



# European Council must close loopholes in the 2030 climate & energy framework

On 22 January 2014 the European Commission proposed a new reduction target for greenhouse gas (GHG) emissions of 40% compared to 1990 as the centre piece of the EU's energy and climate policy for 2030. In a significant move away from the earlier 2020 energy and climate framework, the Commission proposed that this target be met through domestic measures alone.

First and foremost, a 40% target is insufficient to ensure Europe can meet an 80-95% reduction of emissions in 2050. Moreover, the effectiveness of the 40% GHG target is threatened by the gigantic surplus of more than 2.5 billion emissions allowances under the EU ETS. If carried over to the next trading period starting in 2020, this surplus would not only undermine the effectiveness but also the domestic nature of the GHG target because it would allow as much as 1.6 billion tonnes, the equivalent of the number of international offsets that entered the EU ETS during the period 2008-2020, into the 2030 climate system through the backdoor.

The Commission proposes that a more ambitious target beyond 40% could be achieved by allowing access to international offset credits. Numerous experts have analysed the impacts of international offsets and have come to the conclusion that their use has substantially undermined EU climate goals. Offset credits that only represent emissions reductions on paper but not in reality mean that at some point additional money will have to be spent to reduce emissions.

Finally, the European Commission proposed to add the land-use, land-use change and forestry sectors (LULUCF) in the 2030 GHG target. However, LULUCF represents a net sink in the EU's 28 Member States. Carbon sink activities in these sectors would therefore undermine the effectiveness of the GHG target

## To improve the European Commission's proposals, Carbon Market Watch calls on the European Council to:

1. Agree to increase the 2020 GHG target to 35% to pave the way for a target of at least 55% in 2030 together with binding targets for both renewable energy and energy efficiency;
2. Endorse the domestic nature of the 2030 GHG target and call on the European Commission to propose a solution to permanently remove the surplus emissions allowances in the EU ETS;
3. Agree to increase the GHG target in case the surplus allowances do not get removed;
4. Call on the European Commission to introduce EU-wide quality restrictions for all international offsets used in the EU-ETS up to 2020 and beyond, e.g. for climate finance in case offsets are cancelled or for mitigation compliance beyond the EU's overall GHG target;
5. Agree that the 40% GHG target needs to be increased in case of the inclusion of the LULUCF sectors under the EU's GHG target.

## **1. HIGHER DOMESTIC TARGETS ARE POSSIBLE AND WOULD BRING EUROPE MULTIPLE ECONOMIC AND SOCIAL BENEFITS**

In Doha at the 8th meeting of the parties to the Kyoto Protocol (CMP8), countries with a commitment in the second commitment period of the Kyoto Protocol agreed to “revisit” their 2020 commitments by 2014 and present “information relating to its intention to increase the ambition of its commitment” ahead of the intersessional UNFCCC conference to take place in June 2014.

Several EU Member States have indicated their willingness to go beyond 40% domestic GHG reduction. While this is a commendable and much needed step in the right direction, it is important to reconsider how the additional emissions reductions can be best achieved.

Offsets may be cheaper in the short term than purchasing allowances or implementing additional mitigation measures to meet targets, but this view is short-sighted. A broader assessment of policy options shows that the ancillary benefits of many domestic policies that lead to lower greenhouse gas emissions are very significant. Also, the use of offsets postpones domestic action. This

in turn means that less money is invested in low-carbon infrastructure. This can lead to so-called “technological lock-in” which in the long term may make the transition to a low carbon economy more expensive.

The use of poor quality carbon offsets has also undermined the economic efficiency of EU climate goals: offset credits that don’t reflect real emissions cuts lead to an increase in global emissions. This means that additional money will need to be invested to reduce emissions, on top of the cost of buying offsets. In other words, offsets that only represent emission reductions on paper but not in reality means that at some point additional money will have to be spent to reduce emissions sufficiently to stay below 2 degrees warming. A higher domestic GHG reduction target is both, economically feasible as well as beneficial. A first necessary step would be to raise the EU’s 2020 target to at least 35%. Such a raise would pave the way for a domestic target of at least 55% in 2030<sup>I</sup>.

## **2. THE SURPLUS OF EMISSIONS ALLOWANCES IN THE EU ETS UNDERMINES THE DOMESTIC NATURE OF THE GHG TARGET**

The European Commission estimates that the surplus in the EU ETS will amount to more than 2.5 billion emission permits by 2020. Two thirds of these (1.6 billion) are due to the inflow of international offsets in the system during the period 2008-2020.

The current rules allow for a full carry-over of all surplus emission permits to the next trading phase starting in 2020. If the amount of surplus that has been built up by the use of international offsets remains unaddressed, the surplus would not only significantly undermine the effectiveness of the EU’s greenhouse gas target, it would also provide a backdoor for international offsets to be counted towards the 2030 greenhouse gas target.

The European Commission has also presented a proposal to reform the EU ETS.<sup>II</sup> The proposal centres on the idea of establishing a ‘market stability reserve’ from 2021 that would automatically adjust the existing supply of allowances in the market to cater for demand shocks and stabilize prices. The current proposal would only operate from 2021 onwards and does not address the over-supply from the period until 2020. Although, the proposal could be amended to ensure the domestic nature of the 40% GHG reduction target and at the same time lead to a meaningful EU carbon price, the Council should call on the European Commission to propose a solution to permanently remove the surplus emissions allowances in the EU ETS.

## **3. THE 40% GHG TARGET NEEDS TO BE INCREASED TO TAKE INTO ACCOUNT SURPLUS ALLOWANCES IN THE SYSTEM**

If the EU ETS surplus is fully carried over it could weaken the 40% GHG reduction target by as much as 7% and lead to a de facto 33% reduction target by 2030.<sup>III</sup> In the non-ETS sectors, subject to the EU’s ‘Effort Sharing Decision’, the surplus is projected to be 500<sup>IV</sup> million. If the surplus was carried over, it could further weaken the current target by an additional 1%.<sup>V</sup> Considering that the business-as-usual scenario predicts a reduction of 32%<sup>VI</sup>, the use of the large surplus would render the

proposed target woefully insufficient.

Rules for the future of the Effort Sharing Decision beyond 2020 are yet to be decided. Until the crucial question of how to deal with this surplus in addition to the surplus under the Emissions Trading Scheme is addressed, the European Council should agree to increase the GHG target accordingly.

#### 4. QUALITY RESTRICTIONS FOR INTERNATIONAL OFFSETS ARE NEEDED IMMEDIATELY

Despite the domestic nature of the EU's 2030 GHG target, international offsets may be used by Member States that want to increase their own GHG targets beyond the EU-wide GHG targets. International offsets are also potentially an investment option for EU Member States to count towards international climate finance obligations, which have been promised to developing countries in the magnitude of 100 billion dollars annually from 2020. Offsets used for climate finance would need to be cancelled and could not be counted towards the buyer countries mitigation target. Otherwise double counting for financial and mitigation obligations would occur.

However, findings<sup>VII</sup> recently released under the CDM Policy Dialogue estimate that until 2020, the CDM may deliver less than 40% of the emissions reductions it sold. Between 2013 and 2020 more than two thirds of all issued offsets will come from large-scale business-as-usual energy projects that do not represent real emissions reductions because the projects would have

gone ahead anyway.<sup>8</sup> Instead of investing in clean energy projects in Europe, businesses are spending money on purchasing offsets from projects in developing countries that would have been built anyway. This is hardly a way to protect European competitiveness.

Under JI the situation is equally bleak: over 95% of JI offsets have been issued by host countries without international scrutiny. 90% have been issued by Russia and Ukraine with very limited transparency and environmental quality.

In theory, the shortcomings of the CDM and JI could be addressed under the UNFCCC. In recent years, the EU has tried to push for reforms but has been blocked by political stonewalling against stricter rules. It is therefore important to address these blatant quality concerns regardless of the domestic nature of the EU's GHG target. This is also important for the remaining 1 billion offset credits that can still be used under the EU's 2020 climate targets.

#### 5. THE 40% GHG TARGET NEEDS TO BE INCREASED TO ADDRESS THE ADDITIONAL NET SINKS OF THE LULUCF SECTORS

The proposal to include a new sector, the land-use, land-use change and forestry sectors (LULUCF) raises additional threats to undermine the 2030 GHG target. At present, LULUCF represents a net sink in the EU's 28 Member States. Potential carbon sink activities in these sectors to achieve the 40% GHG target would therefore lead to fewer emissions reductions in the sectors

where they are most needed to avoid technological lock in and ensure long term decarbonisation. Merging of emissions and removals is also problematic for other reasons, including the fact that fossil-fuel emissions are permanent and terrestrial carbon sinks can only be temporary.

**For additional background information, see [here](#) or:**

- [Policy briefing](#) - The role of international carbon markets in the EU's 2030 climate framework
- [Policy briefing](#) - How to unlock the potential of non-ETS sectors in the 2030 climate package
- [Policy Briefing](#) - The Elephant in the Room: International Offsets in EU's 2020 Climate Legislation
- [Submission](#) to EC Consultation on Green Paper: A 2030 Framework for Climate & Energy Policies
- [Media briefing](#) on EU 2030 Climate and Energy package

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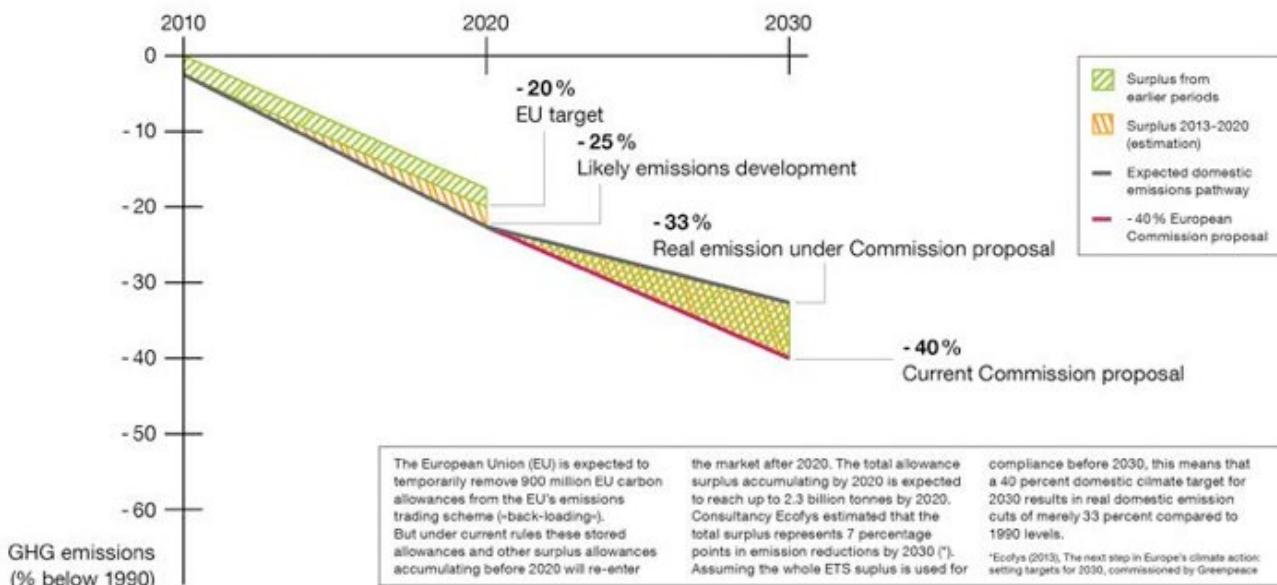
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- I. CAN Europe (2012). Closing the ambition gap: What can Europe do
- II. EC Communication (2014). [A policy framework for climate and energy in the period from 2020 to 2030](#) 2.4 Reform of the Emissions Trading System
- III. Ecofys calculation on the impact of the surplus:

**The impact of the EU carbon market surplus on post-2020 climate action**



- IV. [Trends and projections in Europe 2013](#), Table 7.1
- V. 500 million surplus emission reductions in the non-ETS sectors are the equivalent of about 10% of 1990 emissions. If these are used over a 10 year period (2021-2030) and we assume 50 million are used every year, then the proposed 40% be weakened by 1%.
- VI. [Impact assessment on energy and climate policy up to 2030](#), p.45
- VII. [Assessing the Impact of the CDM](#). Report Commissioned By The High-Level Panel On The CDM Policy Dialogue, July 2012
- VIII. [Transitioning Away from Large-Scale Power Projects: A simple and Effective Fix for the CDM?](#), Stockholm Environment Institute