Policy Briefing - EP lunch debate

"Effort Sharing – how to unlock the potential of non-ETS sectors in the 2030 climate package"

6 November 2013

The future of the Effort Sharing Decision will be key to securing a politically acceptable deal for the 2030 Package. It is the piece of law that gives effect to the GHG target and distributes effort of reducing emissions in non-ETS sectors among Member States according to their capacity. The Effort Sharing Decision covers nearly 60% of EU emissions. Improving this piece of law has great potential to unlock benefits of investment and innovation in non-ETS sectors, which will be key to supporting a higher GHG target, and to ensuring a long term governance framework that can hold us on track to a nearly completely decarbonised economy by 2050.

HOW DOES THE EFFORT SHARING DECISION WORK?

The 2020 target of 20% GHG reductions is shared between the ETS, and the Effort Sharing Decision. The Effort Sharing Decision requires an EU level reduction of -10% from non-ETS sectors by 2020. These sectors, representing almost 60% of EU GHG emissions, include buildings, agriculture, transport, lighter industry waste, and consumers. The Effort Sharing Decision then splits this EU level reduction among Member States in the form of 28 different legally binding targets, according to capacity to pay. Starting in 2013, Member States are allocated emissions allowances (AEAs) each year in accordance with their target. Member States are expected to introduce national policies to meet their annual and 2020 reduction requirements. If they fail to do so, they are allowed access to a number of flexibilities, including ability to trade or receive AEAs from other MSs, and to purchase large amounts of international offsets.

- **The Effort Sharing Decision ends in 2020, but will need to continue in order to give effect to the economy wide target for 2030.**

WHAT EFFORT SHARING AND NON-ETS SECTORS CAN DO FOR THE 2030 CLIMATE PACKAGE

So far, most attention has been on the need for three binding targets and fixing the Emissions Trading Scheme (ETS). Bringing fresh eyes to the Effort Sharing Decision (ESD) reveals new options to increase the ambition and cost effectiveness of the GHG target, and to revitalise solidarity among Member States in the challenge of tackling climate change. At a time when creativity is needed to help bring the low carbon economy into fruition, the following is a snapshot of what Effort Sharing reform can do for the 2030 climate package:

- **Cover key GHG sectors:** Sectors covered by the Effort Sharing Decision amount to nearly 60% of EU emissions. The EU can only be on track for its 2050 goal of a nearly fully decarbonised economy if it spurs long term ***transitions in <u>all</u> key sectors by 2030*** - not merely the power sector and heavy industry covered by the ETS. The role of national policies in transport, agriculture, buildings and waste will remain key to success.

- **Focus on cost-effective mitigation action**: Recent reports show that much more can be done in non-ETS sectors often at high levels of cost effectiveness. Studies also show that a more effective approach to distributing the GHG target between Member States could ***improve the cost efficiency of the GHG target,*** helping support higher target ambition.

- **Allow for more ambition:** The EU as a whole is already projected to achieve 16% reductions in these sectors by 2020. This is beyond the mere 10% reductions required by ESD targets. Focussing action on ***a broader range of sectors*** can support ***a more ambitious GHG target*** and result in ***a wider range of co-benefits*** from the 2030 climate package. These co-benefits include improved air quality, resource efficiency, reduced pressure on fossil fuel imports, and healthier lifestyles from consumers. **Improve long term investor certainty:** Higher non-ETS targets for Member States, coupled with ***improved legal architecture*** can improve ***long term investor certainty in key*** mitigation projects. This ***will help*** consolidate ***technological leadership and innovation*** in a broad range of sectors and ***create jobs*** in transport, agriculture, lighter industry, and commercial sectors.

KEY ASKS - MARCH 2014 COUNCIL CONCLUSIONS

It is vital that the March 2014 Council conclusions do not foreclose higher ambition for the GHG target. A 2030 target of only 40% is not an acceptable response to the climate crisis. In March, Member States should commit to review the possibility of a higher GHG target once the Commission has come forward with detailed proposals for burden sharing, which could greatly increase the cost efficiency of the GHG target, and reform of the Effort Sharing Decision.

KEY ASKS - LAW REFORM OF THE EFFORT SHARING DECISION IN THE 2030 CLIMATE PACKAGE

The 2030 proposals for the 2030 climate package are expected to be published by the Commission in January 2014. They will need to contain an improved framework for non-ETS emissions. The effort of reducing non-ETS emissions will need to be distributed between Member States. ClientEarth, Carbon Markets Watch, GAIA and partners recommend the following key reforms:

- **Significantly higher Effort Sharing targets are possible and necessary**. Current ESD targets are too weak. The ESD delivers only one third of the emission reductions, yet covers almost 60% of EU's GHG emissions. Yet, an over achievement is already expected of 6% by 2020.[1] The current ESD does not incentivize MSs to consider national policies in several key sectors. An ambitious and effective 2030 Framework requires higher targets for both the ESD and the ETS. Based on recent Commission studies,[2] ClientEarth calculates than an ESD target of 46% reductions on 2005 levels would be feasible by 2030, by full implementation of existing and planned measures, as well as new

[1] EEA, *Greenhouse gas emission trends and projections in Europe 2013. Tracking progress towards Kyoto and 2020 target*.EEA Report No 10/2013

[2] 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).

technical measures at less than 25 euros a tonne, as well as strongly encouraging demand side and behaviour changes.[3]

- **International offsets must be eliminated.** Experience with the ETS and the ESD shows that the use of international offsets has undermined EU climate goals and hampered domestic abatement efforts. International offsets should not be eligible under a 2030 climate and energy framework.[4]

- **New financing mechanisms have to be established**. Better financing mechanisms can unlock additional reductions in Effort Sharing sectors. They 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.

- **Striking a better balance between MS flexibility and investor certainty.** There are important gaps in the EU regulation of GHGs, such as technological measures to control methane emissions from mining, agriculture, natural gas transportation and waste, and stimulating demand reduction measures in energy use. Improved national planning requirements within the Effort Sharing Decision can improve investor certainty. Requiring Commission approval of these more detailed national plans could help entrench them over given time frames.

- **Cancel surplus allowances and offsets after 2020.** Large oversupplies of allowances and offsets are projected to accumulate both under the ETS and the ESD. These surpluses should not stifle action after 2020. Allowances equivalent to the size of the surpluses in the ETS and the ESD should be retired at the end of 2020. CDM and JI offsets should not be carried over for compliance under the 2030 Climate Framework.

- **Improved institutional capacity**. Without institutional structures for the implementation of the Effort Sharing Decision in place, targets will not be enough on their own to provide investor certainty or effective implementation of policies. Both the Commission and most Member States have inadequate implementation capacity for non-ETS reductions. Solutions include placement of statutory duties on public bodies to work towards economy wide reductions, and establishing a centralised EU Effort Sharing agency, comprised of national authorities. Such an agency could be charged with disseminating best practice and advising the Commission on Effort Sharing Implementation could help ensure more effective implementation of mitigation measures, including:

    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

[3] ClientEarth calculations based on: EEA projected over achievement of ESD targets by 6% at EU, = 16% reductions by 2020, (supra, footnote 2), added to additional 8% potential from technical measures (Ecofys, supra, footnote 2), and additional potential from behaviour change and demand side measures. (CE Delft, supra, footnote 3). Total of 46% reductions by 2030 against 2005 levels.

[4] Carbon Market Watch policy brief "Rethinking the role of international carbon markets in the EU's 2030 climate framework", November 2013

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 effective ‘carbon budget’ and more consistent demand for AEAs on the path to 2050.

- **Long term legal framework.** 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 reductions of GHG emissions, or statutory criteria for national selection of mitigation projects in receipt of EU finance streams. Additionally, given the scale of the challenge of transforming towards a decarbonised Europe by 2050, 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.

For more information on reform of the EU Effort Sharing Decision, please visit:

http://www.clientearth.org/climate-energy/effort-sharing-initative/

http://carbonmarketwatch.org/category/eu-climate-policy/eu-esd/

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