EU 2030 Climate and Energy package

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On 22 January 2014, the European Commission is expected to publish its 2030 framework for climate and energy policies. The package is expected to include the EU's overall greenhouse gas reduction target beyond 2020 and a proposal to reform the EU's Emissions Trading Scheme (EU ETS). EU leaders will discuss the proposals for the first time at the March 2014 European Council. Subsequent legislative proposals are expected ahead of the climate treaty to be agreed in Paris in 2015.

About Carbon Market Watch

Carbon Market Watch (formerly CDM Watch) was established in 2009 as an initiative of several international NGOs. Based in Brussels, the organisation provides an independent perspective on carbon markets and advocates for fair and effective climate protection. In recent years, Carbon Market Watch has created greater awareness and understanding of the manifold problems associated with offsetting in EU climate legislation and advocated for deep structural reform of the EU's Emissions Trading Scheme.

Summary of key issues

Carbon Market Watch agrees with the analysis of leading environmental groups that a domestic cut in greenhouse gas emissions of at least 55% in Europe by 2030 is necessary. But furthermore, two critical factors will determine whether the target is achieved in reality, not just on paper:

1) No more 'offsets'

There is overwhelming evidence that the system of 'offsetting' emissions internationally represents a major policy failure for reasons described below. The future climate framework must require reductions within Europe, under EU regulation and oversight. Offsetting must end. This will ensure a stronger focus on domestic abatement and spur investment in low-carbon technologies in EU industry.

2) Fix the EU-ETS

The huge surplus (some 2 billion) of allowances and offsets accumulated up to 2020 should not weaken future action to cut emissions. These allowances must expire after 2020, or an equal amount of post-2020 allowances must be removed from the system under the 2030 Climate Framework.

Extensive further reforms to the EU-ETS are also needed. The total amount of permits must be reduced by a larger percentage each year than under the present system (the so-called 'linear reduction factor').

There must also be safeguards to protect Europe's climate policy by ensuring that any emissions trading markets outside Europe that could eventually link to the EU-ETS must have ambitious and binding climate targets, are not oversupplied, and have stringent quality standards for the environmental integrity of their credits and minimum market design standards, e.g. safeguards against so-called 'double counting' of emissions reductions.

What are offsets?

A carbon offset is a reduction in emissions of carbon dioxide or other greenhouse gas made in order to compensate for or to 'offset' an emission made elsewhere. Offsetting projects include, for example, building a windfarm or capturing methane from a landfill. For every offset purchased, the buyer can increase its emissions by an equivalent amount above its reduction target. Offsetting mechanisms aim to reduce the overall costs of climate mitigation by allowing flexibility in the location and sector of emission reductions.

Why has offsetting failed?

When offsets do not represent additional emission reductions over and above what would otherwise have occurred, their use actually *increases* global emissions. Many studies have shown that the Kyoto Protocol's offsetting mechanisms have delivered much fewer real emissions reductions than were sold. One study estimates that up to 60% of all offset credits issued by the Clean Development Mechanism (CDM) between 2013 and 2020 may not represent real emissions reductions. If non-additional projects remain eligible in the CDM and the resulting credits are used for compliance, they could increase cumulative global GHG emissions by up to the equivalent of 3.6 Giga tonnes CO_2 by 2020. The environmental integrity of the other Kyoto offsetting mechanism, 'Joint Implementation (JI)' is even more questionable with over 90% of the 700 million offsets issued to date from Russia and Ukraine with very limited transparency and no international oversight.

Is it possible to make offsets work better?

In theory yes, but in practice the main international offsetting systems are failing, and there has been no progress on reforms.

The shortcomings of the CDM and JI could be addressed under the UNFCCC. But so far countries have been unwilling to comprehensively reform the rules in order to significantly increase the quality of these offsetting mechanisms. Despite the stark research findings, countries have shown little willingness to tighten the CDM and JI rules to address the blatant quality flaws. Although the CDM Executive Board has the power to address many of the quality concerns in the CDM, experience has shown that even at the Board level, substantive changes are hindered by political considerations. Reforms under the JI that would sufficiently address the current flaws are even less likely.

EU Member States have taken one first step to address these quality concerns, at least at the EU-level, by banning one egregious example of offsets (from industrial gas projects) from being used for compliance with EU targets. But the lack of environmental quality of other project types, notably large-scale energy projects and projects under Joint Implementation track 1 have not been addressed so far. Also quality restrictions will not suffice to fully eliminate the risk of substandard offsets.

Will getting rid of offsets hurt business in Europe?

No. The European Commission Impact Assessment for the 2030 climate targets shows that the largest sectors covered by the EU ETS, such as chemicals, cement and pulp and paper, increased exports from 1999 to 2012 (i.e. while subject to emissions reduction targets). This is not due to access to international offsets but largely because the EU ETS has helped European business to become innovative and internationally competitive.

Getting rid of international offsets and designing a flexible system within Europe would ultimately spur investment in Europe towards innovation, technology and increased energy and resource efficiency as well as create more sustainable jobs. Because emissions are typically higher in countries with a lower GDP, this would especially benefit poorer Member States.

Offsets - What the EU should do

The future climate framework must require reductions within Europe, under EU regulation and oversight. Offsetting must end. This will ensure a stronger focus on domestic abatement and spur investment in low-carbon technologies in EU industry.

Reforming the EU-ETS

The economic crisis and a lack of political will has led to a severe oversupply of permits and a price crash in the EU-ETS. In addition, the use of international offsets in the EU ETS has almost doubled the oversupply in the 2008-2012 period, and will amount to three-quarters of the oversupply by 2020.

Experience in the EU has shown that the use of international offsets has hampered domestic abatement efforts. For the period 2008-2012, over one billion offsets have been used in the EU-ETS. About 400 million will be used by EU Member States for emissions in non-ETS sectors for the same period. This means that if the EU had not allowed the use of international offsets, it could have cut its emissions domestically by an additional 1400 million tonnes of emission reductions in the period from 2008-2012 alone. If we assume that these offsets achieved only 40 per cent of the claimed emission reductions, the use of international offsets undermined the EU's climate goal by 840 million tonnes under the first Kyoto commitment period alone.

The prospect of linking the EU-ETS to emerging carbon markets raises concerns about the impact these markets could have on Europe's ability to meet its climate goals. Linking with a scheme that has weak targets, that allows substandard offset credits or that is oversupplied could exacerbate the current surplus of carbon credits in the EU-ETS.

The ETS - What the EU should do

The huge surplus (some 2 billion) of allowances and offsets accumulated up to 2020 should not stifle future action to cut emissions. These allowances must expire after 2020 or an equal amount of post-2020 allowances must be removed from the system under the 2030 Climate Framework. Extensive further reforms to the EU-ETS are also needed. The total amount of permits must be reduced by a larger percentage each year than under the present system (the so-called 'linear reduction factor'). But there must also be safeguards to protect Europe's climate policy by ensuring that any linked markets outside Europe must have ambitious and binding climate targets, are not oversupplied, and have stringent quality standards for the environmental integrity of their credits and minimum market design standards, e.g. safeguards against so-called 'double counting' of emissions reductions.

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