated through a system which allows polluters to bag massive profits for very little effort. Unsurprisingly, the main beneficiaries will be large, highly capitalized firms with the capacity to attract the attention of speculative investment in potentially lucrative ‘green’ projects - mostly through an accounting loophole allowing huge numbers of credits to be generated through capture of small amounts of ‘exotic’ greenhouse gases. Meanwhile, community level development will be sidelined, and sub-Saharan Africa will see just 4% of total investment from Kyoto credits.

The structure of the ETS will allow polluters within Europe to dodge any obligation to make domestic emissions reductions, permitting them instead to

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<sup>7</sup> 2004/101/EC

<sup>8</sup> *Joint Implementation Quarterly* (April 2007)

<sup>9</sup> Government Response to the Environment Audit Committee, Second Report of Session 2006-07, The EU Emissions Trading Scheme: Lessons for the Future

buy in cheap reductions from overseas, most of which will be of dubious environmental value.

To make matters worse, member states are using free permit allocations to deliver subsidies to Europe's most polluting industries - particularly coal. As Economist Karsten Neuhoff notes: "Any free allocation represents a subsidy - and where only fossil-fuel generation is subsidized, this distorts investment choices in favour of fossil-fuel generation. Where coal receives a higher allocation than gas, the investment choice is, in addition, distorted towards coal. The level of such subsidies under proposed second-phase NAP is so high that the construction of coal power stations is more profitable under the ETS with such distorting allocation decisions than in the absence of the ETS."<sup>10</sup>

- 2) **Biofuels will be an environmental disaster - and a massive waste of money.** The EU has set a target for 10% of transport fuel use to be sourced from biofuels by 2020. Biofuels - especially those grown in Europe - are the most cost-ineffective way of reducing carbon emissions amongst the policy options modelled in a recent study by Europe Economics. They are also far more costly than the official social cost of carbon - e.g. sugar beet based biofuels cost over £300 for every tonne of carbon avoided, compared to a government guideline of £33 for the social cost of carbon.<sup>11</sup> Even the Commission's 2006 strategy paper acknowledged that "Most available studies indicate that the abatement costs of EU-produced biofuels are quite high compared with the current 'carbon price'. This means that EU-manufactured biofuels are currently not the most cost-effective way to reduce greenhouse gas emissions." (Biofuels Impact Assessment, 2006)

Using estimates from the GSI and Europe Economics, Open Europe estimates that the 10% EU target would lead to total annual transfers to the wider biofuels industry of 11-23bn euros by 2020 - an enormous level of subsidy.

Biofuels are only likely to achieve between 0.9% and 1.1 % reductions in total EU emissions. This is a serious misallocation of resources. If the huge expense of achieving the miniscule reduction in greenhouse gases through biofuels were to be redirected towards reforestation projects, almost 28% of the EU's total emissions would be saved. Even if it were to be redirected towards (relatively cost-inefficient) renewables (at current costs), these funds would deliver a 2 - 5% reduction.

Biofuel targets will spur rainforest destruction. More cost-efficiency could be gained by sourcing biofuels from the tropics. However, this brings its own problems - most seriously rainforest destruction and land-use change. This is already happening as a result of current biofuels production (and indeed in anticipation of rising demand from the EU), and will inevitably get far worse as a result of EU targets. Deforestation already accounts for 25% of greenhouse

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<sup>10</sup> Neuhoff, K. et al., "Implications of announced phase II national allocation plans for the EU ETS", *Climate Policy* 6 (2006)

<sup>11</sup> Europe Economics, *A Comparison of the Costs of Alternative Policies for Reducing UK Carbon Emissions* (January 2008)

gas emissions, more than transport, which contributes around 15%. By trying to prescribe a small and costly reduction in carbon emissions from transport use, the EU will aggravate an even more serious issue, with potentially catastrophic consequences in terms of climate change and broader ecological damage.

The sheer scale of the EU's targets for biofuel use will drive deforestation – resulting in a net negative result in terms of carbon release. Renton Righelato and Dominic Spracklen have calculated that the 10% target would mean turning over 38% of current agricultural land in Europe, and that “As even this low substitution level cannot be met from existing arable land, forests and grasslands would need to be cleared to enable production of the energy crops. Clearance results in the rapid oxidation of carbon stores in the vegetation and soil, creating a large up-front emissions cost that would, in all cases examined here, outweigh the avoided emissions.” They believe that instead of forcing the pace of biofuels production, the EU would be better off preserving existing forests or planting new ones. Their research finds that “forestation of an equivalent area of land would sequester two to nine times more carbon over a 30-year period than the emissions avoided by the use of the biofuel.”<sup>12</sup>

Increased biofuel production causes environmental degradation beyond climate change. Water shortages and pollution are set to be a major problem associated with large-scale biofuel cultivation, both in environmental and social terms. As cultivation is expanded to meet demand for biofuels, increased strain will be placed on already scarce water resources. According to David Pimemel and Tad Patzek, each gallon of ethanol requires 1700 gallons of water (mostly to grow the corn) and produces 6 to 12 gallons of noxious organic effluent (which pollutes clean water sources).<sup>13</sup> Loss of biodiversity is another major concern.

Recently, the Commission has been more open in admitting the potentially colossal risks of large-scale biofuel use. Environment Commissioner Stavros Dimas has said “There was a lot of enthusiasm here a year and a half ago - now this enthusiasm is going down because we have seen the environmental problems caused by biofuels, and also the social problems”.<sup>14</sup> However, EU policy now seems to be swinging behind the idea of introducing a system of certification of sustainability.

- 3) **EU renewable targets are a leap in the dark - and risk diverting investment away from more cost-effective options.** The EU has a set a target of sourcing 20% of total energy consumption from renewable power. In a recent study commissioned by Open Europe, Europe Economics have estimated the costs of renewable energy generation in 2020. They argue that “renewables generation technologies are typically a very costly way to reduce carbon emissions. In many cases, this is true even once the potential for costs to fall through time

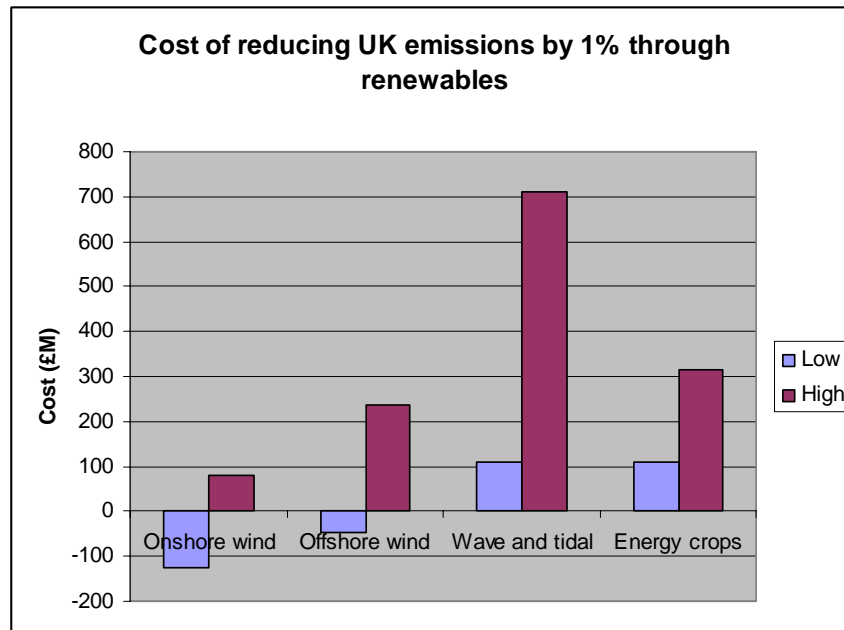
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<sup>12</sup> Righelato, R. & Spracklen, D. “Carbon Mitigation by Biofuels or by Saving and Restoring Forests?” *Science* (17.08.07)

<sup>13</sup> Pimentel, D & PATZEK, T. “Green Plants, Fossil Fuels, and Now Biofuels”, in *BioScience* 875 (November 2006 / Vol. 56 No. 11)

<sup>14</sup> Interview, BBC Today programme (14.01.08)

has been taken into account". Their estimates for costs of different types of renewables are set out in the graph below:

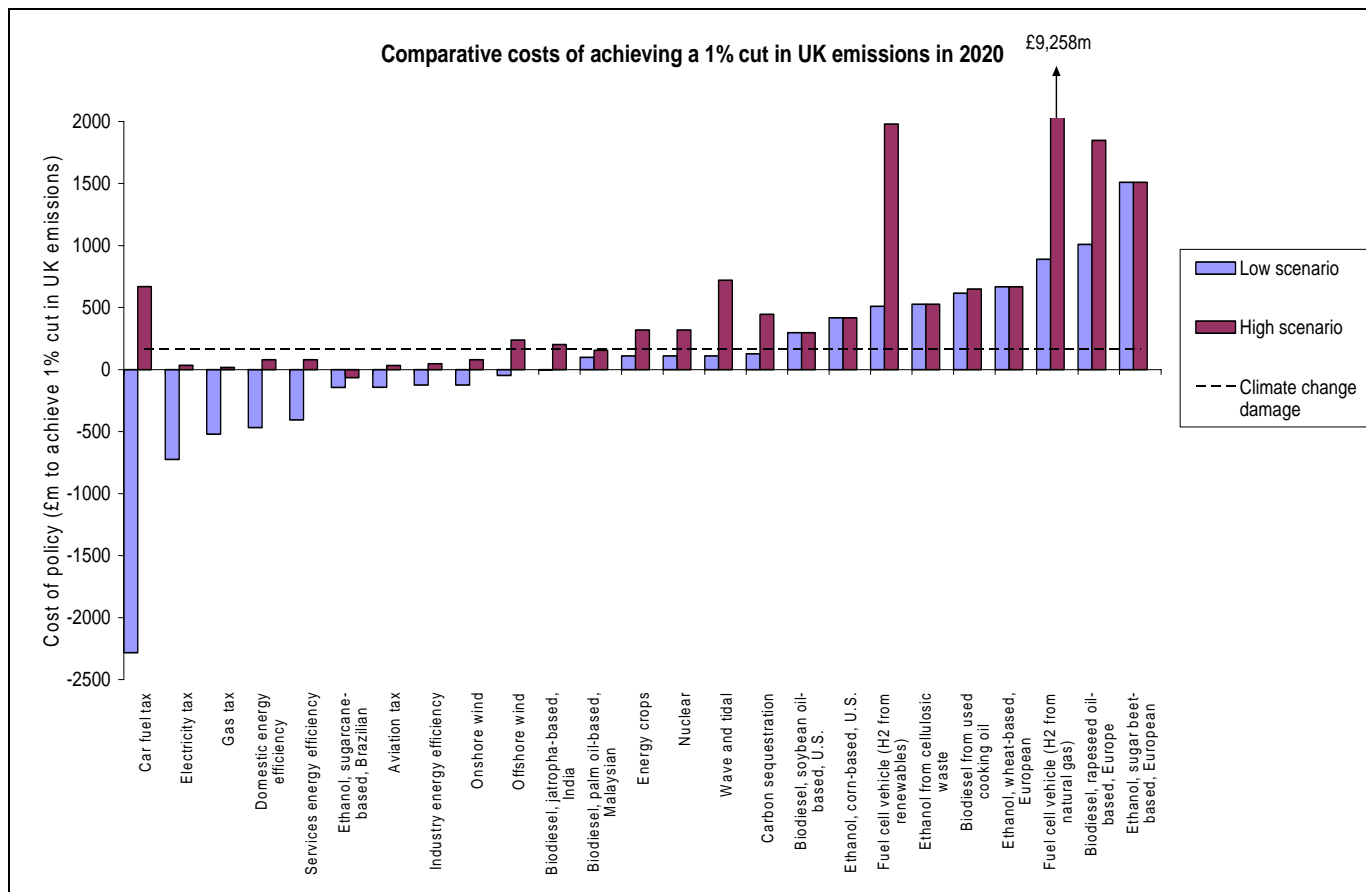


Current available figures show large disparities between the future costs of renewables, reflecting significant uncertainties on the issue. Wind power may become economically viable, but the actual costs still remain highly uncertain. The large degree of uncertainty is the salient feature of Europe Economics' conclusions, and should alone be reason for scepticism over the wisdom of binding targets. They indicate that even after more than a decade of technological improvements and cost reductions, new renewable technologies such as wave energy, tidal generation and energy crops are likely to remain expensive solutions for reducing carbon emissions.

In any case, even if we assume that on-shore wind power does become cost-effective, given the sheer size of the EU target, there is no way that wind power alone can provide the capacity needed to cover such a commitment. The marginal costs per tonne of achieving carbon reductions through renewables will also increase as the opportunities to realise cheaper options within these boundaries become progressively diminished - i.e. as the best sites are used up.

The sheer magnitude of the EU targets would inevitably mean that investment would have to be forced towards far more expensive renewables options - irrespective of whether this extra expenditure could be better spent on achieving greater emissions reductions through other means. Europe Economics' research shows that carbon taxes and measures to promote energy efficiency are likely to be far more cost effective means of cutting emissions than large-scale renewable energy and biofuel use.

Europe Economic's conclusions on costs of different carbon abatement policies are set out in the graph below:



Renewable energy targets contradict and cancel out other key EU environment policies. The EU often claims its primary tool in combating climate change is the EU Emissions Trading Scheme (ETS), which relies on restricting quantities of carbon that can be emitted. However, EU ETS and renewables targets are mutually contradictory, and risk creating a 'waterbed' effect - reducing emissions in some areas, but leading to increases in other areas. UK officials have already expressed their concerns on this issue: "If the EU has a 20% GHG [greenhouse gas] target for 2020, the GHG emissions savings achieved through the renewables risk making the EU ETS redundant, and prices to collapse."

Another source of tension with the ETS will arise as a result of free allocations of carbon permits to participants in the scheme, which effectively constitutes a form of covert industrial subsidy, meaning that high carbon alternatives to renewables (especially brown coal in Germany) are being promoted under current EU policies.<sup>15</sup> If the EU is serious about encouraging more renewables investment, the most obvious place to start

<sup>15</sup> Carbon Trust, *EU ETS Phase II allocation: implications and lessons* (May 2007)

would be removing favourable treatment to fossil fuel power sources. But the EU will not even consider this until after 2013.

## **Conclusion - if the EU is serious about fighting climate change, it simply needs policies that work - not a new Treaty**

- The EU already has plenty of power to fight climate change, but needs to simply adopt the right policies. It doesn't need a whole new treaty to help the environment, and indeed the Lisbon Treaty has nothing to contribute to this objective.
- We believe that there is a rationale for internationally binding targets for absolute carbon emissions, but that the EU's dominant focus on technology-specific targets is misguided and often counterproductive. What fundamentally matters is getting as much carbon out of the atmosphere at the least cost. By this logic, EU member states should be able to pursue the goal of absolute emissions reductions independently or through mutual cooperation in the way that suits them best. If they fall short of their emissions targets, they should expect to face infringement procedures, as is the case in other areas of EU policy. But there should be no place for the prescriptive rules and policy-specific targets as to how to achieve that emissions reduction, which have characterised EU policy to date. These will inevitably reduce flexibility and distort investment choices, in this case in favour of technologies that are not cost effective.
- The EU needs to adopt a simple, pragmatic, yet ambitious programme on climate change. It is an appropriate role for the Union, and one that is entirely possible to pursue within current treaties. The Lisbon Treaty will do nothing to make the EU a more effective actor against climate change. The EU already has plenty of power to achieve this, but needs to review existing policy failures and make fundamental changes to the way it approaches the issue of global warming.