The European Union and the Politics of Multi-Level Climate Governance

CHAPTER 4: THE EU CONTEXT

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INTRODUCTION

While the European Union (EU) is a prominent player in the politics of climate change, it is neither a state nor an international organization in the traditional sense. Rather, it operates as a proactive and authoritative regional collective of affluent democracies that can influence policy-making in significant ways at the regional and international levels. This unique position also means that EU policy-making is subject to multiple pressures from both these levels. Despite – and possibly because of – this, the EU proudly promotes its collective efforts as an exemplar of how to tackle climate change through a combination of international and regional commitments.

This chapter begins by discussing the domestic and international foundations of EU climate policy. It then explores political analysis conducted in this area, including explanations for developments in climate policy at the EU level. Next, it identifies a number of international obstacles to EU climate policy and domestic and regional obstacles to its Emissions Trading Scheme. Particular focus is given to emissions trading, rather than the EU's initiatives on renewable energies, biofuels, and vehicle emissions, because emissions trading is widely regarded as the mainstay of the EU's climate strategy, now and into the future. It also exemplifies many generic political tensions that exist within EU climate policy. The chapter concludes by identifying political strategies available to the EU for overcoming these obstacles and by arguing that, despite the multiple domestic and international pressures facing the EU, it seems certain to play a sustained and active role in this policy area.

EU CLIMATE POLICY: DOMESTIC AND INTERNATIONAL FOUNDATIONS

The EU's extensive authority in environmental policy is especially noteworthy given that environmental policy was not included in the primary legislation (treaties) of the EU until the 1986 Single European Act. As the twenty-seven member states have pooled sovereignty in environmental policy, the Union has developed the legal and political capacity to play a significant role in international environmental policy-making and to promulgate domestic climate change legislation. For simplicity, this study refers to the 'EU' throughout, despite legal distinctions that exist between the EU and European Community (EC) in this policy area. The term 'EC' will be used only when necessary for legal clarity and when cited in secondary sources.

At the international level, the EU has been an active participant in United Nations Framework Convention on Climate Change (UNFCCC) negotiations since their beginning. The EU and its member states actively promoted the Kyoto Protocol and 2002 Marrakech Agreement and were rewarded for their efforts in 2005 when enough countries ratified the Protocol for it to enter into force. A contentious international priority for the EU during these negotiations has been the establishment of binding emissions reduction targets within set timeframes for Annex I countries. Despite shifting positions and fluctuating impact during the nearly decade-long UNFCCC negotiations – notably at the Sixth Conference of Parties in Den Hague (Grubb and Yamin 2001) – the Union is now often described as a 'leader' or 'frontrunner' in international climate policy-making (Andresen and Agrawala 2002; Christiansen and Wettestad 2003; Gupta and Grubb 2000; Gupta and Ringius 2001; Zito 2005; Skodvin and Andresen 2006).

As the EU has established itself in this area, its internal policy actors have had to navigate a unique landscape of regional institutions. Space constraints prevent a detailed review of the EU's various internal decision-making bodies – including the European Commission, European Council, Council of Ministers, European Parliament, European Court of Justice (Jordan 2005; Jordan and Schout 2006; Lenschow 2005; McCormick 2001) – or procedures. However, it is worth noting that the Commission holds primary responsibility for proposing new policies (under broad strategic guidance given by the European Council of Heads of State and more specific requests from relevant Councils of Ministers) and for ensuring the member states implement EU laws properly. Decisions on whether to accept or veto Commission proposals are made by the Council of Ministers in co-decision with the European Parliament for most areas of environmental policy. Measures affecting taxation powers, choices on the structure of energy supply, and most areas of land-use planning all require unanimous Council approval, whereas qualified majority voting is generally applied to other policy areas.

The Commission has undertaken a number of EU climate-related initiatives since 1991, when it issued the EU's first strategy to limit CO_2 emissions and improve energy efficiency. This strategy included measures to promote renewable energy, voluntary commitments by automobile manufacturers to reduce CO_2 emissions (upgraded to mandatory targets in 2008) and proposals for common taxes on energy products. The Council of Environment Ministers then asked the Commission to develop priority actions and policy measures, which resulted in the launch of the European Climate Change Programme (ECCP) in June 2000.The ECCP has acted as the Commission's main instrument to identify and develop an EU strategy to implement the Kyoto Protocol. The negotiations over the first ECCP involved various stakeholder groups,

including representatives from the Commission's Directorates-General, member states, and industry and environmental groups. The political influence exercised by these different actors often varies across the different issues and instruments under discussion. Likewise, political influence and the likelihood of policy change often varies with the specific constellation of member states actively involved, in particular the positions taken by environmental leaders and laggards within the Union (Lenschow 2005; Börzel 2000). A case in point is the failed proposal for a common EU carbon/energy tax, which was opposed by various member states on economic or national sovereignty grounds but, as a measure that conferred taxation powers on the EU, required unanimous Council support to come into force. The compromise solution was relatively lax common minimum duties on a range of energy products.

As is shown in Table 4.1, the ECCP has generated a considerable volume of EU-level legislation, primarily directives that the member states are legally bound to transpose into national laws. According to the Commission's accounting, the EU has introduced over 30 climate change initiatives since 2000.

Table 4.1 near HERE

The EU launched its second ECCP in October 2005. This is designed to run in close cooperation with a wide range of stakeholders and is organized around several working groups tasked with reviewing ECCP I (with five subgroups: transport, energy supply, energy demand, non-CO_2 gases, agriculture) and the EU's Emissions Trading Scheme as well as exploring climate measures in aviation, automobiles, carbon capture and storage, and adaptation to climate change.

The Commission also organizes its work around the EU Environmental Action Programmes (EAP), which set out the framework and strategic priorities for EU environmental policy. These are non-binding frameworks that establish agendas, but the individual regulatory interventions that follow are still subject to political negotiations on a case-by-case basis. The most recent Sixth EAP runs from 2002-2012, and includes four priority areas: climate change; nature and biodiversity; environment and health; and natural resources and waste. The earlier Fifth EAP (1993) also included climate change among its themes.

The EU's ambitious position on greenhouse-gas emissions reductions was clearly elaborated by the European Council meeting of Heads of State and Government held in March 2007, where it was agreed that the EU would cut its emissions to at least 20 per cent below 1990 levels by 2020. In addition, the EU committed to cutting 'its emissions to 30% below 1990 levels by 2020 provided that, as part of a 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' (European Commission 2007: 9). The EU intends to achieve these reductions through the measures agreed in the ECCPs and 'new measures included in an integrated climate and energy strategy' (European Commission 2007: 9). The Commission released the first wave of proposals in January 2008, which included a major expansion in the stringency and scope of the EU Emissions Trading Scheme (EU ETS).

Additional climate change measures include increasing research and technological development. The EU's Seventh Framework Programme for Research and Development (2007-13) has an increased budget of 8.4 billion Euro allocated for environment, energy

and transport. This programme is designed to assist the 'soonest possible deployment of clean technologies as well as further strengthening knowledge of climate change and its impacts' (European Commission 2007: 12). The EU is committed to increasing this research budget further after 2013.

The EU's flagship policy to combat climate change is undoubtedly the EU ETS (Watanabe and Robinson 2005). The establishment of the internal EU ETS demonstrates how the Union can operate as an authoritative regional point of interaction between the national and international levels. At the national level, the EU ETS now covers roughly half of the EU's CO_2 emissions. At the international level, it represents a case where the EU changed its position and now seems to be demonstrating international leadership by example. In operational terms, the promise of the EU ETS seems positive, but questions remain about the modalities of emissions trading, the competing interests engaged in emissions trading and the actual abatement that will result from emissions trading processes. The EU ETS is also likely to serve as a future linking system to other national, regional and international emissions trading schemes (Oberthür 2006; Legge 2007). For example, the EU ETS recognizes Clean Development Mechanism and Joint Implementation credits, up to certain agreed limits set at national level, as equivalent emissions allowances that can be used within the scheme.

Despite its unique and complex political arrangements, the EU has engaged actively in the initiation, institutionalization and implementation of a variety of climate-related policies. Because of its unique nature, the EU has had to develop a system of governance capable of channelling various domestic and international pressures to its advantage. The result has been a comprehensive ECCP, which includes emissions trading, and international recognition as an environmental leader. The next section

explores how this high state of activity and influence has been evaluated and explained by relevant observers.

POLITICAL ANALYSIS OF EU CLIMATE POLICY

EU climate policy has generated a vast amount of practical and academic debate and research in recent years. The practical debate and analysis has engaged many civil society interest groups (citizens, media, public authorities, the private sector and non-governmental organizations) (Mazey and Richardson 1992; Michaelowa 1998) and policy institutions such as the Institute for European Environmental Policy, Ecologic, Centre for European Policy Studies and European Environmental Bureau. Actively interacting with civil society, the EU holds a variety of stakeholder consultation workshops on issues such as the Green Paper on Adapting to Climate Change in Europe. Its ECCPs have also benefited from the input of such stakeholder groups. In 1990, the EU made an internal institutional stride into this pubic debate when the Council approved the creation of the European Environment Agency (EEA). The key role of the EEA is information provider and analyst. While it is not directly involved in policy-making, it boasts a membership of over thirty countries, including non-EU states like Turkey and Switzerland.

In addition to civil society actors and the EEA, numerous academics have weighed in with analyses of competing policy options as well as the technical and economic implications of EU climate policy. For example, scholars have analyzed the modalities and politics of burden-sharing (Oberthür 2006), national allocation plans (Betz *et al.*, 2006), issues surrounding the auctioning of emissions permits (Mandell 2005; Hepburn

et al. 2006), challenges to the EU ETS (Grubb and Neuhoff 2006) and various options for the EU's long term strategies and goals in climate policy (Winne *et al.* 2005).

The academic literature on the politics of climate change also covers a number of international and regional issues related to EU climate policy and the linkages across different levels of analysis. The decision to establish the EU ETS provides a useful example of such cross-level linkages. The creation of the world's largest and most comprehensive emissions trading scheme in 2003 was a major innovation, with significant costs in terms of time and other resources. Add to this the international uncertainty surrounding the Kyoto Protocol when the EU began formulating the EU ETS, and the Union's decision to move forward with the initiative seems to have been particularly puzzling and risky. Many factors from the national, EU and international levels have had an impact on this decision, which several studies have tried to disentangle.

First, studies have explored the EU's motivations for adopting the idea of emissions trading after initially resisting it in international negotiations. Damro and Luaces-Mendéz (2003) argue that the EU did so as part of a process of policy learning from US experiences with similar domestic schemes. Woerdman (2004) moves beyond policy learning to argue from a path-dependence approach that the shift occurred as the result of internal and external pressures to maintain climate leadership. Cass (2005) argues that the EU's advocacy of emissions trading is best understood as the result of shifting 'frames' of debate that allowed the Union to overcome domestic obstacles that had previously prevented support for other market-based mechanisms.

Other studies have focused on the specific reasons why the EU issued its 2003 directive establishing the EU ETS. Wettestad (2005) tends to emphasize the central role

played by the Commission in utilizing climate science and emissions trends to overcome veto points, while Oberthür (2006) and Oberthür and Tänzler (2007) emphasize the causal role of international regimes. The sum total of these scholarly efforts suggests that explanations of the EU ETS need to consider a significant causal role for domestic *and* international factors.

It is worth identifying briefly some important institutional and other pressures from different levels that help to explain the EU ETS. At its most basic level, the EU ETS arose from the UNFCCC and the resulting Kyoto commitments. Early in the negotiations, the EU resisted emissions trading in favour of more command-and-control regulatory and taxation schemes. By contrast, the US was the primary driver of this instrument based on its experience with domestic sulphur dioxide trading (Christiansen and Wettestad 2003; Damro and Luaces-Mendéz 2003). As the EU gradually changed its position, the US reduced its commitment to the Kyoto Process as President Clinton decided not to send the Protocol to a Senate that publicly opposed ratification and President Bush repudiated the protocol in March 2001 (Lisowski 2002; Steurer 2003).

The differing EU and US positions were a point of contention from the outset of the negotiations. As Sbragia (1998: 299) points out, as early as '1992 EU Finance Ministers insisted that any EU carbon tax be implemented only on condition that the USA and Japan acted in kind. Japan agreed on condition that the USA enact some kind of carbon tax. The Clinton administration refused'. The EU's gradual acceptance of emissions trading allowed for compromise and created an opportunity for progress in the negotiations. Some of the change in the EU position can certainly be attributed to an international process of policy learning. For example, Commission officials observed US trading schemes in action and stated publicly that 'The ETS's "cap and trade"

system was inspired by a United States model introduced in the 1990s to curb acid rain' (European Commission 2006: 2). Domestic politics and institutional obstacles also played a role. In the early 1990s, the Commission realized that it would face a difficult, if not impossible, battle with the member states over a carbon/energy tax because fiscal instruments require unanimous support in the Council of Ministers. Since the Commission was unlikely to convince all member states to agree to the tax, it began promoting carbon trading. The combination, therefore, of international policy learning and domestic political-institutional constraints highlight the pressures coming from different levels. This change of policy approach has placed the EU in an international 'leadership' role by becoming the most important advocate of emissions trading within the Kyoto framework (Wettestad 2005).

As its international role and commitment evolved, the EU began to push for a domestic Europe-wide ETS – an initiative that, crucially, was supported by important economic actors as a new market to complement any future international emissions trading schemes. Despite the costs, the EU moved forward very rapidly in establishing the new instrument (Oberthür and Tänzler 2007). The speed with which this happened is striking for two reasons: (i) the EU lacked previous experience with this market-based mechanism; and (ii) its advocates had to, and did, overcome obstacles within the EU's complex policy-making process quickly and skilfully.

OBSTACLES TO EU CLIMATE POLICY

Despite the EU's apparent success in its multi-level engagements with climate policy, it faces a number of international and domestic political obstacles to more vigorous action on climate policy. Given the multitude of significant veto points during international

negotiations and the development of internal policies, this section focuses on key selected international and regional obstacles facing the EU and its flagship ETS, many of which are shared with other aspects of EU climate policy.

International Obstacles to EU Climate Policy

While climate change mitigation is clearly in the interest of all states, the means through which responsive polices will be negotiated and promulgated internationally remain subject to the specific domestic politics in individual states and the variety of public- and private-sector actors involved in these politics. At the international level, obstacles include the need to overcome the conflicting interests of the negotiating parties in the UNFCCC and obstacles to initiatives promoting global environmental governance (Vogler 2005).

First and foremost, the EU must consider the role played by the Asia-Pacific Partnership on Clean Development and Climate (APP). The APP was launched in January 2006 as a non-treaty agreement and currently includes Australia, Canada, China, India, Japan, Republic of Korea and USA (see Chapter 12). APP members account for about half of the world's population, economic output, greenhouse gas emissions and energy consumption. They also produce about 65 per cent of the world's coal, 48 per cent of the world's steel, 37 per cent of the world's aluminum, and 61 per cent of the world's cement (APP 2008). The APP's priorities focus on technology-based solutions and a determination that members should be allowed to set their own goals for reducing emissions individually, with no mandatory enforcement mechanisms. The EU accepts technological solutions as *additional* measures to combat climate change; however, the

EU's firm advocacy of binding enforcement mechanisms makes it uncertain how far it will be able to pursue compromise with the APP.

Second, a fully and consistently operable EU ETS will place the EU in a good position to sustain its international leadership role by exploiting first-mover advantages and potential linkages to other emerging emissions trading schemes (for example, in Australia). According to the Commission, 'The ETS is open to linking with compatible greenhouse gas emission trading schemes in other countries that have ratified the Kyoto Protocol. It is foreseen that each side would agree to recognize allowances issued by the other, thereby expanding the market for trading' (European Commission 2005). The Union has also recently confirmed EU ETS participation by three non-EU states, Norway, Iceland and Lichtenstein.

When the EU ETS began operating in a pilot Phase on 1 January 2005, the member states granted emissions permits (allowances) for three years until 2007 to large emitters such as factories and power stations, mainly for free. In April and May 2006, however, the carbon market crashed when the price of permits to emit a tonne of CO_2 plunged 72 per cent to 8.60 Euro in three weeks. This was precipitated by a series of data releases which showed the EU ETS had a vast surplus of allowances caused by member states issuing far greater numbers of permits than were required to cover actual emissions in order to protect their energy sectors and trade-exposed industries (Grubb and Neuhoff 2006). In essence, this failure revealed the ever-present tensions between national self-interest, national sovereignty and EU solidarity on climate change. Similar tensions emerged over allocations for the period 2008-12, although the Commission has taken a stronger stance with the member states, insisting that many governments reduce their national allocations, and is seeking an EU-wide emissions cap from 2013 onwards

(Bailey 2007). These experiences nevertheless reveal potential implementation problems that could undermine the EU ETS credibility and the EU's prospects for leadership at the international level.

Similarly, the strategy of linking the EU ETS to other national, regional and international emissions trading schemes (Oberthür 2006; Legge 2007) will have to overcome a number of obstacles related to the technological compatibility, economic/financial viability and political feasibility of linking schemes. None of these requirements is guaranteed given the multitude of often divergent interests among the UNFCCC parties and observers.

Regional Obstacles to the EU Emissions Trading Scheme

The EU also faces internal regional obstacles to the legalities and modalities of the EU ETS. In particular, avoiding another price crash will require continued and robust scrutiny of national allocations. The most important obstacle in this regard may be the way National Allocation Plans (NAPs) are formulated and approved. The NAPs remain a controversial issue among the Union's environmental leaders and laggards, with many member states disagreeing with Commission allocation decisions. In August 2007, Latvia joined Poland, Czech Republic, Slovakia, Hungary and Estonia in taking the Commission to the European Court of Justice over specific emissions calculations and whether the Commission has the right to influence member states' choice of energy supply by imposing national emissions caps. Such legal challenges reflect very real practical (the tendency for member states to seek over-allocations) and political tensions in the development of regional emissions trading schemes (Bailey 2007).

As well as these qualitative obstacles, quantitative obstacles exist in the enhanced goals set out in the European Council's Summit in March 2007. Achieving these will require improved performance from all member states and, along with the Commission's proposal to move from the predominant free issue of emissions permits towards up to 80 per cent auctioning, will exacerbate frictions with some industry groups. The EU's 27 members must grapple with different starting points and different abilities to reach these targets (Legge 2007), while ensuring that aviation emissions are dealt with appropriately.

Important EU member states have already asserted opposition to the Commission's blueprint for a post-2012 climate change regime. For example, French President Nicolas Sarkozy wrote to the President of the Commission stating that 'some of the pending proposals are "neither efficient, fair nor economically sustainable" for France… "European constraints would push industry to shift production to these countries [without similar carbon reduction obligations]. Global emissions would not fall and jobs would disappear from Europe"… French officials have reportedly also consulted their German counterparts on how to react' (Kubosova 2008a).

The French Government is by no means the only actor to identify possible negative impacts on certain industrial sectors as an obstacle to more vigorous EU climate policies. The Commission's initiatives are expected to affect, to varying degrees, different energy-intensive industries, such as aluminium, cement, chemicals, fertilizers, pulp and paper, and steel. As Kubosova (2008a) notes, 'These industries are expected to have to raise their prices under the more stringent green rules, weakening their position against competitors from other economic superpowers such as the US or China'.

The EU's climate policies are also likely to face lobbying pressure from labour and other societal groups. Trade unions have already urged the Commission to delay a package of new climate policies 'rather than introduce it without measures designed to soften its "social impact"' (Kubosova 2008a). This package, which includes the review of the EU ETS in preparation for the post-2012 regime, also focuses on other changes necessary to achieve the EU's desired 20 per cent cut in emissions below 1990 levels and to increase renewable energy by 20 per cent articulated in the European Council's decision in March 2007. European labour leaders do acknowledge consultation with EU officials during the review process. However, the secretary general of the European Trade Union Confederation has asserted that his organization would like a "'European low-carbon economy adjustment fund" to help workers affected by job losses, as well as a carbon levy on imports to protect Europe's heavy industry from competition from abroad' (Kubosova 2008a).

Leaders of European environmental and development non-governmental organizations (NGOs) can be expected to sustain their claims that the Union's initiatives do not go far enough or create distorted effects. For example, opposition has already been voiced over the EU's goal that ten per cent of transport fuels should come from biofuels by 2020. A group of 17 NGOs – including Oxfam and Friends of the Earth – wrote to the EU's Energy Commissioner in January 2008 asking for tougher standards. Among their concerns were a lack of protection for important ecosystems and water and soil resources as well as unintended consequences of increasing food and feed prices and water scarcity that would negatively impact the world's poor (Kubosova 2008b). The Commission has sought to develop a relatively open decision-making structure to ensure

the practicality and acceptability of its climate policies. However, by definition, this expands the range of actors that can pressurize the policy process via lobbying.

POLITICAL STRATEGIES FOR FUTURE EU CLIMATE POLICY

The EU represents many different and overlapping political interests and strategies for climate policy. All 27 member states and the EU institutions have their own interests and strategies, creating an institutional complexity that often confounds efforts to identify a single strategic actor. This section simplifies this complexity by focusing on the political strategies open to the Commission as the main initiator of new EU strategies and overseer of their implementation. The Commission also differs in comparison with the national polities examined in this book in the sense that it does not face direct electoral pressures. The Commission is certainly not insensitive to outside opinion, as its system of active stakeholder engagement demonstrates. However, interactions with public opinion tend to be mediated through the European Council, the various Councils of Ministers, and the European Parliament. This presents unique opportunities and constraints in the political strategies available to the Commission to achieve deeper cuts in greenhouse gas emissions.

International Strategies

The EU remains a prominent actor in international climate negotiations and, during the UN Climate Change Conference in Bali in December 2007, asserted a bold new position. Many expected the Bali negotiations to focus on a roadmap that would deal with the procedural issues of launching and organizing the post-2012 regime. Upon the EU's insistence, however, the resulting Convention's objective of preventing dangerous

levels of climate change refers to a section of the IPCC's recent Fourth Assessment Report, 'which demonstrates that emissions reductions for developed countries in the range of 25-40% below 1990 levels by 2020 are required to limit global warming to 2 degrees above pre-industrial levels' (European Union 2007). This assertion generated significant opposition from some national parties and, at the time, might have seemed an unproductive strategy that could have jeopardized the launch of the negotiations. The insertion of this section in the Convention, however, seems to have vindicated this bold strategy.

Despite this early success, the Union must develop further strategies to garner support among other UNFCCC parties if it hopes to shape the post-2012 system towards its preferences. In particular, the negotiations will have to address emissions targets for Annex II (developing) countries. Here the EU will have to play a prominent role through its input in the forthcoming review of the Kyoto Protocol, scheduled for completion in December 2008, and new incentives and sustained political pressure will be needed to ensure developed and developing countries agree to future commitments. This will also require careful tracking of the shifting coalitions among other parties, both developed and developing countries.

As the weight of scientific evidence on climate changes increases, adjustments in government policies among the Annex I countries – especially the APP – may change the nature of international climate politics. The EU must monitor closely and respond to these adjustments. Such strategies include intensified public information campaigns in the APP countries and concerted diplomatic efforts targeted at APP members with new governments, in particular, Australia and, soon, the USA. The EU may also need to take forward a threat of additional levies on products coming from states that have not

ratified the Kyoto Protocol, although it will need to be careful not to contravene World Trade Organization (WTO) trade rules.

To pressure developing countries, the EU may consider more positive strategies, such as linking aid and trade packages to specific emission reduction goals. As the world's largest aid donor and trading bloc and a significant source and destination of foreign investment, the EU possesses considerable economic leverage to encourage reforms in developing countries. The EU's rather tarnished reputation in some previous trade negotiations with developing countries may undermine the credibility of this tactic, but the EU might also encourage some countries to adopt specific agreements under the post-2012 regime by linking these to Union support for WTO membership. Many non-WTO members (and WTO members) will resist such pressure, but several observers – for example Algeria, Azerbaijan, Belarus, Ethiopia, Iran, Kazakhstan, Laos, Libya, Sudan, Ukraine, Uzbekistan and Yemen – may be susceptible if the offer is part of an integrated package that covers other policy areas.

Much of the EU's international strategy will also depend on how successfully it implements its internal climate change policies. Ensuring effective functioning of the EU ETS and increasing technological and professional coordination between financial industries involved in the EU ETS will increase support for linkages to other trading schemes. Setting a normative example at home may, therefore, be an influential strategy for the EU to change ideas and policies abroad.

Regional Strategies

At the regional level, the Commission's political strategizing must first and foremost recognize the crucial role and reasoning of the member states in determining the

adoption of new climate policies. Member states often challenge EU climate directives not because they are anti-environment but because they are concerned about whether policy decisions are best made in national capitals or Brussels, the extent to which such decisions bind them into further integration, and the implications of ambitious EU policies for their economic competitiveness. The Commission has, of course, faced similar challenges across many policy areas and has developed well-known strategies to cope with them, such as a strong emphasis on scientific evidence in proposals, widespread stakeholder consultation, and deliberately tabling overambitious proposals knowing that whatever measures are put forward are likely to be negotiated down in the Council of Ministers (Sbragia 1998; Jordan 2005).

Alongside these standard recipes, specific strategies to promote the EU's internal climate policies must first include provisions to manage cooperation among its enlarged membership of 27 member states. Following the 2004 and 2007 accessions, the EU faces the additional challenge of ensuring robust policy implementation in a number of poorer new member states with strong development needs and ambitions, and a poor track record on monitoring and enforcement. Crucially in relation to climate policy, many of these states also rely a great deal on heavily polluting lignite and ageing nuclear power facilities for energy production. It is no coincidence that all the member states that challenged the Commission's decisions on national emissions caps for Phase two of EU ETS were new accession countries (Massai 2007). Transitional periods will be required but must also be managed carefully to avoid exacerbating divisions between environmental leader and laggard states. Building public support in the new member states will also be problematic. For example, 'more than 62 percent in the new Member

States fear to be without a job and only 3 per cent think that environmental protection is the most pressing problem' (Böhm 2006: 241-2).

A second strategy, already being pursued but with significant remaining potential, is promoting more integrated policy-making across policy areas to increase the co-benefits arising from climate policies and, hence, their acceptability to member states and other stakeholders. One example is the linking of climate-related strategies to energy security; another is the use of revenue from EU ETS allowance auctions to support tax cuts or other economic stimuli. The EU's Action Plan on Energy, adopted at the European Council of March 2007, calls for 'concrete actions to achieve a competitive, sustainable and secure energy system' in parallel with greenhouse gas reductions (European Commission 2007: 10). It also sets goals for energy policy linked to energy efficiency for appliances, expansions in renewable energy production, biofuels, and the use of carbon capture and storage. On biofuels, the EU will have to be mindful of objections from civil society to the potential adverse effects on agriculture producers at home and abroad and, thus, ensure a tight focus on sustainable biofuels production.

Another key component of securing energy security co-benefits will be to formulate an effective foreign policy that addresses its dependence on non-Union (in particular, Russian) energy sources. Because decisions on the structure of energy supply require unanimous support within the Council of Ministers, the EU's ability to intervene on this front is restricted and pursuit of this important (and highly popular) co-benefit may require proposals that link energy policy goals with changes in other single market policies where decisions can be taken by qualified majority.

A third political strategy needed to meet emissions targets is further broadening of the scope of climate policies, in particular to encompass transport and non-carbon gases.

The decision to include aviation in Phase three of the EU ETS represents an important step in this direction; however, coverage of other transportation sectors – in particular, shipping and automobiles – will be a contentious but necessary political objective. The Commission's proposal to extend the EU ETS to all greenhouse gases should further enhance the scheme's impact but will also add complicated and contentious new dimensions to the monitoring and enforcement of EU climate policy. Such measures will certainly encounter varying levels of opposition from different member states and stakeholder groups. The Commission will have to build coalitions of support among diverse political and economic actors, taking care to identify the common public- and private-sector interests served by incorporating other sectors and gases into the EU ETS. Given this landscape, the EU must develop strategies supported by financial service providers and other sectors that stand to benefit from emissions trading.

Another tactic for broadening the base of EU climate policy is further expansion of renewables. Ensuring the political acceptability of this to the member states will require gradualism in the way targets are increased and differentiation between member states based on their capabilities. The Commission has already taken steps in this direction, setting criteria for determining contributions based on member states' geographical potential to produce energy from different renewable sources and economic capacity to support investment based on GDP per capita (Goldirova 2007). The political sensitivities involved with adjudicating these criteria will require the Commission to develop a convincing methodology for determining national capabilities that will be acceptable to all member states, or face further cases before the European Court of Justice.

Fourth and finally, further reforms are required to the process used to allocate national emission permits among its member states. National allocations for the EU ETS

have become more realistic during Phase two of the scheme – aided by better data on monitoring activities and verified emissions during the trial period – which should reduce (but not necessarily eliminate) the likelihood of inflated claims of need and future market crashes. The political heat can theoretically be taken out of this issue further if the member states accept the Commission's principle of an EU-wide emissions cap, though neither is guaranteed. Disputes over the issue of allocations may also be reduced by the Commission's proposals to increase the auctioning of EU ETS permits to 80 per cent (Mandell 2005; Hepburn *et al.* 2006), as this would privilege market forces over political arguments about national need as the mechanism to allocate permits. However, national allocations remain a politically sensitive issue and similarly fine judgements to those for renewable energy capacity will be required to ensure the new approach remains sensitive to the development needs, energy structure and abatement potential of different member states.

At first glance, the EU's uniquely complex institutional and sovereignty sharing arrangements might seem to militate against it being a major actor in climate politics and policy. However, its position as a permanent and authoritative point of national and international interaction also provides it with significant opportunities to influence climate policy at multiple levels, while the Commission's relative distance from direct electoral pressures enables it to develop more ambitious proposals than some of its member states would otherwise contemplate. Despite this, all EU policies remain subject to national scrutiny via the Council of Ministers and, as such, EU climate policies both transcend and remained strongly tied to national political interests.

In the final analysis, much of the EU's domestic and international credibility in climate policy may hinge on the fortunes of the EU ETS. If the scheme is successful in reducing emissions, it is likely to stimulate further policy and technological innovations as well as enhanced policy learning and diffusion in other regions. A fully functional EU ETS should also create a first-mover advantage in lucrative financial services and set the seal on the EU's reputation as a major player in international and regional climate policy. Conversely, weaknesses in the scheme are likely to be seized upon by other member states and UNFCCC parties as a justification for the continuation of more conservative climate policies.

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Table 4.1: The European Climate Change Programme

Measure	Reduction potential ($MtCO_2e$) EU-15, 2010	Entry into Force	Starting to Deliver
EU emission trading scheme	-	2003	2005
Links to joint implementation and CDM	-	2004	2005-8
Directive on promotion of electricity from renewable energy sources	100-125	2001	2003
Directive on promotion of combined heat and power	65	2004	2006
Directive on energy performance of buildings	35-45	2003	2006
Directive on promotion of transport biofuels	35-40	2003	2005
Landfill directive	40	1999	2000
Vehicle manufacturer voluntary commitment (since replaced by mandatory targets)	75-80	1998	1999
Energy labelling directives	20	1992	1993
Biomass action plan	-	2005	2006

Source: Delbeke (2006: 6)