



# POLICY SUBMISSION:

## EUROPEAN COMMISSION CONSULTATION FOR THE GREEN PAPER – ‘A 2030 FRAMEWORK FOR CLIMATE AND ENERGY POLICIES’



1 July 2013

**Transparency register number: 9832909575-41**

Carbon Market Watch, a project by Nature Code, welcomes the opportunity to provide its views to the European Commission on the Consultation for the Green Paper ‘A 2030 framework for climate and energy policies’. While supporting the submission of the Climate Action Network Europe (CAN Europe), we would like to take the opportunity to provide more detailed answers.

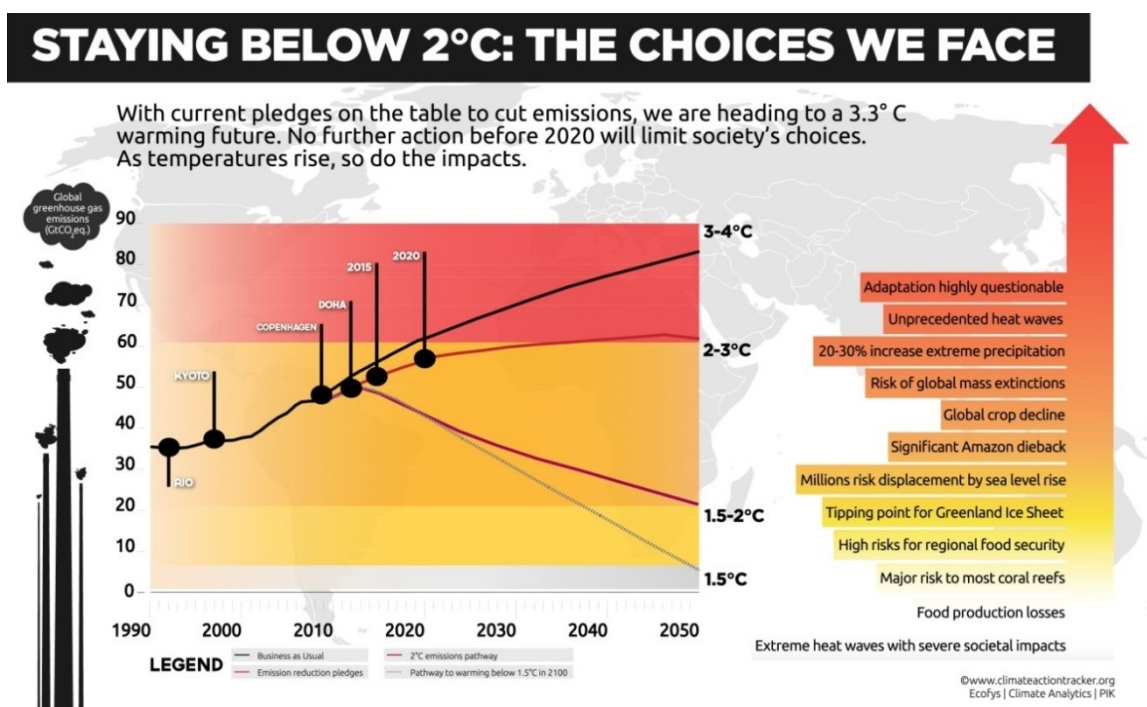
### OUR MAIN MESSAGES

- The 2030 Climate Framework needs to be based on ambitious, economy-wide, and binding targets. The European Commission’s recommendation of a 40% emissions reduction target for 2030 is insufficient. In order for the EU to do its fair share to avoid warming above two degrees, Nature Code calls for at least 55% domestic greenhouse gas emission reductions by 2030.
- In order to enable an ambitious and economically efficient 2030 Climate Framework the 2020 emission reduction target needs to be increased to a domestic emission reduction target of at least 30% by 2020. Furthermore, such increased targets can only deliver additional reductions if they are coupled with quantity and quality restrictions on international offsets. The currently overgenerous use of offsets and their limited quality are undermining domestic action and mitigation goals.
- The most effective way to secure the EU’s objectives on climate, energy security and competitiveness is to set ambitious, coherent and binding EU wide and national targets for emission reductions, energy savings, renewable energy production and international climate support.
- The economy-wide 2030 GHG target should be defined ambitiously enough to take the emissions reductions of the separate 2030 renewable energy and efficiency targets into account and provide additional incentives for emissions reductions beyond efficiency and renewable energy. In that way the three targets can work in a coherent and synergistic way.
- It is vital that the EU continues to ensure economy-wide, binding GHG targets for all its Member States. How these targets are set depends on the effort sharing approach that is taken. Innovative approaches to burden sharing should be carefully examined in the 2030 White Paper to facilitate constructive EU-wide discussion. New approaches to burden sharing may enable more cohesion within the EU and higher acceptability of ambitious 2030 targets.
- About 40% of the mitigation potential in the Effort Sharing sectors comes at no cost or yield cost savings. To fully benefit from significant cost-efficient reductions in the Effort Sharing sectors, the 2030 targets must be ambitious enough to drive substantial domestic action to decarbonize the Effort Sharing sectors.

- Better financing mechanisms can unlock additional reductions in Effort Sharing sectors. The White Paper should elaborate and propose new financing options that would enhance the potential of the Effort Sharing sectors to catalyze mitigation actions.
- Experience with the Emissions Trading Scheme (EU ETS) and the Effort Sharing Decision (ESD) shows that the use of international offsets has directly undermined EU climate goals and hampered domestic abatement efforts for a number of reasons, including evidence about non-additionality and concerns about double counting. International offsets should not be eligible under a 2030 climate and energy framework.

## INTRODUCTION

Emission reduction commitments of Annex 1 countries under the Kyoto Protocol and the voluntary reduction pledges for 2020 that other countries made under the Convention are insufficient to put global emissions on a path consistent with limiting global temperature increase to 2°C.<sup>1</sup> The recent graph from Climate Tracker below shows current emission pledges and emission trajectories and the projected rise in global temperature.



Source: Climate Action Tracker, [http://climateactiontracker.org/assets/CAT\\_20121208.pdf](http://climateactiontracker.org/assets/CAT_20121208.pdf)

Under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) Parties aim to develop a new more comprehensive climate agreement by 2015 for the period starting in 2020. The ADP's two work streams focus on increasing ambition before 2020 and on developing the new climate agreement for 2020 and beyond.

<sup>1</sup> UNEP, UNEP Emissions Gap Report 2012, November 2012, <http://www.unep.org/pdf/2012gapreport.pdf>

The EU's 2030 Climate Framework will play a vital part in ensuring comprehensive and effective climate action in the EU and also in facilitating a successful new global climate agreement. Only a well-designed and ambitious policy package for 2030 can achieve these two goals.

## 4.1. GENERAL

### WHICH LESSONS FROM THE 2020 FRAMEWORK AND THE PRESENT STATE OF THE EU ENERGY SYSTEM ARE MOST IMPORTANT WHEN DESIGNING POLICIES FOR 2030?

Carbon Market Watch is of the opinion that international offsets should not be eligible for compliance under the 2030 EU Climate Framework. Inter alia for the following reasons:

- Offsetting mechanisms are zero sum policy instruments meant to provide short term flexibility in meeting climate targets;
- Non-additional offsets and double counting are difficult to address and result in a net increase of emissions and therefore undermine climate goals;
- Offsetting hampers domestic abatement efforts.

Offsetting does not lead to emission reductions per se, it only allows for the geographical or sectorial shift of the emission reductions to enhance cost-effectiveness of emissions reductions.

Additionality, the concept that only projects that are beyond business-as-usual receive credits is therefore essential for ensuring that offsetting does not lead to a net global increase in emissions.

There have been serious quality concerns over the environmental integrity of certain project types in the Clean Development Mechanism (CDM) and Joint Implementation (JI). Research conducted for the CDM Policy Dialogue estimates that the CDM may have delivered less than half of the emissions reductions it sold. The research also highlights that if such 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 3.6 Giga tonnes CO<sub>2</sub>e through 2020. Under JI, the achieved climate benefits are likely to be even lower.

The use of non-additional international offsets directly undermines EU climate goals. Non-additional offset credits also undermine the economic effectiveness of climate policies by making it more expensive<sup>2</sup> to actually meet the necessary reduction targets to stay within the 2 degree limit. Currently Parties are discussing establishing rules and procedures for new market mechanisms that could generate internationally tradable units eligible for compliance under the UNFCCC. But it is far from likely that such new market mechanisms will deliver international credits with higher environmental integrity than the current Kyoto mechanisms.

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<sup>2</sup> Paying for offsets that did not result in additional emission reductions means that money is spent without the desired result. This means that at some point additional money will have to be spent and it will be more expensive to achieve the reduce emissions sufficiently to stay below 2 degrees warming.

In addition it is important to keep in mind that a post-2020 climate treaty will include commitments from developing countries. The risk of double counting of emission reductions that are sold as offsets is technically and politically difficult when both the host and buyer countries have reduction targets. Double counting undermines mitigation goals and economic efficiency and must therefore be avoided. Double counting is already a reality of emissions reductions sold under the CDM that originate in Non-annex 1 countries with a reduction pledge for 2020. Research shows that double counting of international offsets could reduce the ambition of international climate pledges (developed and developing countries) by up to 1.6 billion tons CO<sub>2</sub>e in 2020, equivalent to roughly 10 percent of the total abatement required in 2020 to stay on a 2°C pathway.

The use of Kyoto offset credits in the EU ETS and under the ESD was originally meant to be a cost containment tool to allow ETS operators to choose the most cost effective manner for greenhouse gas (GHG) abatement at company level. However, exceptional macro-economic developments and the fact that emissions have been substantially lower than the cap rendered the quantity limit of international credits in the period 2008 to 2020 too generous. This in turn has been a major driver for the build-up of the surplus. According to the recent European Commission report “The state of the European carbon market”, the use of international offsets in the EU ETS has almost doubled the oversupply in the period 2008-2011 and is estimated to amount to three quarters of the oversupply by 2020. Such oversupply undermines the EU ETS market and stifles mitigation action in Europe.

In the long term, it is necessary not to allow the use of international credits to encourage more ambitious domestic cuts, trigger more investment in low carbon technologies and enable EU industry to reach its decarbonising goal of 80%-95% by 2050. A recent study<sup>3</sup> recommends that the use of offset credits post 2020 should be prohibited from both the EU ETS and the ESD. This will drive domestic abatement and spur investment in low carbon technologies in EU industry.

In order to achieve this, action pre-2020 is needed. The threat of over-supply of international offsets pre-2020 combined with the serious quality concerns highlight the urgent need to change rules of allowing international credits pre-2020 into the EU. Lessons from the EU ETS with regards to offsetting have already been taken into account by emerging emission trading schemes around the world. Switzerland is considering restricting the use of offset credits from large hydro projects and South Korea has completely banned the use of international offsets up to 2020.

Reducing the number of offsets allowed for compliance and putting in place use restrictions of international credits from non-additional project types both in the EU ETS and under the ESD up to 2020 are vital steps to avoid that the EU climate goals are undermined by substandard carbon credits that do not reduce emissions and increase global emissions if used for compliance.

Finally, lack of environmental integrity is not the only issue that makes international offsets problematic. Offset credits have also been criticized because of their negative social impacts. Two registered CDM projects, the Aguán Biogas Project in Honduras and the Barro Blanco Hydropower Project in Panama have been under public

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<sup>3</sup> Ecofys, ‘The Next Step in Europe’s Climate Action: Setting Targets for 2030 - Reviving the EU emissions trading system and bringing EU greenhouse gas emissions on a 2°C track’,

<http://www.ecofys.com/files/files/greenpeace-ecofys-2013-next-step-in-eu-climate-action.pdf>

scrutiny because of allegations of human rights abuses on local communities. Yet, the CDM Executive Board has stated that it has no mandate to investigate human rights abuses. In response, a study by the European Parliament's Subcommittee on Human Rights advises that the EU, as the major purchaser of CDM credits, should take these requirements into account to ban JI/CDM credits generated by projects that violate human rights from the EU ETS. (Study requested by the European Parliament's Subcommittee on Human Rights, 'Human Rights and Climate Change: EU Policy Options, Directorate General for External Policies').

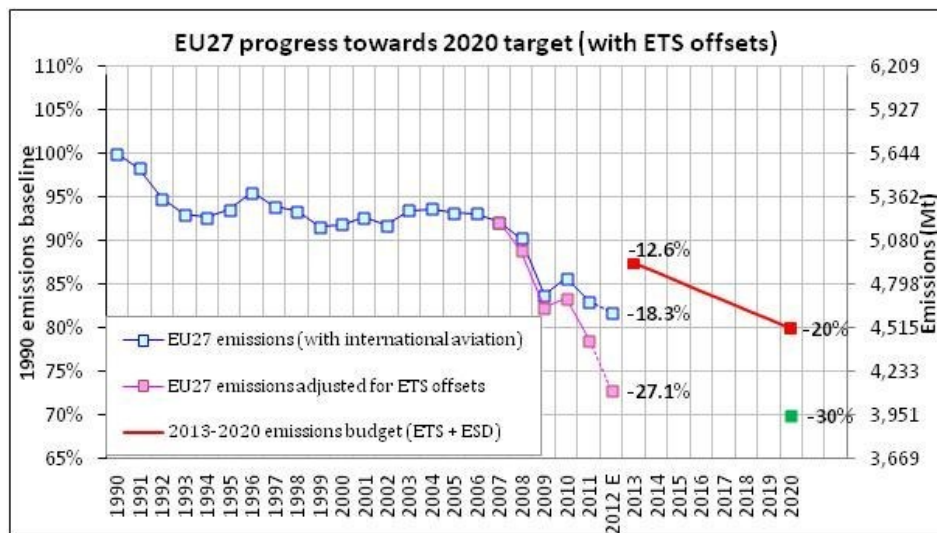
## CARBON MARKET WATCH RECOMMENDS:

- Implement quality and quantity restrictions on eligible offsets pre 2020 under the EU ETS and the ESD
- Not to allow the use of international offsets for compliance under the 2030 EU Climate Framework

## 4.2. TARGETS

**WHICH TARGETS FOR 2030 WOULD BE MOST EFFECTIVE IN DRIVING THE OBJECTIVES OF CLIMATE AND ENERGY POLICY? AT WHAT LEVEL SHOULD THEY APPLY (EU, MEMBER STATES, OR SECTORIAL), AND TO WHAT EXTENT SHOULD THEY BE LEGALLY BINDING?**

Seven years ahead of schedule, the EU has already met its reduction target for 2020 of 20% below 1990 levels. Including the use of international offsets, Europe's 2012 emissions are already 27% below 1990 levels (see graph below).



Source: Sandbag Climate Campaign, [Europe risks going backwards on climate change unless emissions targets are increased](#)

The EU's 2020 targets are not in line with a cost-effective trajectory towards the upper end of the 80%-95% emission reduction target in 2050, as indicated in the European Commission's Roadmap for moving to a competitive low carbon economy in 2050.<sup>4</sup>

In order to enable an ambitious and economically efficient 2030 Climate Framework the 2020 emission reduction target needs to be increased to a domestic emission reduction target of at least 30% by 2020. Furthermore, binding national targets for energy savings need to be set, and measures taken to ensure the renewable energy targets are reached without compromising sustainable development objectives. Increased targets can only deliver additional reductions if they are coupled with quantity and quality restrictions on international offsets. The currently overgenerous use of offsets and their limited quality are undermining domestic action and mitigation goals.

The 2030 Climate Framework needs to be based on ambitious, economy-wide, and binding targets. The European Commission's recommendation of a 40% emissions reduction target for 2030 is insufficient. In order for the EU to do its fair share to avoid warming above two degrees, the EU should choose a domestic reduction target for 2030 of at least 55% below 1990 emission levels.

### **CARBON MARKET WATCH RECOMMENDS:**

- **A domestic reduction target for 2030 of at least 55% below 1990 emission levels.**
- The EU's 2030 Climate and Energy Framework to include a set of **ambitious, coherent and binding EU-wide and national targets for emission reductions, energy savings, renewable energy production and support for international climate change mitigation and adaptation efforts.**

### **HAVE THERE BEEN INCONSISTENCIES IN THE CURRENT 2020 TARGETS AND IF SO HOW CAN THE COHERENCE OF POTENTIAL 2030 TARGETS BE BETTER ENSURED?**

Targets for EU's GHG emission reductions, renewable energy and energy efficiency are all necessary to put the EU on an economically viable low carbon development path. For example, the deployment of renewables and the ETS policies are mutually reinforcing, as originally designed. The current economic crisis and the unsustainable use of international carbon credits are undermining the carbon price, and not renewables deployment, as suggested by some stakeholders.

A similar approach that sets three targets supporting each other should hence also be taken for the 2030 energy and climate package. The economy-wide 2030 GHG target should be defined ambitiously enough to take the emissions reductions of the separate 2030 renewable energy and efficiency targets into account and provide additional incentives for emissions reductions beyond the efficiency and renewable energy targets. In that way the three targets can work in a coherent and synergistic way. To ensure a stable investor framework an

<sup>4</sup> European Commission, 'Roadmap for moving to a competitive low carbon economy in 2050', [http://ec.europa.eu/clima/policies/roadmap/index\\_en.htm](http://ec.europa.eu/clima/policies/roadmap/index_en.htm)

(automatic) ETS cap adjustment could be introduced to guarantee the health of the carbon price to respond to a fall in demand for EUAs.

If only a GHG target was set, national renewable energy targets and efficiency plans would interfere with the ETS/carbon price because the equivalent in emissions reductions may not be properly forecasted and thus not factored in. Setting targets for renewable energy and energy efficiency are therefore necessary to avoid undesirable effects.

### **CARBON MARKET WATCH RECOMMENDS:**

- **The 2030 Climate Policy package should include economy-wide GHG emission reductions, renewable energy and energy efficiency targets and ensure that they can work in a mutually reinforcing, synergistic ways. This includes setting GHG targets in such a way that they take the emissions reductions of the separate 2030 renewable energy and efficiency targets into account.**

## **4.3. INSTRUMENTS**

### **ARE CHANGES NECESSARY TO OTHER POLICY INSTRUMENTS AND HOW THEY INTERACT WITH ONE ANOTHER, INCLUDING BETWEEN THE EU AND NATIONAL LEVELS?**

It is vital that the EU continues to ensure economy-wide, binding GHG targets for all its Member States. Effort Sharing Decision (ESD) sectors are responsible for 58% of the EU's greenhouse gas emissions, with buildings and transport being the largest emitters. Without the ESD the EU would not have a binding economy wide target.

However, the ESD is in need of structural reform. Due to weak ESD 2020 targets combined with the effects of the economic crisis, Member States will have to do little to meet their 2020 targets. In addition, two thirds of the overall emission reductions required by 2020 can come from international credits, including from the offsets from industrial gases that are already banned in the EU-ETS. The ESD is also currently not sufficiently integrated with other parts of the 2020 framework.

A recent study<sup>5</sup> shows that four years after the entry into force of the ESD, 41% of Member States are still not actively engaged in implementing mitigation policies in the ESD sectors. This is a reflection of the fact that current targets and flexibilities are so lenient that most Member States will be able to meet their goals even without implementing additional measures.

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<sup>5</sup> Final Report to the European Commission, 'Next Phase of the European Climate Change Programme: Analysis of Member States actions to implement the Effort Sharing Decision and options for further community-wide measures' (contract DG ENV C.5/SER/2009/0037), [http://ec.europa.eu/clima/policies/effort/docs/esd\\_final\\_report\\_en.pdf](http://ec.europa.eu/clima/policies/effort/docs/esd_final_report_en.pdf)

➤ **ESD sectors can deliver cost effective reductions with co-benefits**

European Commission studies<sup>6</sup> demonstrate that many ESD sectors offer opportunities for significant additional reductions cost-effectively. Mitigation action in ESD sectors therefore need to be an important element of making an ambitious reduction target for 2030 feasible and cost effective. Many of these currently untapped abatement opportunities come with co-benefits (such as lowering energy costs in housing and improving local air quality). It has been estimated that about 40% of the mitigation potential in the ESD come at no cost or yield cost savings.<sup>7</sup> This underlines the important role the ESD has to play in ensuring the EU can deliver on a domestic mitigation target for 2030 that is in line with the 2050 reductions and the 2 degree goal.

➤ **Burden-sharing needs to be reconsidered to ensure cost-effectiveness and political acceptability**

The overall EU target under the ESD is a 10% emission reduction in 2020 compared to 2005 levels. Each Member State has an individual ESD target determined according to its economic capacity, based on the country's GDP.

Evaluating new approaches to burden sharing may enable finding solutions that not only lead to more cost effective, higher mitigation action in the ESD sectors but may also lead to more cohesion within the EU and higher acceptability of ambitious 2030 targets.

For example, a recent IEEP analysis<sup>8</sup> evaluated burden sharing based on geography of most cost efficient mitigation potential. The results showed that 7 Member States alone (Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania and Malta) hold the highest of untapped low cost CO<sub>2</sub>e reduction potentials. However, many of these countries face considerable challenges to access capital. Coupling targets with new financing solutions that direct capital to countries with a large mitigation potential may enable less wealthy Member States to engage in more mitigation activities. A burden sharing model based on combined metric of ability to pay and low marginal abatement costs is one possible option to lowering the overall cost of climate change mitigation and could provide a political route to higher ambition. Such innovative approaches to burden sharing should be examined carefully in the 2030 White Paper.

➤ **Innovative financing solutions are needed**

Better financing mechanisms are needed to help unlock reductions in Effort Sharing sectors.

Green Investment Schemes (GIS) have been used for trades with Kyoto allowances (AAUs). The seller country agrees with the buyer country to invest profits from the AAU sale into domestic mitigation efforts. Although the experience with GIS has been mixed, some GIS have been successful in creating additional mitigation action, for example in the building sector. A similar GIS could be mandated for trades of AEAs.

<sup>6</sup> Final Report to the European Commission, 'Next Phase of the European Climate Change Programme: Analysis of Member States actions to implement the Effort Sharing Decision and options for further community-wide measures' (contract DG ENV C.5/SER/2009/0037), [http://ec.europa.eu/clima/policies/effort/docs/esd\\_final\\_report\\_en.pdf](http://ec.europa.eu/clima/policies/effort/docs/esd_final_report_en.pdf)  
Behavioural Climate Change Mitigation Options and Their Appropriate Inclusion in 'Quantitative Longer Term Policy Scenarios Main Report', Report Delft, April 2012, DG Climate Action contract 070307/2010/576075/SER/A4.

<sup>7</sup> Idem

<sup>8</sup> Discussion Paper, 'Achieving more climate Ambition in the EU: Distribution Options', Institute for European Environmental Policy, Oko Institute, Greenpeace, CAN Europe, [http://www.ieep.eu/assets/817/Background\\_report\\_distribution\\_options.pdf](http://www.ieep.eu/assets/817/Background_report_distribution_options.pdf)



GIS have not been sufficiently streamlined and robust in terms of monitoring, reporting and verification. In order to provide an acceptable standard, any mandatory GIS under the ESD would need to come with Commission implementing legislation or guidelines for project eligibility criteria and accounting guidelines.

Yet GIS type schemes can only be successful if sufficient demand exists that ensure trading of AEAs. In other words, GIS only makes sense with sufficiently high ESD targets.

Other financing options exist that do not necessarily require the trading of AEAs. Similarly to the NER300, a small portion of AEA's could be auctioned or sold to Member States to create a pool of capital that could be reinvested into mitigation projects.

The white paper should elaborate and propose new financing options that would enhance the potential of the ESD to catalyze mitigation actions.

➤ **The ESD and Energy Efficiency and Renewables targets need to be set so they are mutually reinforcing and synergistic**

The ESD targets should be defined ambitiously enough to take the emissions reductions of the separate 2030 renewable energy and efficiency targets into account and provide additional incentives for emissions reductions in other sectors. In that way the three targets can work in a coherent and synergistic way. Ambitious ESD targets, covering all non-ETS sectors, can create synergies but should not replace binding Energy Savings targets. The ESD should remain the structural 'chapeau' covering the potential from many sectors above and beyond the potential from improved energy efficiency.

## **CARBON MARKET WATCH RECOMMENDS:**

- **The 2030 targets in the ESD must drive substantial domestic action to decarbonize the ESD sectors and unlock untapped abatement opportunities.**
- **Effort sharing options should be carefully evaluated to identify approaches that enhance EU cohesion, political acceptability and cost-effective ambitious mitigation action.**
- **The European Commission should put forward options for new financing mechanism that can enhance the effectiveness of the ESD.**
- **ESD targets must be set in such a way that they take the emissions reductions of the separate 2030 renewable energy and efficiency targets into account. Cohesion of the different policy tools needs to be carefully examined and improved so that the ESD is able to enhance the effectiveness of other policies such as the Energy Efficiency Directive.**

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## ABOUT NATURE CODE

Nature Code – Centre of Development & Environment is a non-profit non-governmental organisation with global reach. In accordance with our objectives and purpose, per our Statutes:

### The Association aims at...

- Contributing to promoting the principle of sustainable development and an environmentally sound economy as key pillars of society, politics and business;
- Conserving biological diversity and protecting and restoring nature and all its components as well as halting the destruction and degradation of nature and the environment;
- Supporting civil society groups in developing countries to protect themselves against the impact of climate change and to adapt to the requirements of a sustainable energy system;
- Opposing activities of society, politics and business that impair the quality of life and the environment; and
- Promoting models and best practice examples for sustainable ways of living and working, both in developed and developing countries.

### The Activities of the Association are for...

- Publication and dissemination of information
- Capacity building for civil society groups in developing countries
- Awareness raising for sustainable lifestyles
- Establishing contacts to other groups in society

Nature Code is on the [European Transparency Register](#) and is also a member of the [Climate Action Network Europe \(CAN\) – Europe](#).