Carbon Market Watch agenda - Autumn 2020

Green recovery - and countering dangerous corporate climate lobbying

Key dates: 15-16 October & 10-11 December - European Council

2020 was going to be the year of climate action, but a tiny organism decided otherwise. The climate debate has taken the backseat as governments struggle to respond to the coronavirus pandemic.

This doesn't mean that the climate crisis would have gone away. There is a broad understanding (at least at the level of speech) that the only viable way out of the pandemic is a green recovery.

For policy-makers in Europe, it means fully implementing the EU Green Deal. And it means resisting industry pressure to weaken climate legislation through for example exemptions under the EU carbon market rules.

The coronavirus has also changed Carbon Market Watch's 2020 work programme. We will **continue to hold leaders accountable** for their climate promises and to **track and counter damaging corporate lobbying**.

This is a defining moment to decide what kind of future we want. Instead of locking-in further decades of dependence on fossil fuels, we have to aim for societies that are cleaner, healthier, fairer, more sustainable and more resilient.

Further information:
Briefing: Never Wasting a Crisis: Industry Climate Lobbying During the COVID-19 Pandemic Exposed
Carbon Countdown podcast: Corporate climate lobbying in the times of corona

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Global carbon markets in search of answers

Key dates: *The COP26 was postponed until November 2021, the dates for UNFCCC "inter-sessional" climate conferences for 2021 are not clear yet*

There was no agreement on rules for global carbon markets at the UN climate talks in Madrid last year. The next attempt at clinching a deal on Article 6 will be at the COP26 in 2021.

Only a few countries currently plan to use global markets as part of their climate action (the EU has banned the use of international offsets from 2021), but private companies are increasingly turning to carbon markets to support their green PR campaigns. More demand might come from countries such as the US, depending on the outcome of the November election.

In the absence of commonly agreed rules, those planning to use global markets should ensure that they only buy good quality credits from projects that **reduce emissions, benefit local communities,** and **uphold human rights**. In addition, to avoid double counting, only one country/company should be counting any given emission reductions.

One of the most important and contentious issues is the use of old credits from the UN Kyoto Protocol mechanisms, in particular the Clean Development Mechanism (CDM). Allowing countries or companies to use credits from old projects which will most likely continue to reduce emissions regardless of whether or not they can sell the credits, would further weaken the already insufficient national climate pledges.

At COP25, 32 countries signed onto so-called "San José principles" that rule out the use of old Kyoto credits towards Paris climate targets as well as claiming emission reductions more than once. These constitute a good basis to start negotiations, or form an alliance of countries willing to promote integrity in market mechanisms. However, the promotion and respect of human rights should be urgently added to the list of key principles.

Obscure CDM deals behind closed doors?

While there is still no official decision on the fate of the CDM now that the Paris Agreement enters into force, industry lobbyists are putting pressure on the CDM Board to keep registering projects and issuing credits from this faulty mechanism.

This would effectively prolong the life of the CDM, without any political mandate to do so, and would benefit those countries which would like to see the CDM continue post-2020. Allowing the CDM to *de facto* continue might give an incentive for some countries to block all remaining carbon market negotiations, in order to avoid the proper establishment of new systems.

EU plans carbon offsets from agriculture

The European Commission is looking into the possibility of setting up a market for carbon removals, both from land and from technologies such as direct air capture. This could re-open the door for the use of offsets under the EU carbon market, or provide undue legitimacy to land-use offsets for use by private companies.

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 (updated)

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Aviation carbon market's landing into irrelevance

Key dates:

- 29 October Aarhus Convention meeting (ICAO transparency on the agenda)

The global aviation carbon market CORSIA - under which airlines will buy offsets to cover the growth in their pollution - technically starts in January 2021. But following a request from the aviation lobby IATA, the ICAO decision-making Council has agreed to change the baseline against which this growth is measured during the scheme's pilot phase (until 2023).

What appears to be a technical change, will, in fact, postpone the start of the scheme until at least 2024.

CORSIA was never strong enough to tackle the massive pollution from flying. As the scheme loses its last bits of credibility, it becomes ever more important **to act at the regional and national levels**.

In Europe, this means **ending the industry's tax holiday** when it comes to for example kerosene tax and **making them pay fully for their pollution under the EU carbon market**.

In the EU Green Deal and the recently published EU climate target plan, **the European Commission proposes to reduce** the number of free pollution permits to the industry under the EU carbon market when the scheme is reviewed starting next year.

In the absence of a Europe-wide ticket tax, **national governments are also imposing their own tax measures** in order to level the playing field between flying and more sustainable means of transport. Currently, seven European countries have flight ticket taxes in place.

At the same time, however, despite pledges to make the COVID19 recovery green, EU governments are pouring public money into saving airlines – mostly without any environmental conditions. To date, they have handed out over 30 billion euros in bailouts.

Carbon Market Watch will continue to

- **Promote action at EU level**, including a full phase-out of free pollution permits under the EU carbon market and introduction of a fuel tax
- **Expose the lack of ambition of CORSIA, and counter industry attempts to weaken existing measures** (both at EU and ICAO levels)
- **Track covid support packages for airlines and push for them to be conditional** on

the industry taking climate action and governments passing ambitious regulations.

Further information:
Carbon Market Watch guide*:* Six lessons from IACO's carbon market expert group report
Article: Airlines' golden (corona) life jacket makes a mockery of the green recovery

Airline Bailout Tracker

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How strong will Europe's new climate commitment be?

Key dates

- 15-16 October & 10-11 December - European Council
- 23 October EU environment Council

Following the European Green Deal and the EU's commitment to achieving climate neutrality by 2050, the European Commission has proposed to increase the bloc's 2030 climate target from the current 40% to at least 55%.

But unlike the 40% target, the proposal includes the possibility of **using carbon sinks by forests and land** to reach the target. This could mean real cuts in emissions of only **50.5-52.8%**. The European Parliament **has voted in favor of 60% emission cuts**, a significant improvement from the Commission's stance. A proposal tabled to reintroduce international carbon offset credits to meet the EU's 2030 target was rejected by a large majority. While still not in line with the EU's fair share of climate action under the Paris Agreement, Parliament's position shows that the lawmakers understand **the importance of strong short-term action if we are to reach climate neutrality**.

EU leaders are expected to adopt their position at the December European Council.

As a part of a higher 2030 target, a revision of the EU Emissions Trading System (EU ETS) is envisaged by June 2021.

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**.

The Commission's "climate target plan" maintains the Green Deal's proposals to **reduce the number of free pollution permits for airlines** and **bring international shipping under the EU ETS.**

Why the EU carbon market should not be extended to transport and buildings

As part of the Green Deal, the Commission considers bringing road transport and buildings under the EU ETS.

Carbon Market Watch doesn't support this for the following reasons:

- **It would not significantly reduce CO2 pollution from these sectors** partly because the price impact would be minimal (e.g. few cents more on a litre of petrol)
- **The industry could use it as an excuse** to undermine existing - more effective - legislation such as **CO2 standards for cars** and **energy efficiency legislation for buildings**
- Bringing in the rather volatile emissions from the building sector could **risk the stability of the system**
- It would open the discussion about **more pollution permits under the scheme** ("readjusting the cap")

Further information:

Article: Why bringing transport and buildings under the EU carbon market is not a good idea

Press release: EU Commission's climate plan two steps forward, one step back

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The Green Deal will fall flat without an industrial clean-up

Key dates

- 23 October - EU environment Council
- 19 November - EU competitiveness Council (Internal Market and Industry)
- 15 October - EP industry committee vote on the industrial strategy own-initiative report on
- 28 October - deadline for public consultation on the carbon border adjustment measures

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.

Without cleaning up its heavily polluting industrial base, Europe will not reach the Green Deal goals.

The EU Industrial Strategy, published in March, acknowledges the importance of decarbonising energy-intensive industries as a top priority in Europe's climate transition. However, **it lacks policy and financial details** on how to make this happen.

The European Parliament's industry committee is working on a report outlining their position on the strategy. While not a legally binding document, in light of the EU Climate Law and the higher 2030 target talks, the report has political weight seen that industry will have to play a significant role in the EU's renewed climate commitment.

The recently published climate target plan confirms the Commission's intention to propose a carbon border adjustment scheme "for selected sectors" as an alternative to the existing measures to avoid so-called risk of carbon leakage. While this could spur climate action from Europe's global partners, **ending the free pollution permits that allow companies to make windfall profits is a non-negotiable condition** for introducing such a scheme.

Industrial emissions law to drive CO2 pollution cuts

As the EU carbon market is failing to drive down industrial carbon pollution, other rules are needed to provide an extra push.

The EU's industrial emissions directive which requires companies to meet pollution limits is up for a review. The law aims to prevent pollution from industrial activities, but it has one major flaw: it currently doesn't cover CO2 pollution. This needs to change.

In order to drive the clean industrial transformation, we need different policy tools to work together. **The industrial emissions directive can and should be used to reinforce the EU emissions trading scheme**.

Further information:
Policy briefing: A New Industry Framework For Achieving the EU Green Deal 'Zero Pollution' Goal
Policy briefing: Cleaning up industry: why the EU's strategy isn't enough yet
NGO letter on the ETS Innovation Fund
Article: How the EU carbon market's lesser-known cousin could help drive industrial transformation

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Pushing Europe to take the lead on tackling pollution from ships

Key dates:

- 19-23 October, IMO Intersessional Working Group on Reduction of GHG Emissions from Ships
- 16-20 November IMO Marine Environmental Protection Committee
- The Parliament, EU member states and the Commission trilogue negotiations on the MRV rules for the collection of data on shipping emissions - expected to start this autumn

The European Parliament has voted to **bring international shipping under the EU carbon market even before possibly looking into it next year as the EU Commission proposes**.

The UN shipping body IMO is tasked to come up with solutions to reduce pollution from ships. But since agreeing on its long-term climate target in 2018 (to cut emissions by at least 50% by 2050), the IMO keeps postponing decisions on concrete and immediate measures, such as reducing the speed of ships.

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.

EU Parliament's proposal could be a game-changer for shipping climate action

- **Extending the EU carbon market to cover international shipping** would send a signal to the IMO that Europe is not afraid to take action, should the global talks not deliver
- **Establishing a maritime decarbonisation fund** would provide much-needed resources to drive innovation, bring climate solutions to market and to create clean jobs
- **Setting a mandatory 2030 reduction target** for the carbon intensity of shipping would ensure short-term climate action

Why do we need Europe to act?

The latest IMO discussions on how to implement the agency's climate commitment from 2018 are **inconsistent with and undermine the initial IMO GHG strategy**:

- Climate measures would be enforced only from 2029/30, therefore failing to "**achieve significant additional CO2 reductions before 2023**" and losing another crucial decade to inaction.
- Up to 2029/30 there would be mostly voluntary action, therefore failing to "**peak emissions as soon as possible**".
- The IMO Secretariat is not even considering a single proposal that would be compatible with "**achieving CO2 reduction on a pathway aligned with the Paris Agreement**".

Governments at the IMO have shown over and over again that they are incapable of or unwilling to take serious and urgent action to deal with shipping CO2 pollution. There is no time to wait and the EU needs to take the lead - and should not delay using the tools at its disposal to do so.

Further information:

Press release: EU lawmakers support the expansion of Europe's carbon market to shipping as global talks are adrift

Video: In Rough Seas - Tackling carbon pollution from ships

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The (inadequate) national energy and climate plans on the final stretch

Key dates:

- Mid-October: The Commission's country-specific assessment of the final NECPs
- 14-15 October PlanUp webinar: The NECPs and post-covid recovery plans: what are the main takeaways in the buildings and transport sectors?

All EU countries have submitted their final national energy and climate plans. LIFE PlanUp has analysed the plans of Spain, Italy, Hungary, Poland and Romania. The conclusion: the updated plans are somewhat better than the draft versions, but still lack in ambition as well as details when it comes to measures and their financing needs.

For example, Poland and Romania have slightly raised their energy efficiency and renewable energy targets. However, beyond that, the Commission's request to address this important gap is largely ignored. Spain plans a reduction in the use of fossil fuels, from 74% to 59% by 2030. On the other hand, Italy plans to continue to rely heavily on fossil gas and unsustainable biofuels, while the Polish government expects coal to still deliver between 56 and 60% of the country's electricity by 2030.

The implementation of these plans starts in a few months. But amidst the pandemic and worsening impacts of climate change, governments should consider revisiting them as soon as possible to fill the still existing gaps.

Key tools to drive a green recovery

The climate and energy plans can and should help EU governments to outline not only how to reach their climate targets but how to ensure a sustainable way out of the pandemic.

So far the plans -that were drafted keeping the EU's current 2030 target in mind- lack any reference to the pandemic or the new, higher EU climate ambition as set out in the EU Green Deal.

It will be crucial for governments to address these issues at their earliest opportunity.

Further information:

Briefing: Progress Check: Hungary, Poland, Romania, Italy and Spain's energy and climate plans under review
Press release: National energy and climate plans not up to the green recovery task
PlanUp website

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What role for CO2 removals in achieving climate neutrality?

Key dates:

- 18 November, Webinar on 'Defining the Negative in Negative emissions' (more details to follow)

Cutting pollution is a priority to limit global heating to 1.5 degrees, but this is no longer enough; emissions will have to be removed from the atmosphere and permanently stored.

The topic is controversial. Some companies (including prominent fossil fuel producers) promote "carbon removals" as means to reach carbon neutrality without the need to phase out fossil fuels. Others are investing in technologies that are potentially very harmful to forests and biodiversity with little-to-none long-term climate benefits. To date, there are also no technologies that are proven to work at scale.

Any deployment of carbon removals needs to take place in **a well-regulated, predictable and, especially, environmentally safe manner**. Above all, removals of GHG from the atmosphere **cannot be used to distract from the urgent task to reduce carbon pollution from all sectors of the economy as soon as possible**.

Carbon Market Watch is a partner in the NEGEM project, which analyses the potential, effectiveness and impacts of carbon removals and provides decision-makers with policy recommendations to ensure responsible deployment of these technologies.

Factbox: Carbon Dioxide Removal (CDR)

- CDR refers to drawing off greenhouse gasses from the atmosphere and storing them on land, underground or in the oceans. This could be based on natural processes such as forests and land that act as "carbon sinks" or a variety of technology solutions.
- All scenarios consistent with the 1.5 goal in the UN-backed climate science panel IPCC's "1.5°C Special Report" include some level of CDR.
- The EU also relies on CDR in its climate modelling. The EU 2050 long-term climate strategy includes between 281 and 606 million tonnes of removals annually in the EU.

Further information:
The Negem project website

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