

## Europe's arsenal to fight climate change

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The European Commission has just presented its legislative proposal to fight climate change. After announcing the headlines at the 2007 Spring European Council, Europe had to prove that the commitments made, ie reducing greenhouse gas emissions by 20%, increasing the role of renewable energy up to 20 % of total energy consumption and increasing the use of biofuels up to 10%, were achievable.

And partly, Europe has done it. But only partly, because if there is one thing that the new climate package shows it is the difficulty of articulating a regulatory framework to meet the above targets.

Regarding emissions reduction, the experience acquired in managing the emissions trading scheme has allowed Europe to adopt the necessary steps to correct its shortcomings. The role of national governments, which in the early stages led to the collapse of the emission permits price because of their generosity in the granting of allowances, has been reduced. The sectoral coverage of the measures aiming to reduce emissions has been increased. Finally, the share of permits to be auctioned has also been increased in order to avoid companies profiting from their sale.

However, the potential loss of competitiveness of European industry derived from the additional costs implied by the price of carbon has not been addressed. Europe keeps the possibility to adopt compensating measures to ensure that its industry is not adversely affected by a carbon price with respect to companies located in other countries, such as the United States or China, where emissions control policies do not exist. The questions of how and when such measures will be adopted remain, however, undecided.

The renewables target appears more complex. The Commission has sought to keep national renewables support policies by setting national targets. The determination of national targets remains however discretionary. The targets proposed take into account the current situation, the effort made thus far and national wealth. However, by combining those three factors one can obtain any set of numbers.

To better meet this target at the lowest cost, the proposal foresees that Member States do not necessarily have to invest in renewable energies in their own territory but they can also fund projects in other countries and make them count to the their own target. The idea is good in theory and, if successful, it could be transferred to other policy areas enabling countries to trade

with their Lisbon agenda goals for example. It is always better that others meet your targets rather than leaving them unfulfilled. The problem is whether or not it will work in practice.

Finally, the new package proposes measures to meet the biofuels target. Biofuels have gone from being the clean recipe against oil scarcity to become an expensive alternative that might increase the risk of deforestation and might have inflationary effects on food prices. In addition, their contribution to reducing greenhouse gas emissions is in doubt because producing biofuels might imply more carbon dioxide emissions than producing conventional fuels. Ensuring a positive impact on emissions requires a complex regulatory control on the entire production process. The measures proposed by the European Commission in this regard are complex and difficult to implement.

The regulatory complexity and the high costs of meeting the renewable and biofuels targets make us wonder whether they are really necessary to combat climate change. The answer is yes, but not necessarily the targeted 20% or 10% in 2020. If the main goal of climate change policies is to reduce greenhouse gas emissions, the emission trading scheme is the most effective mechanism since it does not prescribe the way to reduce emissions but allows emitters to find the least costly way. Setting targets for the use of renewable or biofuels could displace other more effective and cheaper alternatives to combat climate change.

An effective policy to fight climate change should focus on curtailing emissions and should provide agents with the freedom to choose by what means to do so. Any complementary target should contribute in this direction and not add additional burdens. The proliferation objectives may result in the failure of all of them. We can not waste energy in designing impossible policies to meet unnecessary targets.

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