



**COUNCIL OF  
THE EUROPEAN UNION**



## **Council conclusions on efficiency of economic instruments to reach energy and climate change targets**

***2847th ECONOMIC and FINANCIAL AFFAIRS Council meeting  
Brussels, 12 February 2008***

The Council adopted the following conclusions:

"Tackling climate change is an economic as well as environmental issue. The macroeconomic impacts of unmitigated climate change are potentially significant and there are also substantial economic and fiscal implications from the implementation of policies to mitigate and adapt to climate change. However, the costs of action at the global level – at up to 3 per cent of global GDP by 2030<sup>1</sup> – are estimated to be far lower than the costs of inaction, as long as both global solutions and cost-effective measures are implemented. A key challenge will be to ensure that the transition to a low-carbon economy is handled in a way that is consistent with EU competitiveness, sound and sustainable public finances and that contributes positively to broader growth objectives consistent with the Lisbon Strategy for Growth and Jobs.

The Council welcomes the Economic Policy Committee's report which reviews Member States' experience of policy instruments to address energy and climate policy objectives. The choice and design of mitigation and adaptation policies will substantially affect the overall costs of action. As contribution to the upcoming European Council discussions on energy and climate change policy, which will discuss the Commission's recently published Climate Action and Renewable Energy package, the Council:

- NOTES that there are a wide range of costs per tonne of CO<sub>2</sub> abated associated with different measures across EU countries. Typically, measures to improve energy efficiency come at least cost, while increasing the share of renewables is more expensive in the short term, even if the cost of renewables energies can be reduced in the longer term as new technology develops. Although a variety of instruments will be needed to achieve energy and climate change targets for 2020, their relative costs should be taken into account.

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<sup>1</sup> Source: IPCC

- UNDERLINES the importance of market based policy instruments such as the Emission Trading Scheme (ETS) and environment taxes to deliver least cost policy options for meeting energy and climate change targets. Given that policy instruments are often applied in combination, the Council EMPHASISES the need for careful consideration of the interaction between different instruments to avoid reduced efficiency and excessive costs and to deliver a consistent price on greenhouse gases – both at national and European level.
- RECOGNISES the need to fully consider the impacts of climate change measures on income distribution, fiscal policy, and public finances, including possible impacts of an increase in the use of auctioning of greenhouse gas emission allowances (EUA) on revenue streams. The Council therefore EMPHASIZES that any policies that have significant budgetary implications should be considered by Finance Ministers. For reasons of subsidiarity and sustainable public finances, revenues from auctioning should be used in line with sound budgetary principles and, specifically, not be subject to mandatory earmarking or hypothecation at EU level. The use of such revenues by Member States should not be inconsistent with EU efforts to tackle climate change.
- CONSIDERS that the full cost of the Commission's energy and climate change proposals must be evaluated and taken into account, AGREES ON the need for appropriate ex-ante cost-benefit analysis and post-implementation evaluation of policy instruments and sub-targets and CALLS FOR reporting on the budgetary, microeconomic and macroeconomic costs of compliance. The reporting requirements should be in line with the efforts to reduce administrative burden. This information should be collated and presented to ECOFIN on a regular basis.
- UNDERLINES the importance of flexibility mechanisms in order to meet the targets in a cost-effective manner. For example, this could include flexibilities in the design and implementation of renewable targets, the use of Kyoto project based credits and the possibility of virtual or physical renewable trading within and outside the Union, while taking into account interactions with existing effective national support schemes. The Council NOTES that adding sub-targets could create additional costs and should not unnecessarily restrict the flexibility of implementation.
- REITERATES that the EU Emissions Trading Scheme (EU-ETS) is the centrepiece of the EU's long-term efforts to reduce greenhouse gas emissions and meet its international climate change commitments and CALLS FOR further work on market related issues linked to the ongoing development of the EU-ETS such as the conditions under which different emission trading schemes may be effectively and efficiently linked, expansion to include other sectors, market monitoring, regulatory supervision and the provision of information.
- CONSIDERS that within the EU-ETS, auctioning appears to be, in principle, the most efficient allocation method. The Council RECOGNISES the need to take into account competitiveness considerations and to manage the risk of carbon leakage to countries with lower environmental standards outside the EU. Any necessary measures will be considered to this end. Existing evidence suggests that risks will be concentrated in energy sectors and energy-intensive sectors of the EU economy, which vary across Member States.
- STRESSES the importance of clear and credible long-term signals for investors and the need for overall policy frameworks to be designed to support and generate private-sector investment in energy infrastructure and safe and new clean technologies. The Council EMPHASISES the

importance of ensuring that policy proposals for 2020 and beyond provide the private sector with a clear view of the level of carbon constraint, including the conditions under which those constraints may be liable to change in the future.

- **RECALLS** that well functioning energy markets may help to improve price signals and reduce the costs of policies used to reach energy and climate changes objectives, as well as security of energy supply, based on diversified energy supply networks, including the external dimension. In this context, more efforts are needed to achieve a truly competitive, interconnected and single Europe-wide internal market for electricity and gas.
- **HIGHLIGHTS** the importance of co-ordinated international action for achieving economically-efficient and environmentally-effective action and **REAFFIRMS** the importance of a new comprehensive international agreement on climate change under the United Nations Framework Convention on Climate Change no later than 2009. The Council **UNDERLINES** the importance of achieving cost-effective abatement through building a global carbon market and continuing to use existing flexible international mechanisms. In this context, there is a need to find solutions, create new instruments and funnel private sector investment to incentivise cost-effective abatement in developing countries (e. g. through the abolition of energy subsidies) and enhanced national measures, with the aim of reaching a global climate agreement.

The Council **INVITES** the EPC to continue its work on the economic dimension of energy and climate change and the EFC to consider the international financing aspects of global action, with a view to receiving an update on both streams of work by Autumn 2008."

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