# Meeting Report:
# European Parliament lunch debate Effort Sharing – how to unlock the potential of non-ETS sectors in the 2030 climate package

**6 November 2013**

Carbon Market Watch together with Client Earth, Global Alliance for Incinerator Alternatives (GAIA) and Transport & Environment (T&E) organised a lunch debate in the European Parliament on 6 November 2013, kindly hosted by Fiona Hall MEP (ALDE/UK), Bas Eickhout MEP (Greens,EFA/NL), Peter Liese MEP (EPP/DE) and Marita Ulvskog (S&D/SE).

In light of the recent developments around the forthcoming 2030 White Paper on Climate and Energy Policies, which is expected to be presented by the European Commission on 22 January 2014, the event was dedicated to the importance of the Effort Sharing Decision (ESD), the piece of legislation that deals with reducing emissions in sectors not covered by the Emissions Trading Scheme which represent almost 60% of the EU's GHG emissions.

Presentations focused on the importance for shoring up more ambitious targets and achieving important co-benefits in non-traded sectors covered by the ESD (buildings, transport, agriculture and waste). Key highlights can be summarised as follows:

- ESD sectors account for 60% of emissions yet only do 1/3 of the heavy lifting for the 2020 GHG target
- Current ESD is inadequate and represents low ambition (-10% reductions by 2020 from 2005 levels) and the EU's agreement of 80 to 95% reductions by 2050 can only be achieved with economy wide targets
- A fair and simple approach that would also reward early action is to have an equal per capita reduction target of -31 below 2005 for 2030.
- Green Paper consultation submissions have highlighted the untapped cost abatement potential in ESD sectors and the need to reform the policy framework
- Biggest investments are needed in the ESD sectors, not in the ETS
- Offsets from the Clean Development Mechanism may have delivered no more than 40% of the emissions reductions it sold;
- The current surplus of Annual Emission Allocations (AEAs) of around 500 million can be carried over to 2030 which will water down 2030 targets

- Use of flexible mechanisms like the CDM and JI is not necessary anymore as it will only add to the current surplus
- Members states currently don't have any incentives to implement domestic action at the current low costs of offsets (~0.5 EUR)
- Flexibilities need to be redesigned to foster inner-EU equity and address barriers to mitigation for domestic action.

You can download background documents of the event and the presentations here . Below is a short summary of the presentations and discussions.

**Bas Eickhout MEP** (Greens, EFA/NL) introduced and moderated the event. He underlined the importance of the discussion around ESD emissions and the potential for cost effective mitigation. While the ESD sectors currently have very low targets, he highlighted that the upcoming White Paper on the 2030 Framework on Climate and Energy Policies should propose ways to unlock the mitigation potential in ESD sectors.

**Eva Filzmoser, Director,** Carbon Market Watch gave a brief introductory note on the current state of ESD emissions and targets. She explained the role of the ESD in the context of staying within the two degrees carbon budget and reminded that ESD emissions represent almost 60% of EU wide emissions.

**Hauke Hermann**, Researcher, Oeko Institut, Berlin, delivered a presentation ***"Where are we now? Progress towards Europe's climate and energy targets until 2020"***. The presentation assessed current emission trends and the progress towards reaching 2020 emission reduction targets under ESD. Highlights included:

- In 2012, the surplus of Annual Emission Allocations (AEAs) is around 500 million tonnes CO2e and increasing
- The surplus, under current rules, can be carried over to 2030 which will water down 2030 targets
- Highest per capita emissions means higher abatement potential
- Use of flexible mechanisms like the CDM and JI is not necessary anymore as it will only add on to the current surplus
- Long term perspective of staying within the 2°C carbon budget is incompatible with growth targets in ESD sectors
- A fair and simple approach that would also reward early action is to have an equal per capita reduction target of -31 below 2005 for 2030.

**Pernille Sørensen**, Climate Policy and Strategy Chief Advisor, Denmark Ministry for Climate, Energy and Building, delivered a presentation entitled '***Visualising the new Danish national Climate Change Plan***'**.** The presentation gave an overview on the progress on Danish climate and energy targets. Highlights included:

- Headline results for 2020 in Denmark include a 35% share of renewable energy in the final energy consumption and a 34% GHG reduction compared to 1990 levels

- For the energy sector, a fossil fuel phase out and RES conversion by 2050 as well as a 100% RES conversion by 2035 in the electricity sector
- Danish climate policy has a two tier approach: pushing for ambitious action at EU level and taking ambitious action at national level
- Climate Change Act in the forthcoming parliamentary year is expected to establish a permanent framework for the green transition.

**Stefan Vergote,** Head of Unit, European Commission, DG Climate Action, Strategy and Economic Assessment , delivered a presentation on ***'Role of the Effort Sharing Decision after 2020'***. The presentation tried to convey ESD's role in a 2030 Climate and Energy Framework. Highlights included:

- ESD discussion on targets and ambition is timely and important for future EU climate and energy targets
- There is the need to reflect upon a cost effective approach in ESD as well as instruments within the policy framework that enable industry to have investment certainty
- Green Paper consultation submissions have highlighted the untapped cost abatement potential in ESD sectors and the need to reform the policy framework
- The biggest investment are needed in the ESD sectors, not in the ETS
- The behavioural change aspect of the ESD is also very important
- Setting national targets can prove contentious and the approach towards that must be carefully considered in the future
- Financing emission reductions is an important part of the ESD debate
- ESD can be an important tool to breach the gap between better off EU member states and the ones in which, for example, energy poverty is a problem.

**David Holyoake**, Law and Policy Advisor, Climate & Energy Programme, Client Earth delivered a presentation entitled ***'The 2030 package fit for purpose'*****.** The presentation highlighted the potential for reform in ESD sectors and the importance of this for 2030 targets. Highlights included:

- EU's agreement of 80 to 95% reductions by 2050 can only be achieved with economy wide targets
- Advantages for a reformed ESD include: improved coherence with energy efficiency legislation and important co-benefits like better air quality and additional jobs)
- A reformed ESD also enjoys multi stakeholder support
- Current ESD is inadequate and represents low ambition (-10% reductions by 2020 from 2005 levels)
- ESD sectors account for 60% of emissions yet only do 1/3 of the heavy lifting for the 2020 GHG target
- There is significant mitigation potential by 2020 and beyond, ESD must play a significant role in setting 2030 targets
- Consequences of not reforming current ESD targets include: reduced incentives for smart national policies, undermining 2050 goals, inadequate investor certainty and missed opportunity for financing mechanisms (AEAs = wasted revenue stream)

- Reform should include the possibility to adjust AEAs commitment for upwards review of GHG target ambition every 5 years.

**Eva Filzmoser, Director,** Carbon Market Watch, delivered a presentation entitled **'*Driving Domestic Climate Action*'**. The presentation focused on the use of flexible mechanisms in the ESD and the missed potential for domestic mitigation.

- Only 6 member states need additional measures than currently planned in order to reach 2020 GHG targets
- The use of international offset credits (JI/CDM) in the ESD is limited to 3% of each Member State's allowances for 2005
- While this can seem a small amount of offsets, about 60% of the overall emission reductions required by 2020 under the ESD can be met through the use of international credits
- This means that up to 750 million credits could be used during 2013 to 2020
- Offsetting was initially meant to be a cost containment tool
- The fact that emissions were substantially lower than expected rendered the quantity limit of offsets too generous
- Members states currently don't have any incentives to implement domestic action at the current low costs of offsets (~0.5 EUR)
- Research shows that offsets from the Clean Development Mechanism may have delivered no more than 40% of the emissions reductions it sold
- Under Joint Implementation, 97% of all credits issued to date (830 million) were issued with no international oversight by Russia and Ukraine
- Not like in the EU ETS, in the ESD, member states can decide unilaterally on the offset types they want to use
- Offset credits banned under the EU ETS like HFC 23 and N2O adipic acid can still be used in ESD sectors
- Flexibilities need to be redesigned to foster inner-EU equity and address barriers to mitigation for domestic action.

The subsequent discussion raised the issue of agricultural emissions for member countries were these represent a large share of the ESD sector. It also pointed towards the limited options for mitigation in the agricultural sector and the need to look at land use and agriculture emissions together. Furthermore, there was across the table agreement that, to push the ESD reform further and better integrate the ESD in the overall 2030 framework, the upcoming White Paper must propose innovative financing mechanisms and ambitious targets.

**Peter Liese** MEP (EPP/DE) and **Fiona Hall** MEP (ALDE/UK) underlined that the ESD is a very important part of EU climate legislation but it does not currently enjoy the status as such mainly because of the low levels of ambition. This must change for 2030 and the ESD must be a prominent part of the 2030 framework. **Fiona Hall** cautioned about the risk of disincentivizing action at national level if the ESD is not reformed. **Peter Liese** expressed deep concern about the fact that member states and governments can still continue to use offsets that have been banned in the EU ETS for their low environmental integrity. He mentions that this is a paradox and immediate action is needed to make sure that, at a bare minimum, the same quality restrictions under the EU ETS apply also to ESD sectors. Furthermore, having member states that are still allowed to raise their current emission levels under the ESD cannot be acceptable anymore in the case of 2030 targets, all member states must commit to reduction targets.


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