

## Compensation and Climate Neutrality – the Ideal Route to Climate Protection?

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### How to reach Carbon Neutrality/Climate Neutrality?

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Dear colleagues,

let me start with a personal remark. I am a **pioneer of climate policy**. I got the responsibility for climate policy in the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in the late 80s and initiated and negotiated the **first national CO<sub>2</sub> reduction target of 25 percent** until 2005. This target was approved by the Federal Government in 1990, and again confirmed by the German Chancellor at the first COP of the UNFCCC in 1995 in Berlin<sup>1</sup>. The mechanism of the natural carbon cycle and the importance of the storage capacity of natural sinks was well known when we developed the programme for the reduction of CO<sub>2</sub>. However, our list of policies and measures for reaching the target focussed on energy related activities and did not mention any biological removal. Not even our colleagues, responsible for nature conservation tried to integrate their objectives into the programme for climate protection. At the international level, we negotiated simultaneously the Climate Convention and the Biodiversity Convention<sup>2</sup> but at that time there was no coordination and mutual support. The first campaigns from civil society activists to plant trees were welcomed merely as `nice to have`. In general, however, the subject was perceived as being potentially dangerous, because it could be used as an excuse for doing less in the classified as more “serious” and economically promising field of mitigation through technological innovation.

Due to the Paris Agreement, climate neutrality has moved onto the political agenda and mobilized voluntary initiatives from companies and other private and public actors. However, so far both the mechanisms of compensation and the reliability of the measures remain quite unclear.

We are gathering here today to change this. My contribution will be the discussion of the **climate neutrality approach – mitigation combined with removal and compensation**. Following a good social science rule I won't hide my point of view, and the reason for my interest in the subject. First of all, I welcome the concept because of its level of **realism**. At the European level and internationally the commitment of the Paris Agreement of not more than 1, 5 to 2 degrees increase of the mean global temperature until the end of this century will not be reached by active mitigation alone. The maintenance and increase of the natural storage and sinks capacity will become even more important the active reduction of carbon and other greenhouse gases will be successful in the future. Today, more than 50 % of CO<sub>2</sub> emissions are compensated

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<sup>1</sup> Base year is since then 1990

<sup>2</sup> both agreed in 1992 in the framework of the Rio Conference on Environment and Development

by natural terrestrial and oceanic sinks<sup>3</sup> and this storage capacity is deteriorating dramatically. Secondly, humanity is not only threatened by climate change, but also by the **dramatic loss of species**. The concept of climate neutrality combined with some kind of compensation could therefore be an opportunity to kill two birds with a stone. **If designed and implemented properly climate neutrality therefore may not only be the ideal route to climate protection but also the protection of biodiversity.**

What can you expect from my presentation?

- Firstly, I will describe the **current situation** concerning compensation and climate neutrality programmes.
- Secondly, I shall look at the **political design** at EU level to transfer the concept into a successful strategy.
- Finally, I will propose some **ideas** for further discussion.

### **Climate neutrality and compensation – current situation**

I shall focus on the compensation issue and describe:

- the concept of the EU-Commission,
- voluntary initiatives mainly from companies and the
- mechanisms of compensation.

### **The European concept**

In November 2018, the **European Commission** presented a long-term strategic vision of a climate neutral economy by 2050<sup>4</sup>. The Commission mentioned among the seven main strategic building blocks the **need for creating additional carbon sinks, and the use of carbon capture and storage for the remaining CO<sub>2</sub> emissions.**

The background for broadening the European climate programme was explained by Jos Delbeke, Director-General of the European Commission`s Directorate General for Climate Action from its creation in 2010 to 2018. He expressed the view that a low carbon economy road map **only** will not achieve climate neutrality until 2050. He estimated that technological efforts may reduce CO<sub>2</sub> emissions<sup>5</sup> by as much as 80-95 %. Consequently compensating measures will need to tackle the remaining 5 to 20 %. Until now, however, there is **no officially suggested target for this need of compensation.**

As the cornerstone of the commitment to climate-neutrality by 2050 the Commission presented in March the **European Climate Law** together with the future **European Climate Pact**. The Pact is now launched for public consultation and is planned as a

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<sup>3</sup> SRU Umweltgutachten 2020, p. 62

<sup>4</sup> European Commission communication `A clean planet for all: Strategic long-term vision for a prosperous, modern, competitive and climate-neutral economy by 2050` (COM (2018) 773 final)

<sup>5</sup> Jos Delbeke, Peter Vis et al: EU climate policy explained, 2016, p. 34

EU-report for the next COP of the UNFCCC scheduled for November next year in Glasgow.

With the **European Climate Law** the Commission proposes a legally binding target of net zero greenhouse gas emissions by 2050 and a **comprehensive framework** to achieve “**a balance between anthropogenic economy-wide emissions and removal through nature and technological solutions of greenhouse gases domestically by all Member States collectively**”<sup>6</sup> until 2050. It includes reporting obligations of Member States, and empowers the Commission to issue **delegated acts** for further measures. The text will undoubtedly be subject to change during the Council negotiations. Finally however, according to the motto “who writes, who remains” – a motto which is well known by civil servants - , climate neutrality will have been advanced.

Regarding the promotion of the removal by nature the commission works on integrating policies to protect nature into its climate strategy. One major policy tool is **the Biodiversity Strategy for 2030** presented to the European Parliament and the Council in May this year<sup>7</sup>. The communication prepares the position of the EU-Member States for the COP of the Biodiversity Convention in Kunming, China, now postponed to May 2021.

The strategy addresses **pollution from agriculture as a key driver of biodiversity loss together with a nature restoration plan.**

We shall see later to what extent the Commission will be able to implement these proposals.

### **Private activities**

According to the Federal Environment Agency<sup>8</sup>, the number of companies with targets and activities for climate neutrality is growing rapidly. The best-know German companies with corresponding initiatives are DB AG, Aldi Süd, Daimler AG, Bosch and Allianz. Most of the large corporations integrate climate policies into their business objectives and set specific targets for reducing their greenhouse gases, i.e. they are not limited to compensation schemes.

Remarkable is the commitment of large international oil companies, whose business is the exploration and trading of fossil fuels. In June 2020, **Shell** reported on the first sale of two carbon neutral gas cargoes (LNG) to the Chinese company CNOOC Gas

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<sup>6</sup> [https://ec.europa.eu/info/sites/info/files/commission-proposal-regulation-european-climate-law-march-2020\\_en.pdf](https://ec.europa.eu/info/sites/info/files/commission-proposal-regulation-european-climate-law-march-2020_en.pdf), introduction No 12

<sup>7</sup> European Commission: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: EU Biodiversity Strategy for 2030, Brussels 20.5. 2020, COM (2020) 380 final

<sup>8</sup> Huckestein, ibid

&Power Group. The press release states: “The cargoes will provide enough carbon neutral energy to power nearly 300,000 homes for a full year”<sup>9</sup>.

Who pays for the compensation is rather unclear. It seems that Shell supports financially the afforestation projects in two Chinese provinces, whereas CNOOC “plans to auction the two carbon neutral LNG cargoes through the Shanghai Petroleum and Gas Exchange, offering downstream gas buyers a choice to decarbonise their energy use”<sup>10</sup>.

**Total** follows an even more ambitious strategy. The company announced in May 2020 its ambition to get to net zero carbon emissions for all its European Businesses by 2050. Total should be developed as a “broad-energy company, with oil and gas, low carbon-electricity and carbon neutrality solutions as integrated parts of its business”, including its engagement in renewable energies<sup>11</sup>.

As much as these examples are promising steps into the right direction, as much does the voluntary nature on which we rely here, invite a degree of scepticism.

### **Mechanism of reliable compensation. How credible are the targets and measures, and what is the risk of greenwashing?**

The Federal Environment Agency requires clear rules, transparency and independent supervision in order to eliminate the suspicion of greenwashing – in the public sector as well as for private initiatives. Some private quality standards such as the Gold Standard or the Voluntary Carbon Standard are available. However, the Agency calls for globally coordinated Quality guidelines for voluntary compensation measures together with the establishment of a central register needed for the correct recording of the deletion of emissions<sup>12</sup>.

Concerning the types of compensation projects selected by public<sup>13</sup> and private actors the Federal Environment Agency found that the most common project are renewable energies. A large proportion of these projects are implemented in developing countries<sup>14</sup>.

### **The policy design - Conditions for a successful European policy strategy**

The future success of climate neutrality in Europe, will solely be determined by the effectiveness of the EU commission`s approach. For Oliver Geden from the `Stiftung Wissenschaft und Politik` it is characterised by a **lot of ambiguity and “strategic**

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<sup>9</sup> <https://www.shell.com/business-customers/trading-and-supply/trading/news-and-media-releases/cnooc-to-receive-chinese-mainlands-first-carbon-neutral-lng-cargoes-from-shell.html>

<sup>10</sup>Shell ibid

<sup>11</sup> <https://www.total.com/media/news/total-adopts-new-climate-ambition-get-net-zero-2050>

<sup>12</sup> Burkhard Huckestein; Klimaneutrale Unternehmen und Verwaltungen – Wirksamer Klimaschutz oder Grünfärberei? in: GAIA, 29/ 1(2020), S. 25

<sup>13</sup> Since 2014, the Federal Government has undertaken to compensate for the CO<sub>2</sub> emissions caused by missions of the Federal Administration. In 2018, for example, certified emission reductions (CERs) of around 300,000 t were acquired. The costs amounted to EUR 1. 7 million. The Federal Environment Agency selects the compensation projects. They are tested and certified in accordance with the UN Clean Development Mechanism, CDM. The acquired credits are then suspended<sup>13</sup>.

<sup>14</sup> Federal Environment Agency: Freiwillige CO<sub>2</sub>-Kompensation durch Klimaschutzprojekte, Juli 2018, p. 11

**fog**"<sup>15</sup>. Whether this is indeed the case, and whether it is a disadvantage, or an opportunity is worth a closer look.

Compared with the achievements of other international actors, the climate policy of the EU was rather successful until now. Over the period 1990-2018, the EU reduced its greenhouse gas emissions by 23 %, while at the same time the EU increased GDP by 61 %.<sup>16</sup> The prospect for a continuation of the successful policy are therefore quite promising.

According to **Kingdon**<sup>17</sup> – whose understanding of the political process I greatly appreciate because of the consistency with my practical political experience – the following prerequisites are necessary for successful problem solving:

- The **coupling of three streams** must meet. These streams are
  - the problem stream, responsible for problem perception and agenda setting,
  - the policy stream, crucial for the framing of the solution and
  - the politics stream, depending on a favourable situation in the political institutional and administrative structure.
- Additional support factors are a favourable **‘window of opportunity’** and prominent **‘policy entrepreneurs’** acting as change agents.

In my view, the Commission`s approach is remarkable in view of coping with the very different situation in the Member States in terms of emissions levels, energy mix and economic and social conditions. This also applies to the political and administrative management of climate policy as a cross cutting policy, as well as the avoidance and overcoming of ongoing blockades by the Member States. The new climate neutrality approach enlarges the cross cutting scope and the need for coordination and support by other policy fields such as agriculture, land and soil use, and regional planning in a multi-level system including regional and local authorities and networks of interested actors.

**How the Commission is managing these challenges? I shall follow the streams-model of Kingdon to explain this.**

The Commission borrows the **‘legitimacy and power’ for the agenda-setting** and the urgency of solving the problem from the international arena. These are the regular negotiations of the Parties with their national reporting obligations under the UNFCCC, the Convention on Biological Diversity and the Agreement on the **‘Sustainable Development Goals’**. In doing so, it benefits from the high level of public attention as well as the support from the scientific community.

From the very beginning, in Europe **the framing of the economic impact** of an active climate policy was seen as positive. Policies mainly concentrated on the benefits of energy related technologies and innovation. The buzzword in Kyoto from the European side was “no regret” while die US-delegation was highlighting the economic “burden” of mitigation. The commission now even strengthened the perception of the positive

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<sup>15</sup> Oliver Geden: Oral statement at the DENA Conference on Climate Neutrality 2019

<sup>16</sup> European Climate Law, March 2020, see footnote 7. The EU`s share of worldwide GHG is less than 10 % .

<sup>17</sup> John W. Kingdon: Agendas, Alternatives and Public Policies, second Edition, Pearson Education limited, 2014

economic impact. The driver of a new growth strategy should be climate policy – the main message of the **Green Deal**. The Commission would like “to turn the challenge of climate change and the risk of the degradation of biodiversity into a unique opportunity”<sup>18</sup>.

The huge amount of money - triggered by the corona crisis - could have been an ideal **‘window of opportunity’** for realising the Green Deal. The Commission’s intention, however, to make the allocation of grants and loans conditional has been rejected by the Member States. Some wording in the conclusion of the European Council negotiation in July 2020, however, will help to move into the right direction. A18 of the conclusions obliges the Member States to prepare national recovery and resilience plans for the allocation of funds, which **shall be assessed by the Commission**. Among the criteria for a positive assessment A19 states: “Effective contribution to the green and digital transition shall be also a prerequisite for a positive assessment”<sup>19</sup>

An even more important mandate for the Commission is A 21. It states, that an overall climate target of 30% will apply to the total amount of expenditure and that **all EU expenditure should be consistent with the Paris Agreement**.<sup>20</sup>

For using this mandate, the **internal institutional setting and administrative procedures** are of even greater importance when direct political power is missing. The Commission is very creative in this respect. Examples are the development of indicators and targets, the variety of instruments concerning procedural issues such as the Governance Regulation with its reporting and verification rules. It also applies to the creativity of the Commission creating low-threshold opportunities in areas where the Commission does not have competences. Typical is the **European Semester** tool. It was introduced to monitor national macro-economic policies and is now used for the monitoring of national climate policies as well. The recommendations of the commission are not binding. Member States, however, must respond. **The reports are public and can trigger public debate and pressure**.

Interesting is also the **stepwise strengthening of measures**: Starting with a voluntary approach or with collecting data. An example is the regulation on land use, land use change and forestry from 2018<sup>21</sup>. Its **main purpose is reporting, monitoring and verification**. The Commission has already announced a new **EU biodiversity governance framework**. Similar to the LULUCF Regulation it may include a monitoring and review mechanism together with a road map for the assessment of progress. A legally binding approach to governance could be the outcome of the assessment.

These kind of institutional strategies would not be possible without the right **organizational structures and internal allocation of competences**. This defines

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<sup>18</sup> [https://ec.europa.eu/info/sites/info/files/european-green-deal-communication\\_en.pdf](https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf), p. 2

<sup>19</sup> ibid p. 5 f.

<sup>20</sup> ibid, p. 7

<sup>21</sup> Regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry in the 2030 climate and energy framework, 30 May 2018

the procedural control of the political process (Verfahrensherrschaft) namely the right of initiative, the management of the agenda, the framing and timing of a problem solving. This applies, of course, in particular to designing a cross-cutting policy in which climate policy objectives must be integrated and enforced over sectoral policies such as transport, land use, agriculture, etc.<sup>22</sup>. DG Climate Action is well equipped concerning competences and resources to successfully manage the cross cutting tasks of reduction and removal of greenhouse gases.

Successful policy-making also depends on the existence of a prominent policy entrepreneur acting as change agent. Vice-President **Frans Timmermans** plays this role. The following responsibilities give him, above all, a wide playground:

- “Ensuring that tax policies can contribute to achieving the EU’s climate ambitions, including Carbon Border Tax and the review of the Energy Taxation Directive.
- Instilling a new climate culture in Europe under a European Climate Pact – bringing together regions, local communities, civil society, industry and schools”.<sup>23</sup>

## Conclusions and ideas for discussion

The EU policy is criticised for lack of clarity. Its critics call for clear targets for 2050 and beyond and concrete milestone targets for 2030 and 2040 for the proportion of emissions removed from the atmosphere by natural and technological removal. It also calls for clear rules and procedures to be fixed for compensation and offsetting.

However, **I think it is a right strategy of the Commission not to address these issues now**. The political and public debate must continue to focus on mitigation not on compensation to avoid any weakening of actively reducing emissions. An excited public debate on possible technological measures of removal such as CCS (carbon capture and storage) would bind forces – especially in Germany. They are needed to enforce other controversial measures such as transport policy and tax design.

The Commission is following an **incremental, step-by-step approach**. Its direction is characterized by long-term strategies and perseverance. In doing so, the Commission follows the "foot in door strategy" recommended by environmental psychologists. Member States should not be overburdened by over-ambitious ad hoc measures. They should get used to certain ideas to be able to adapt to future commitments. The **EU is a learning system**, where changes of the institutional framework by the development of informal principles, rules and procedures are of great importance. A typical example is Timmermans` intention to create networks of regional and local actors to promote climate neutrality.

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<sup>22</sup> Müller, Edda: Environmental Policy Integration as a Political Principle, in: Andrea Lenschow, Ed.: Environmental Policy Integration – Greening Sectoral Policies in Europe, Earthscan Publication, 2002, p57-77

<sup>23</sup> [https://ec.europa.eu/commission/commissioners/2019-2024/timmermans\\_en](https://ec.europa.eu/commission/commissioners/2019-2024/timmermans_en)

The EU decision-making process comes very close to Kingdon's theoretical three-stream model: jumping on the respective zeitgeist, benefiting from the right time, networks and alliances, and good process management by one or more entrepreneurs.

The Commission's still vague vision on compensation should not hinder our discussion about the possible further development of compensation strategies in Europe. For me the discussion of two questions would be interesting:

1. Should compensation be provided by offsetting between EU countries?
2. Should after 2050 the EU set targets above 100 % to compensate for non-compliance with the global reduction of GHGs in order to achieve the Paris Agreement?

Your comments will be much welcome now.