Carbon Market Watch agenda - Spring 2020

The future of global carbon markets |Crunch time for the global aviation carbon market | *Will Europe find its way to climate neutrality?*|*Europe's heavy industry can and must decarbonise* | *Europe must lead on tackling pollution from ships* | *National energy and climate plans must be Green Deal-proofed*

The future of global carbon markets

Key dates:

- UNFCCC Bonn climate change conference, 31 May -10 June

The UN climate talks in Madrid last year ended in a dead-lock between countries such as **Brazil and Australia** that are eager to exploit loopholes for short-term profits and others, including **the EU and the group of small island states**, that want global carbon markets to have robust rules to safeguard long-term climate action.

The two most contentious issues are **the use of old credits** and **the possibility to double count** emission reductions. Another one is how to move markets **beyond mere offsetting**, so that they reduce emissions globally.

In the final hours of the talks, 32 countries signed onto so called "San Jose principles" that rule out the use of old Kyoto credits towards Paris climate targets as well as claiming emission reductions more than once.

Carbon Market Watch urges governments not to rely on offsetting but to focus on **reducing emissions at home**.

Those planning to use global markets should trade only with countries adhering to the *San Jose principles* and ensure that they only buy good quality credits from projects that **reduce emissions, benefit local communities,** and **uphold human rights**. The latter two criteria are still missing even from the San Jose declaration and must urgently be added.

Avoiding Article 6 becoming the biggest loophole in the Paris Agreement

- ➢ **No old credits from the Kyoto protocol market mechanisms can be allowed into the new post-2020 climate scheme**.
- ➢ The rules must ensure that **projects protect the environment** and **uphold human rights**, **including indigenous peoples' rights,** and **benefit local communities.**
- ➢ Markets must **reduce global emissions** instead of merely shifting pollution from one place to another.
- ➢ Clear and strong rules are needed to **avoid double-counting of emission reductions**.

Further information:

Briefing: Empty targets? How to avoid trading of hot air under the Paris Agreement
Policy Brief: Carbon markets 101 - the ultimate guide to global offsetting mechanisms
Article International carbon markets at the frontier to the wild west
Press release: COP25: No deal on UN carbon markets as a number of countries reject loopholes

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Crunch time for the global aviation carbon market

Key dates:

- 2-20 March, ICAO Council, Montreal, Canada

In 2016, member states of the International Civil Aviation Organisation (ICAO) established a carbon market *The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)* to **compensate for CO2 emissions growth for international flights above 2020 levels, starting in 2021**.

In March this year, the 36 member states of the ICAO Council will decide **which offset providers will be eligible to sell offsets to airlines** once CORSIA starts next year.

14 initiatives have applied to be acknowledged as eligible, none of which currently meets the full list of eligibility criteria set by ICAO. In any case, in the absence of an international agreement on how to avoid double-counting, it is **currently impossible to ensure that emission reductions are not claimed more than once**.

If CORSIA is to have any credibility, it will be crucial to ensure that:

- there is no double-counting of emissions reductions between CORSIA and other climate efforts such as under Article 6 of the Paris Agreement
- only *new* projects that truly reduce emissions, protect the environment, and benefit local communities will be eligible to receive money from airlines

Unfounded concerns about supply

- **The concern that too few credits will be available** to meet demand from airlines under the future aviation carbon market CORSIA **is misplaced**. Today's supply from **the three largest voluntary programmes alone is enough to cover CORSIA's demand until well into 2025.**
- The eligibility decision should, therefore, **focus on the quality of the units**, rather than agreeing on a weak interpretation of the criteria in order to inflate the supply of credits.
- Allowing the use of credits from the Clean Development Mechanism (CDM) **could flood the market with billions of units** and undermine the integrity of CORSIA.

Further information:

Carbon Market Watch factsheet: What will airlines buy to offset their pollution?

Article: CORSIA: demand, supply and scaremongering

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Will Europe find its way to climate neutrality?

Key dates

- Publication of the EU Climate Law 4 March

European Green Deal will require a major overhaul of Europe's climate laws, including the EU Emissions Trading System (EU ETS). Such a revision is envisaged by June 2021 – bringing it forward from the original timetable which was 2023.

The EU ETS reform will have to include **increasing the pace at which pollution is reduced annually** (the Linear Reduction Factor), **mandating auctioning revenues to be used towards climate action** and **phasing out free pollution subsidies**.

Other promising elements of the Green Deal include the proposals to **reduce the number of free pollution permits for airlines** and **bring international shipping under the EU ETS** as well as to **mobilise 100 billion euros to alleviate social and economic impacts of the transition to a climate-neutral EU**.

However, the Green Deal's success will be determined by how it translates into **short-term climate action**. For the EU to do its share to reach the Paris climate targets, it should aim to be carbon-neutral by 2040. This means that **the 2030 climate target must be raised to 65%**.

This new target must be put forward as soon as possible, in order for it to be adopted on time for the next UN climate change conference COP26.

Should the EU tax carbon at its border?

As part of the Green Deal, the Commission promises to introduce a border tax to protect European industry against competition from countries with laxer environmental regulation.

Carbon Market Watch considers that such measures should only be introduced on certain conditions:

- ➢ **Free allocation** under the EU carbon market **is phased out**
- ➢ There is a **significant and proven risk of carbon leakage**
- ➢ Taxes apply to **imports only** and only products that are **dirtier than comparable EU production**
- ➢ They are **temporary** and lead to **collective action in the long run**
- ➢ Preference is given to including **enforceable environmental sustainability chapters in EU trade agreements** with third countries/regions
- ➢ They are complementary to **effective and ambitious global climate policies** and not substitutes

Further information:
Article: EU starts taking just transition seriously
OpEd: Taxing carbon at the EU border? Only if free pollution permits go

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Europe's heavy industry can and must decarbonise

Key dates

- EU Competitiveness Council 27 - 28 February
- EU industrial strategy - 10 March

With total greenhouse gas emissions of 708 million tonnes CO2e per year, **resource and energy-intensive industry is the third largest climate polluter in Europe**. **Carbon pollution from heavy industry has not decreased since 2012 and is not predicted to do so until 2030**.

In the context of the EU Green Deal, the Commission is drafting a new **EU Industrial Strategy**, and a **Circular Economy Action Plan,** both due to be published on March 10. In parallel, the European Parliament is working on its own-initiative report to outline **concrete policies and measures to support industry in reaching carbon neutrality while maintaining its competitiveness**.

An **industrial zero-carbon transition** is the only way to ensure that Europe's industrial sector **remains competitive and continues to provide good jobs in the long term**. To achieve this, the EU industrial strategy and the circular economy action plan (CEAP) should **complement each other** and be **fully aligned with the 2050 carbon neutrality goal**. The CEAP should focus in particular on resource and energy-intensive industries such as **steel, chemicals, and cement**. Industrial circularity helps reduce greenhouse gas emissions and energy use, maintains security of supply, and enhances production while reducing costs.

What do we want to see in the industrial strategy?

It is clear that Europe will not reach its carbon neutrality goals unless we transform the way we make, consume and throw away materials.

The industrial strategy **must therefore be at the heart of the EU Green Deal.** It will need to clearly define **the political and financial tools** needed to put Europe's industrial sector on a zero-carbon pathway.

These could include **emission standards**, **provisions to support recycling of materials**, **improved public procurement rules**, **phase-out of free pollution permits** to incentivise pollution cuts and **increased funding for innovation**.

Further information:

Carbon Market Watch input to a public consultation on the circular economy action plan

Policy briefing: Cracking Europe's hardest climate nut – How to kick-start the zero-carbon transition of energy-intensive industries?

NGO letter to the European Commission on the industrial strategy

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Europe must lead on tackling pollution from ships

Key dates:

- European Parliament vote on monitoring, reporting and verifying (MRV) rules for the collection of data on shipping emissions - environment committee May (deadline for amendments 10 March), plenary June
- IMO Marine Environmental Protection Committee 30 March - 3 April

Another key sector to keep an eye on this spring is international shipping. The UN shipping body IMO is tasked to come up with solutions to reduce pollution from ships. But the IMO is dragging its feet, postponing decisions on concrete and immediate measures, such as reducing the speed of ships.

The new EU Commission has promised to take action by **including international shipping under the EU Emissions Trading System (EU ETS)** in the context of the next revision of the law.

But the European Parliament's patience with the IMO has run out and it is using the on-going reform of rules for the collection of data on shipping emissions as an opportunity to bring the sector under the EU ETS.

"I think it's high time we act on emissions, and not only count them"
MEP Jutta Paulus, responsible for the MRV file at the European Parliament

Carbon Market Watch supports European efforts to start pricing pollution from ships in order to show global climate leadership and inject much needed urgency into the global talks.

Shipping pollution fact box

- International maritime transport currently accounts for **2.5% of global emissions**, and this share **could rise to 17% by 2050** if left unchecked.
- The IMO agreed in 2018 to **cut carbon pollution by 40 percent of 2008 levels by 2030**, and to **at least halve total greenhouse gas emissions by 2050**.
- **Reducing speed by just 20%** would reduce greenhouse gas pollution from ships **by up to 34%** and **black carbon emissions** – the second most important pollutant from shipping after CO2 – **by 20%**. The CO2 savings alone are equivalent to closing down 48 coal-fired power plants.

Further information:
Article: High time the maritime sector sailed into the EU carbon market
Video: In Rough Seas - Tackling carbon pollution from ships

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National energy and climate plans must be *Green Deal-proofed*

Key dates:

- June: The Commission assessment of the final national energy and climate plans

Most EU countries missed the deadline of the end of 2019 for submitting their final energy and climate plans. While almost all have done so by now, out of the five target countries of the PlanUp project, Spain and Romania have still not submitted their final plans.

Together with its partners, Carbon Market Watch analyses the plans, focusing on the transport, agriculture and building sectors. We provide concrete suggestions on policies and measures for driving the clean transition and provide a platform for discussions for stakeholders, including local and regional authorities, civil society and general public.

Outdated before finalised?

The draft national energy and climate plans were not strong enough to reach the EU's inadequate 2030 climate target, as our analyses revealed, let alone the new level of ambition as set out in the European Green Deal.

The higher 2030 target means that the climate plans will also have to ramped up sooner than expected.

Further information:

Briefing: Last chance: how to strengthen the final energy and climate plans, Italy, Hungary, Poland

PlanUp website

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