



## Policy Briefing on the EUROPEAN PARLIAMENT REPORT ON 2030 CLIMATE PACKAGE

### *Essential conditions on the GHG Target for 2030 - Importance of continuing and reforming the EU Effort Sharing Decision*

16 September 2013

#### EXECUTIVE SUMMARY

The current EU Effort Sharing Decision<sup>1</sup> (ESD) ensures that the EU's greenhouse gas (GHG) target for 2020 is legally binding for Member States and economy wide in scope. It covers almost 60% of Europe's GHG emissions. Those sectors must deliver significant emissions reductions in the period from 2020 to 2030 if the EU is to develop on a competitive low carbon pathway. A legal framework for non-ETS emissions is therefore essential for the 2030 Climate package. In addition, effective policies in the ESD sectors can yield many other benefits such as job creation and improved public health. We urge the Parliament to utilize its upcoming report on the 2030 package to engage in a constructive debate and help secure the future and reform of the ESD. The reasons can be summarized as follows:

- In order to be on track for the EU's 2050 goals of a nearly fully decarbonised economy the EU needs a comprehensive policy framework for 2030 that incentivises investment and long term decarbonization in non-ETS sectors such as transport, buildings, agriculture and waste.
- The economy wide GHG target must be legally binding and backed up by an effective governance framework to ensure its implementation.
- The ESD needs to be strengthened: The current ESD targets are too low to drive additional emissions reductions and innovation. The EU as a whole is projected to achieve 18% reductions in these sectors by 2020, beyond the mere 10% reductions required by ESD targets.
- The 2030 ESD targets need to reflect the mitigation potential in non-ETS sectors: The ESD covers 58% of EU GHG emissions, yet these sectors are only expected to deliver 1 third of the emissions reductions for 2020. At the same time, recent studies show large amounts of cost effective potential by 2030. This can help support an overall EU 2030 GHG target of well beyond 40%.
- International offsets should no longer be allowed for compliance under the ESD. Such offsets hamper domestic action. The current Effort Sharing Decision allows MSs –to use offsets for up to 2/3 of the required reductions. This generous offset allowance further weakens the already weak targets.
- Improved design of the ESD can help improve investor certainty in key measures by focusing national and EU policy attention to 'gaps' in EU sectoral policies. This can be done whilst preserving overall flexibility for MSs in how to meet Effort Sharing Targets.

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<sup>1</sup> Decision No. 406/2009/EC of the European Parliament and of the Council on the effort of Member States to reduce their greenhouse gas emissions reduction commitment up to 2020.

- The ESD grants flexibility to MSs in their choice of policy mix, and can be reformed to foster more collaborative and cost-optimized approach to GHG reductions in the EU.

### ***What is at stake?***

The EU must ensure it has an economy wide and legally binding GHG target for 2030. Concerningly, some Member States appear to be calling for a non-binding GHG target. If the 2030 package does not include a binding economy wide GHG target and relied only on ETS and a limited number of EU sectoral policies, this would undermine the chances of achieving 2050 targets. Key sectors and gases would remain neglected for nearly 20 years, risking lock-in to higher GHG infrastructure that will be more costly to replace later. Not only would many cost-effective mitigation opportunities be missed but also a number of powerful co-benefits, including improved public health from cleaner transport or protecting consumers from rising energy bills via energy efficiency measures in the building sector.

### ***Advantages and benefits***

An ambitious and cost-effective legal framework for the EU that ensures an economy wide approach to emissions reduction is a necessary cornerstone for EU climate policy. The 2030 design process must therefore ensure that governance of non-ETS emissions is substantially strengthened. Such an approach enables an ambitious reduction target for 2030. (Studies show significant amounts of untapped potential in non-ETS sectors even by 2020.<sup>2</sup>)

Reform of the ESD also offers the possibility to examine effective burden sharing approaches and collaborative financing models that will be fundamental to securing a politically acceptable deal for 2030.

Improved design of the Effort Sharing Decision can assist the delivery of Energy Efficiency targets, and encourage greater ambition from Member States in their implementation of sectoral legislation such as the Energy Efficiency Directive, Fluorinated Gases Regulation, Landfill Directive and the Waste Framework Directive. Similarly, Effort Sharing Decision targets can be more ambitious if they take into account recent and upcoming reviews of environmental legislation, such as recycling targets in the Waste Framework Directive and further provisions emerging from the Resource Efficiency Roadmap, and the review of EU fluorinated gases legislation.

Improved legal architecture can help fill current gaps in EU regulation of GHGs such as addressing methane emissions from mining, agriculture, natural gas transportation and waste, and stimulating demand reduction measures in energy use.

Improved design of the post 2020 ESD can help improve investor certainty and provide for innovative financing mechanisms for mitigation actions in a variety of sectors including buildings, transport and agricultural.

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<sup>2</sup> see generally, Ecofys, ECOfys, *Next Phase of the European Climate Change Programme: Analysis of Member States actions to implement the Effort Sharing Decision and options for further community-wide measures* (June 2012, (finding at least 400 million tonnes of additional potential by 2020 from technical measures), and CE Delft, *Behavioral Climate Change Mitigation Options and Their Appropriate Inclusion in Quantitative Longer Term Policy Scenarios Main Report*. CE Delft, April 2012. (Finding 600 million tonnes of untapped potential from behaviour change and demand side measures by 2020).

## **Recommendations**

The 2030 proposals must contain an improved framework for non-ETS emissions or economy wide emissions. ClientEarth, Carbon Markets Watch and GAIA and partners recommend the following key reforms:

- 1. Significantly higher Effort Sharing targets are required.** Current ESD targets are too weak. At EU level, an over achievement is already expected of 8% by 2020.<sup>3</sup> MSs are not currently incentivized to consider national policies in several key sectors. Currently the ESD delivers only 1/3 of the emissions, yet covers almost 60% of EU's GHG emissions. An ambitious and effective 2030 Framework requires higher targets for both the ESD and the EST. Studies show that at least 1000 million tonnes of additional mitigation potential exists in non-ETS sectors by 2020 alone.<sup>4</sup> Based on these studies, ClientEarth calculates that an ESD target of 48% reductions on 2005 levels by 2030 would be feasible by 2030.<sup>5</sup>
- 2. International offsets must be eliminated.** Experience with the EU ETS and the ESD shows that the use of international offsets has directly undermined EU climate goals and hampered domestic abatement efforts. International offsets should not be eligible under a 2030 climate and energy framework.
- 3. New financing mechanisms have to be established.** Better financing mechanisms can unlock additional reductions in Effort Sharing sectors. Better financing mechanisms are needed to help unlock reductions in Effort Sharing sectors. Green Investment Schemes (GIS) have been used for trades with Kyoto allowances (AAUs). A similar GIS could be mandated for trades of AEAs. Other financing options exist that do not necessarily require the trading of AEAs. Similarly to the NER300, a small portion of AEA's could be auctioned or sold to Member States to create a pool of capital that could be reinvested into mitigation projects.
- 4. Striking a better balance between MS flexibility and investor certainty.** Improved national planning requirements within the Effort Sharing Decision can improve investor certainty in certain projects. Requiring Commission approval of more detailed national plans could help entrench them over given time frames, helping to minimize policy risk for investors.
- 5. Improved institutional capacity** for the implementation of the Effort Sharing Decision. Placement of statutory duties on national authorities to work towards economy wide reductions. Establishing a centralised EU Effort Sharing agency, comprised of national authorities, charged with disseminating best practice and advising the Commission on Effort Sharing Implementation could help ensure more effective implementation of mitigation measures, including:

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<sup>3</sup> EEA, *Greenhouse gas emission trends and projections in Europe 2012. Tracking progress towards Kyoto and 2020 target.* EEA Report No 6/2012

<sup>4</sup> Ecofys, *ECOfys, Next Phase of the European Climate Change Programme: Analysis of Member States actions to implement the Effort Sharing Decision and options for further community-wide measures* June 2012, (finding at least 400 million tonnes of additional potential by 2020 from technical measures), and CE Delft, *Behavioral Climate Change Mitigation Options and Their Appropriate Inclusion in Quantitative Longer Term Policy Scenarios Main Report.* CE Delft, April 2012. (Finding 600 million tonnes of untapped potential from behaviour change and demand side measures by 2020).

<sup>5</sup> ClientEarth calculations based on: EEA projected over achievement of ESD targets by 8% at EU, = 18% reductions by 2020, (supra, footnote 2), added to additional 8% potential from technical measures (Ecofys, supra, footnote 3), and additional potential from behaviour change and demand side measures. (CE Delft, supra, footnote 3). Total of 48% reductions by 2030 against 2005 levels.

- a. Determination or advising Commission of best practice to inform eligibility criteria for recipients of new Effort Sharing financing (such as an 'NER300' style mechanism.)
- b. Disseminating lessons and best practice between Member States
- c. Facilitating a cooperative approach to reductions by identification of projects deserving of cross border financing (and corresponding compliance incentives). This can help direct capital towards central and eastern Member States with high amounts of cost effective potential but less ability to pay. The Agency would have a role in determining the technical requirements to support monitoring and verification of such schemes.
- d. Advising Commission on adjustments to allocations of AEA's in limited circumstances, to establish a more agile 'carbon budget.'

## **6. A Framework Directive, ushering in new EU measures on the path to 2050**

There are several benefits that could be derived from transforming the Effort Sharing Decision into a Directive. Unlike Decisions, Directives require transposition into national law. Transposition into national laws could help raise the profile of non-ETS objectives on the national front. In order to justify a Directive, new obligations requiring national transposition would be needed. Examples could include placing statutory duties on national authorities or public bodies to work towards whole of economy reductions of GHG emissions, or statutory criteria for national selection of mitigation projects in receipt of EU finance streams. Additionally, given a number of gaps in the EU regulation GHG emissions, including methane as the second most important GHG after CO<sub>2</sub>, there may ultimately be a case for the Effort Sharing Decision to become a Framework Directive ushering in implementing Directives on the path to 2050.

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**CARBON MARKET WATCH**, a project of **NATURE CODE**

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16th September 2013

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