Carbon Market Watch response to Inception Impact Assessment on national emissions reduction targets Effort Sharing Regulation (ESR)

Key elements for the revision of the ESR

We regret that the Commission did not include a policy option that would ensure the current climate policy architecture is maintained in order to raise the emission reductions achieved by the Effort Sharing Regulation (ESR), Emissions Trading Scheme (ETS), and the LULUCF Regulation as three separate but mutually reinforcing policy instruments. The three options presented by the Commission in the Inception impact assessment are therefore unhelpfully limiting the scope of the impact assessment and risk to seriously damage the EU's climate architecture and undermine emission reduction policies that have already proven successful in Europe.

Repealing the ESR and walking away from binding national climate targets is unacceptable. These could jeopardise the achievement of the insufficient target of at least 55% emission cuts by 2030, which would seriously damage the EU's credibility internationally. Carbon Market Watch stresses that nationally binding emission reduction targets under the ESR – including emissions from the agriculture sector – must be retained, and at a minimum brought in line with the new 2030 emissions reduction target. Governance of the targets should also be enhanced and the existing 'flexibility' mechanisms allowing the use of ETS allowances and land use credits should be phased out.

1. **Maintain the Effort Sharing Regulation**

   The Effort Sharing Regulation (ESR) is one of the main pillars of the EU's climate policy framework and sets binding greenhouse emission reduction targets for all EU member states. Repealing this regulation as suggested in the Commission's Inception Impact Assessment is irresponsible. It would disincentivise national governments to take national climate action and risks becoming a distraction from existing climate policies in sectors currently covered by the ESR.

2. **Make the ESR targets compatible with the goals of the Paris Agreement.**

   For the European Union to keep its commitment under the Paris Agreement, the National emissions reduction targets enshrined in the Effort Sharing Regulation (ESR) should contribute to a 65% emissions reduction by 2030 and to reaching climate neutrality by 2040.

3. **Phase-out flexibilities and close the loopholes**

The ESR flexibilities have the aim of allowing targets to be met more cost-effectively. Some of them, however, undermine the carbon-free transition of the non-ETS sectors by allowing more greenhouse gases to be emitted in these sectors up to 2030. This applies to the flexibilities with the EU ETS and the land-use sector. These loopholes allowing the use of ETS allowances and land use credits should be phased out. In the case of the land-use sector, the promotion of LULUCF sinks should be kept separate from emission reduction efforts by Member States in other sectors. Natural sinks are not equivalent in any way to emission reductions, and fungibility between the two should be avoided.

The EU climate framework should not allow for any ‘out of sector’ flexibility mechanisms. Carbon Market Watch therefore strongly disagrees with any policy option that would strengthen flexibilities in the Effort Sharing Regulation. It is important to note that in the EU ETS, offsetting loopholes have been steadily closed in past EU ETS revisions due to the adverse impacts they had on EU ETS functioning, price setting, and decarbonization efforts in the power and industrial sectors.

4. **Auctioning of ESR emissions allowances**

Currently, the annual emission allocation units (AEAs) under the ESR are allocated for free to EU Member States. In line with upholding the polluters pay principle in the EU Treaty, the Commission should consider auctioning of AEAs. The auctioning revenues can be used to fund further climate action and emission reductions, and could also be channelled to lower-income Member States to help support their zero-carbon transition investments.