Carbon Market Watch agenda

SPRING 2021

➢ The EU's climate policy super year is the last chance to tackle industrial pollution

➢ Global carbon markets must be climate (not greenwashing!) tools

➢ EU needs to step up efforts to price aviation emissions

➢ Europe is taking the lead on pricing pollution from ships

➢ Carbon removals under scrutiny

The EU's climate policy super year is the last chance to tackle industrial pollution

Key dates:

- 5 February: Deadline for public consultations on the EU emissions trading system, effort sharing regulation and land-use, land-use change and forestry regulation
- 22-26 February EU industry days
- 23 March: Deadline for public consultation on the industrial emissions directive
- 18 March & 21 June: EU environment Council
- 25-26 March: European Council
- June: The Commission is expected to publish the "Fit for 55" climate package and the Carbon Border Adjustment measure proposal

In December 2020, EU leaders agreed on a new 2030 net target of cutting greenhouse gas emissions by at least 55% by 2030. The European Parliament supports a 60% objective (gross i.e. without sinks). Carbon Market Watch advocates for a 65% target and for keeping sinks separate from this objective.

In June, the European Commission is expected to table legislative proposals to reform almost every EU climate and energy policy under the so called "Fit for 55" package.

The most important file for Carbon Market Watch is the EU emissions trading system (EU ETS). The scheme has successfully contributed to phasing out coal from the power sector. But due to the exemptions and generous pollution subsidies for the heavy industry, it has not cut CO2 pollution from sectors like cement, steel and chemicals.

Carbon Market Watch recommends the following for the EU ETS revision:

❖ Increase the pace at which emissions are reduced annually ("LRF) and introduce a one-off reduction of the cap.
❖ Increase of the rate at which the market stability reserve (MSR) absorbs surplus permits

off the market to 36% from 2024 onwards, adopt declining thresholds and an automatic cancellation for allowances held in the MSR for more than five years.
- Fully phase out the free allocation of pollution permits.
- Earmark 100% of the auctioning revenues towards industrial innovation, modernisation, just transition and international climate finance.
- Include international maritime transport, international aviation and waste incineration.
- If a carbon adjustment measure (CBAM) is implemented, extend the EU ETS to cover importers' emissions and end other carbon leakage measures.
- Do not include road transport and buildings.
- Do not allow Carbon Dioxide Removal (CDR) credits.

Directly linked to the EU ETS, the Commission is expected to publish its proposal for a Carbon Border Adjustment Mechanism (CBAM) in June 2021. Carbon Market Watch advocates for a fair and strong CBAM as an alternative to the free allocation of emissions allowances under the EU ETS.

Another important file, the revision of the industrial emissions directive (IED) is a unique opportunity to include greenhouse gas emissions under the scope of this environmental law. This would make the IED an additional tool to reduce industrial carbon pollution.

Save national climate targets

The EU Commission is considering scrapping the effort sharing law that sets binding national emission targets in sectors such as transport, buildings, agriculture and waste. Instead, the EU executive wants to bring transport and buildings under the EU carbon market.

This would be a bad idea:

- It would not significantly reduce emissions from these sectors.
- It would shift the burden of cutting emissions from big polluters to consumers and risk hitting low-income families worst.
- It would take away the incentive of countries to implement climate measures at national, regional, local level.

Further information:

Press release: EU leaders' 2030 target deal ignores Europe's climate responsibility
Briefing: 10 Key Principles for a Carbon Border Adjustment Measure (CBAM)
Policy submission: Carbon Market Watch response to Inception Impact Assessment on the EU ETS
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
A petition asking the EU Commission to keep the effort sharing law in place

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Global carbon markets must be climate (not greenwashing!) tools

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

- 25 January: High-level "Davos Dialogues" The presentation of the "Carney Taskforce" report on scaling voluntary carbon markets

Governments didn't find common ground on the rules for global carbon markets at the latest UN climate talks in Madrid. The next attempt at clinching a deal on Article 6 will likely be at the COP26 this year. But this doesn't stop countries from making bilateral deals on global markets.

Switzerland has struck such a carbon offsetting agreement with Peru. This agreement includes positive elements that could form a basis for the ongoing Article 6 negotiations, such as the provision to avoid double counting. However, it lacks a system to ensure that global markets reduce overall emissions and a grievance mechanism where any stakeholder could make a complaint about a project. A similar agreement was also struck with Ghana.

While 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 starting this year), private companies are increasingly turning to them as part of their climate pledges (and PR campaigns).

In the absence of commonly agreed rules, those planning to use global markets should ensure that they only buy good quality credits. This means supporting 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 reduction.

Scaling carbon markets is not the same as scaling emission reductions

Voluntary carbon markets are growing as more and more companies make climate-related commitments. The so-called Taskforce for Scaling Voluntary Carbon Markets aims to further develop the market. Carbon Market Watch responded to the public consultation on this initiative with the following key comments:

- The taskforce should prioritise reduction or avoidance of emissions rather than simply boost trading.
- It should promote transparency and avoid creating opaque financial instruments.
- The voluntary carbon market should ban all projects that use fossil fuels and should exclude biological carbon sinks.

From plain offsetting to financing climate action

Just because a company finances, for example, a tree-planting project in Uganda doesn't mean that the product it's selling (petrol for cars, a flight…) doesn't have a negative impact on the climate.

Companies using voluntary carbon markets should therefore give up on the "climate neutrality" claims when they finance climate projects elsewhere in the world.

To be clear, that doesn't mean that they should stop the financing part. It means to provide finance because it helps the receiving country to become more sustainable and reach its climate targets, not because it can be used as an excuse to continue polluting at home.

In this scenario, the emphasis would no longer be on finding the cheapest reduction, but on financing projects that cut emissions AND benefit local communities. This is currently a mere afterthought and a major omission in global carbon markets.

Further information:

Policy briefing Above and Beyond Carbon Offsetting – Alternatives to Compensation for Climate Action and Sustainable Development

Policy submission Carbon Market Watch response to the Consultation of the Taskforce on Scaling Voluntary Carbon Markets

Policy briefing Empty targets? How to avoid trading of hot air under the Paris Agreement

Policy briefing Carbon markets 101 - the ultimate guide to global offsetting mechanisms (updated)

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EU needs to step up efforts to price aviation emissions

Key dates:

- June 2021: Publication of the Commission proposal to review the EU ETS and implement CORSIA
- Imminent: the European Commission was mandated to publish, before CORSIA becomes operational, a report about CORSIA and how to implement it in the EU. This report has been written but has not been published. CORSIA became operational on January 1st, 2021.

The EU Green Deal requires an effort from all sectors of the economy, including aviation, in order to reach Europe's economy-wide emission reduction commitments.

The European Commission has proposed several options to implement the global aviation scheme CORSIA and combine it with the EU emissions trading scheme (EU ETS). In line with the Green Deal pledge, the Commission has also proposed to phase out pollution subsidies for

airlines under the EU carbon market.

Many airlines and industry groups support CORSIA and lobby for the EU to scrap the EU ETS for aviation. However, CORSIA cannot currently be considered a credible climate policy for at least three main reasons.

- It covers only the growth in CO2 emissions from international flights, i.e. not those emissions below 2019 levels.
- It does not address “non-CO2” impacts, such as NOx emissions.
- It relies on offsetting rather than in-sector reductions or robust carbon pricing, and some of the credits deemed eligible under the scheme are of questionable quality.

Corsia cannot, therefore, replace any part of the current EU ETS scope. The Commission should also fully and immediately end the free allocation of allowances to airlines. The free allocation is supposed to help avoid “carbon leakage”, but the Commission itself has found that there is no such risk at current carbon price levels when it comes to aviation.

Further information:
Article: Airlines continue to push against climate policies as EU Commission proposes new rules
Industry Covid Climate Lobbying

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Europe is taking the lead on pricing pollution from ships

Key dates:

- 24-28 May: IMO Intersessional Working Group on Reduction of GHG Emissions from Ships
- 14-18 June: IMO 76th 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 - ongoing
- June: The EU Commission proposal to bring international shipping in the EU carbon market

The European Parliament wants to bring international shipping under the EU carbon market and the EU Commission is looking into it.

Europe moving on the carbon pricing front is a result of the utter failure to tackle the issue at the global level.

Tasked to come up with solutions to reduce pollution from ships, the UN shipping body IMO has instead agreed to allow the sector's greenhouse gas pollution to keep rising until 2030.

Carbon Market Watch promotes strong carbon pricing for the sector in Europe. This would show the world that the EU is not afraid to act when global talks don't deliver. Elements included in the European Parliament's position on shipping reporting rules could be a game-changer for the sector. For example, a maritime decarbonisation fund would provide resources to drive innovation, to bring climate solutions to the market and to create clean jobs. Setting a mandatory 2030 reduction target for the carbon intensity of shipping would ensure short-term climate action.

No offsetting for shipping

The talks at the IMO are moving from short-term measures (at which they've largely failed) to climate measures in the mid-to-long term. These include carbon pricing. Carbon Market Watch will follow and feed into these conversations to ensure that any pricing measures drive decarbonisation of the sector:

- It will be crucial that the IMO doesn't follow the UN aviation agency ICAO's example and establish an offsetting scheme that is little more than a greenwashing exercise.
- Carbon pricing should complement a broader set of short- and longer-term measures.
- A carbon pricing scheme for shipping should be designed in a way that is environmentally effective but that does not put an undue burden on less developed countries.
- Governments must use the raised revenues to support in-sector research and development to achieve further emissions cuts. They should also compensate the least developed countries for any negative impact on their development.

Further information:

Article: UN shipping body torpedoes its own climate strategy

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Carbon removals under scrutiny

Key dates:

- The talks between EU governments and the European Parliament on the higher 2030 climate target - ongoing (the Portuguese presidency aims to wrap them up)

Carbon dioxide removal (CDR) refers to removing greenhouse gases from the atmosphere and storing them permanently on land, underground or in the oceans. It could be based on natural processes such as forests and land that act as "carbon sinks" (so-called CDR 'practices') or a variety of technology solutions.

A word of caution; certain industry actors present carbon capture and storage and utilization

technologies as CDR. They can only be considered CDR if they meet the definition of removing carbon from the air, storing it permanently - while using a broad life-cycle assessment.

CDR is quickly becoming the new black in the EU climate debate. It will be necessary over the course of this century (the IPCC 1.5°C Special Report makes that clear), but we must be careful not to overhype it. A great deal of scepticism and caution is in order.

CDR can play a role in the EU climate framework – but only if it is done right.

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

The four principles that define Carbon Dioxide Removal (CDR)

1. Carbon dioxide is physically removed from the atmosphere.
2. The removed carbon dioxide is stored out of the atmosphere in a manner intended to be permanent.
3. Upstream and downstream greenhouse gas emissions - produced in the removal and storing process - are comprehensively estimated and included in the emission balance.
4. The total quantity of the removed and permanently stored atmospheric carbon dioxide is greater than the total quantity of emitted carbon dioxide.

Further information:

The Negem project website

Article: Carbon removals: a hot topic that requires a cool head

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