Driving domestic climate action

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Effort Sharing – How to unlock the potential of non-ETS sectors in the 2030 Climate Package

6 November 2013, European Parliament

Content

- Flexibilities in the ESD
- Use of offsets vs domestic action
- Offset quality issues
- ESD reporting requirements
- International developments
- Looking ahead

How are MS doing?

Projected to meet ESD 2020 goals with current measures	Projected to need currently planned additional measures	Need more additional measures than currently planned
Croatia	Bulgaria	Austria
Cyprus	Germany	Belgium
Czech Republic	Italy	Finland
Denmark	Latvia	Ireland
Estonia	Lithuania	Luxembourg
France	Netherlands	Spain
Greece	Slovenia	
Hungary		
Malta		
Poland		
Portugal		
Romania		
Slovakia		
Sweden		
United Kingdom		

→ **Only 6 Member States need additional measures, use offsets or purchase AEAs to reach target**

Information taken from: EEA report [Trends and projections in Europe 2013 – Tracking progress towards Europe's climate and energy targets until 2020]

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Flexibilities to meet targets

Annual ESD targets are expressed as annual emission allocations (AEAs)

AEAs for each Member State and year were approved in October 2012 adjusted in October 2013. AEA trading is possible:

Within the Member State:

- Overachievement in a given year can be carried over to subsequent years, up to 2020;
- From 2013-2019 an emission allocation of up to 5% may be carried forward from the following year

Between Member States

- From 2013-2019 MS may transfer (for instance, by selling) part of their AEA for a given year to other Member States under certain conditions

Use of offsets in the ESD

- The use of international offset credits (JI/CDM) in the ESD is limited to 3% of each Member State's allowances in 2005.

→ **About 60% of the overall emission reductions required by 2020 under the ESD can be met through the use of international credits.**

- Up to 750 million credits could be used during the period from 2013 to 2020.

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Offsets hamper domestic action

- Offsetting was meant to be a cost containment tool.
- Emissions were substantially lower than expected. This rendered the quantity limit of offsets is too generous.
- MS have no incentive to implement domestic action at current low costs of offsets (~0.5 EUR)
- Without international offsets (EU ETS and ESD), the EU could have cut its emissions domestically by **additional 1.4 billion tonnes of emission reductions from 2008-2012** alone.

Offsets undermine climate goals

- Offsets from the **Clean Development Mechanism** may have **delivered no more than 40% of the emissions reductions it sold**. (Assessing the Impact of the CDM. Report for the High-Level Panel on the CDM Policy Dialogue)

→The use of international offsets likely undermined the EU's climate goal by 840 million tonnes from 2008-2012.

- Under **Joint Implementation**, 97% of all credits issued to date (830 million) were issued **with no international oversight** mainly by Russia and Ukraine

→Offset credits from clearly detrimental project types should be banned immediately from use in the EU.

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Quality restrictions in the ESD

Not like in the EU ETS, in the ESD Member states can decide unilaterally on the offset types they want to use:

→ **22 Member States have committed to extend the ban of industrial gas credits to non-ETS sectors.**
→ **Hungary, Ireland, Italy, Lithuania, Poland and Spain refused to extend the EU-ETS;**
→ **Some European countries have already gone beyond the quality restrictions placed under the EU-ETS:**

1) **Norway** has declared not to purchase carbon offsets from projects that continue regardless of financial support through the CDM, such as large hydro and **wind farm projects.**
2) **United** Kingdom has declared it will not issue approval letters for future coal power CDM projects (though, not cancelling already issued ones)
3) The **Flemish government** has recently announced in a tender that it will not buy credits from large hydro power and coal power projects.

Reporting requirements

MS have to prepare annual reports about :

- The use, geographical distribution and types of JI/CDM credits
- Qualitative criteria applied;
- Projected progress towards meeting their emission limits in 2013-2020;
- Information on planned additional national policies and measures to meet commitments beyond those in the Decision.

If a Member State's emissions exceed its annual emission allocation even when the flexibilities are taken into account, they will need to take corrective measures.

→ **First report for the year 2013 due in 2015**

MMR REGULATION (EU) No 525/2013

UNFCCC: carbon markets after 2020

New climate deal under the UNFCCC:
Parties aim to develop a new more comprehensive climate agreement by 2015 for the period starting in 2020.
→ **After 2020: It is still completely unclear what the role of carbon markets in general and international offsets in particular will be.**

CDM and JI rules («modalities and procedures») are currently being revised under the UNFCCC.
→ **Political willingness for extensive reforms is very low.**
→ **It is unclear in what form these mechs will exist after 2020.**

New Market Mechanisms
Rules and procedures currently under negotiation under the UNFCCC.
→ **There is very little agreement on what such new market mechansism shoudl look like.**
→ **Given the experiencne with existing market mechansims it is unlikely that such new markets will have higher integrity than the existing ones**

Rethinking the role of carbon markets

- → Existing carbon markets have **drastically underperformed**
- → Use of offsets has **stifled domestic action**
- → Use of low quality offsets has increased global emissions and **undermined climate goal**
- → **Willingness** to improve quality rules at international level has been **low**
- → Cap-and-trade schemes have been undermined by **inflexible designs**
- → **Lack of political will to rectify** oversupply has led to large price fluctuations and price crash

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Recommendations

- An **ambitious domestic climate target** of at least 55%
- **No international offsets to** meet mitigation obligations
- Immediate substantial **reforms of the ESD**
- **No carry-over** of offsets, allowances and allocations to a post-2020 framework

→ Flexibilities need to be designed to foster inner-EU equity and address barriers to mitigation for domestic action.

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