The impact of the Paris agreement on the EU's climate policies

Last December in Paris, a global climate deal was adopted in which all countries have agreed to take action on climate change. Ahead of the climate summit, almost 190 countries representing over 90% of global greenhouse gas emissions registered their climate commitments. Europe, which long thought of itself as the lone wolf in tackling climate change, is therefore no longer going it alone.

The Paris agreement marks a major step forward to averting climate catastrophe. But as we are heading to a 3 degrees warmer world, far from the agreed 1.5°C goal, we simply cannot afford to sit still. Now is the time to turn the global climate deal into a springboard for more climate action worldwide.

Since European diplomacy was of paramount importance in establishing a "High Ambition Coalition" of countries, this momentum for "high ambition" also needs to be translated into decisive domestic climate actions. In the words of Climate Commissioner Canete: "*Today we celebrate. Tomorrow we have to act*."

In the sections below, we describe relevant provisions of the Paris agreement and what the EU needs to do to implement these provisions at home:

1. **Enhancing action prior to 2020** by moving beyond 20% reductions
2. **Implementing the <1.5°C objective** by increasing the EU's climate targets
3. **Operationalizing the 5-year cycles** by adopting 5-year ambition periods
4. **Supporting climate actions in developing countries** by financing emission reductions abroad
5. **Recognizing the climate efforts of other countries** by updating the carbon leakage provisions
6. **Ensuring environmental integrity and transparency when engaging in cooperative approaches** by introducing EU ETS linking safeguards
7. **Undertaking "economy-wide" emission reduction targets** by also decarbonizing the aviation and maritime sectors

1. Enhancing action prior to 2020 … by moving beyond 20% reductions

The Paris agreement recognizes the urgency of enhancing the pre-2020 ambition and emphasizes the enduring benefits of ambitious and early action, which includes major cost reductions of future mitigation efforts. The accompanying COP decision reiterates the resolve to enhance ambition in the pre-2020 period to ensure the highest possible mitigation efforts by all Parties.

This also applies to the EU that is currently on track to significantly overachieve its 2020 target of 20% greenhouse gas emission reductions. By last year, the EU had already decreased its greenhouse gas emissions by 23% according to the European Environment Agency and is on track for 30% cuts by 2020 according to Sandbag. Not capitalizing on this overachievement could undermine future efforts as the resulting surplus emission rights can then be used by European companies to continue polluting.

In the Doha Amendment establishing the second commitment period of the Kyoto Protocol, the EU reiterates its conditional offer to move to a 30% reduction by 2020 compared to 1990 levels, "*provided that other developed countries commit themselves to comparable emission reductions and developing countries contribute adequately according to their responsibilities and respective capabilities*".

The adoption of the Paris agreement can be seen as fulfilling this condition, as it is a universal treaty applying to both developed as well as developing countries. The Climate Action Tracker developed by four research organizations furthermore rates the EU's pledge as being comparable to the targets submitted by countries such as the USA, Mexico, Brazil, India and China ("medium").

Recommendation to enhance action prior to 2020 in the EU:

- **Increase EU's 2020 climate target from a 20% to an at least 30% reduction** compared to 1990 levels as the EU's conditions for enhancing its offer are fulfilled with the adoption of the Paris agreement and the submitted climate targets. The move to a higher 2020 reduction target can be implemented in the EU Emissions Trading System by removing about 2 billion surplus emission permits (e.g. emptying the Market Stability Reserve by the end of 2020).

2. Implementing the <1.5°C objective … by increasing the EU's climate targets

The Paris agreement aims to strengthen the global response to the threat of climate change by "*pursue[ing] efforts to limit the temperature increase to 1.5°C above pre-industrial levels*", a strengthening of prior agreed ambition. The Paris agreement furthermore invites countries to communicate by 2020, mid-century, long-term low greenhouse gas emission development strategies, in line with the overall aim of the agreement.

At the moment, the EU's current climate targets are calibrated to limit global temperature rise to 2°C, rather than 1.5°C. The EU's 2050 target is based on the IPCC's 4th Assessment Report from 2007, which provided a range of -80 to -95% of emission reductions for developed countries by 2050. The European Commission developed a 2050 low-carbon roadmap with the objective to achieve only the lowest part of this range, e.g. reaching 80% domestic emission reductions by 2050. The roadmap also identified milestones for the years 2030 (-40%) and 2040 (-60%) towards this long-term -80% objective.

As the EU now agreed to pursue efforts to stay below 1.5°C, the EU's 2050 low-carbon roadmap and the intermediate targets are no longer valid. Reductions far beyond the -40% target by the year 2030 are required to stay within the newly adopted 1.5°C goal. An updated 2030 climate target and a revised 2050 low-carbon development strategy should therefore be submitted to the UNFCCC well before 2020, in line with the agreed timelines.

Recommendation to implement the <1.5°C objective in the EU:

- **Develop, as soon as possible, a new 2050 low-carbon development strategy** that is in line with the newly adopted objective to keep global warming to below 1.5°C and identify appropriate targets for the intermediate years.

> ➢ **Adopt and submit to the UNFCCC an increased 2030 climate target in line with the <1.5°C objective.** This updated target needs to be implemented through the ongoing revisions of the EU's Emissions Trading System (EU ETS) and the Effort Sharing Decision in the coming two years. In order to fully decarbonize the power and industry sector by 2040 for example, the emissions in the EU ETS need to decline annually by 4% rather than the proposed 2.2% from 2021 onwards.

3. Operationalizing the 5-year cycles … by adopting 5-year ambition periods

The current mitigation targets submitted by Parties only limit warming to around 3°C, far higher than the newly-agreed 1.5°C goal. The Paris agreement therefore includes an ambition mechanism by which progress towards the 1.5°C is reviewed every 5 years, starting with a review in 2018. These global stocktakes intend to inform and encourage countries to raise their climate ambition to make up the shortfall towards meeting the long-term temperature goal. The Paris agreement furthermore obliges parties to every five years communicate their climate targets ("Nationally Determined Contributions" or NDCs) that represent a progression of efforts over time.

The EU's climate contribution to the UNFCCC sets out a binding target of an "*at least 40% domestic reduction in greenhouse gas emissions by 2030 compared to 1990*". The target will be implemented by revising the EU ETS and the Effort Sharing Decision governing the non-ETS emissions from the transport, buildings, agriculture and waste sectors for the 2021-2030 period.

This means that the EU's proposed 10-year mitigation cycles would not be synchronized to those in the Paris agreement that implements 5-yearly reviews and submissions of climate pledges.

> **Recommendation to operationalize the 5-year cycles in the EU:**
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> ➢ **Adopt 5-year ambition periods in the EU ETS revision and the post-2020 Effort Sharing Decision.** These two pieces of the EU's climate legislation need to include provisions that either automatically ramp up ambition from 2025 onwards, or allow for a mid-term review of the adequacy of the 2030 target with the aim of strengthening it.

4. Supporting climate actions in developing countries … by financing emission reductions abroad

The Paris agreement stipulates that developed countries should continue taking the lead in mobilizing climate finance, taking into account the needs of developing counties, and that the provided finance should represent a progression beyond previous efforts.

The Paris agreement also establishes a new offsetting mechanism "to contribute to the mitigation of greenhouse gas emissions and support sustainable development" (hereafter referred to as the *Sustainable Development Mechanism* or *SDM*). This new offsetting mechanism is set to replace the Clean Development Mechanism established in Kyoto and considerably widens its scope, although a number of key elements are yet to be defined in subsequent modalities and procedures:

- The SDM moves away from being purely project-based to a mechanism that can also promote policies and measures ("mitigation activities").

- The SDM allows all countries to participate in the mechanism, which means that both developed and developing countries can generate and use carbon offsets.
- The SDM moves beyond pure offsetting, as an overall mitigation in global emissions needs to be delivered.

The EU has set itself a domestic 2030 climate target, excluding the use of international carbon offsets. This means that after 2020, businesses are no longer allowed to purchase (cheap) international credits to offset their pollution in the EU ETS. The importance of focusing on domestic action was acknowledged in the Paris agreement that obliges countries to pursue domestic climate actions to achieve their targets.

The established sustainable development mechanism can however still be a tool for EU governments to increase global ambition by financing emission reductions abroad. The SDM can create the structures to channel results-based climate finance to developing countries. This would give wealthier countries an MRV-able channel to contribute towards their climate finance obligations and help those countries in need of support to achieve their conditional mitigation outcomes.

A share of proceeds from the SDM will be used to assist developing countries to meet the costs of adaptation, but a similar provision for other cooperative approaches was removed from the final agreement. Using a share of proceeds from any internationally transferred mitigation outcomes, e.g. by earmarking revenues from emissions trading systems, could help to scale-up climate finance.

Recommendation for the EU to support climate actions in developing countries:

- **Finance additional emission reductions abroad** and allow developing countries to claim the reductions achieved on their territory, by moving away from offsetting**.** The Sustainable Development Mechanism can be used by EU governments as a results-based finance instrument to support climate actions in developing countries, who can then claim the resulting reductions towards meeting their conditional climate pledges.

- **Use a share of proceeds from internationally transferred mitigation outcomes for climate finance by automatically channeling EU ETS revenues to the Green Climate Fund.**

5. Recognizing the climate efforts of other countries … by updating the carbon leakage provisions

The Paris agreement is a legally binding framework applying to all countries. Underpinning the agreement are the climate commitments submitted by almost 190 countries covering more than 90% of global emissions. This means that the EU can no longer be seen as acting alone on climate change.

The EU Emissions Trading System (EU ETS) provisions are however still based on the assumption that the rest of the world is behind the EU when it comes to implementing climate policies and putting a price on carbon.

The European Commission recently put forward a legislative proposal to revise the EU ETS for the post-2020 period. On the basis of guidance by the EU heads of state, the current carbon leakage provisions to protect industry from the hypothetical risk of relocation due to the EU ETS will continue after 2020 “*as long as no comparable efforts are undertaken in other major economies*”. The

Commission proposed to hand-out around 6.3 billion pollution permits for free to industry in the 2021-2030 period, representing a financial [pollution] subsidy of about €160 billion.

The EU ETS proposal by the Commission arguably was published before the Paris agreement was adopted, and it is now up to the European Parliament and the Council to make changes to it. In light of the Paris agreement, the new carbon leakage provisions must start acknowledging the climate efforts of other major economies. As the number of regions where EU companies could relocate to avoid climate policies is diminishing greatly, this should lead to a gradual phase out of free pollution permits to industry to avoid unjust protectionist subsidies.

Recommendation for the EU to recognize the climate efforts of other countries:

- **Update the carbon leakage provisions under the EU ETS** to reflect the comparable efforts undertaken abroad and as a result limit the amount of free pollution permits to industry. In light of the Paris agreement where almost 200 countries have agreed to take climate efforts after 2020, there is little justification for the EU protecting its own industry to the count of €160 billion pollution subsidies.

6. Ensuring environmental integrity and transparency when engaging in cooperative approaches … by introducing EU ETS linking safeguards

Under the Paris agreement, Parties may engage in so-called 'cooperative approaches' that involve the use of 'internationally transferred mitigation outcomes' towards climate targets. These cooperative approaches are understood to include the linking of emissions trading system resulting in the transfer of emission permits between jurisdictions. Parties under the Paris agreement are obliged to ensure environmental integrity and transparency when engaging in such cooperative approaches such as ETS linking.

The EU has committed to achieve at least 40% emission reductions through domestic actions, excluding the use of internationally transferred mitigation outcomes towards its 2030 target. It is clear that linking the EU ETS to another carbon market cannot be part of the 40% target, as the linkage would allow European companies to purchase emission permits from the foreign (linked) jurisdiction, instead of achieving domestic emission reductions.

Current EU ETS provisions do not allow for any transparency or public participation when engaging in linking negotiations with a foreign jurisdictions. To date, European policymakers and the general public have been kept in the dark about the ongoing linking negotiations between the EU and Switzerland for example. The elected members of the European Parliament have furthermore no say during the linking negotiations and cannot gain access to crucial documents such as the negotiation mandate.

Recommendation for the EU to ensure environmental integrity and transparency when engaging in cooperative approaches:

- **Ensure the environmental integrity of the EU's domestic 2030 climate target by not allowing the use of cooperative approaches such as ETS linking to undermine the achievement of 40% emission reductions in the EU's territory.** A decision to link the EU ETS with other carbon markets should result in a higher EU climate target to maintain the environmental integrity of the EU's submitted climate commitment.

> - **Ensure transparency when engaging in cooperative approaches such as ETS linking by introducing in the EU ETS directive a public review of linking proposals and rules.** The negotiations to link the EU ETS with other carbon markets should be done in improved transparency and there should be public access to relevant documents.

7. Undertaking "economy-wide" emission reduction targets … by also decarbonizing the aviation and maritime sectors

In order to achieve the long-term temperature goal, the Paris agreement obliges Parties to reach global peaking of emissions as soon as possible and to undertake rapid reductions thereafter to get to 'net zero' emissions between 2050 and 2100. While the Paris agreement makes no specific reference to the aviation and maritime sectors, it is clear that these two sectors will need to contribute to the climate efforts as well. This is also indirectly acknowledged in the agreement that obliges developed countries to undertake "economy-wide absolute emission reduction targets" which hence include the international transport sectors.

Under current policies and assuming that the world's total emissions fall by enough to prevent more than 2°C warming, shipping and aviation could contribute 40% of our CO_2 output by 2050. Failure to address the climate impact of these sectors will seriously jeopardize the fulfillment of the Paris 1.5°C target.

Already in 1997, the Kyoto Protocol tasked the International Civil Aviation Organisation (ICAO) and the International Maritime Organisation (IMO) to develop measures to tackle emissions from airplanes and ships. A continued failure of these agencies to deliver on this task will instead require action by countries and regions -such as the EU- to limit the emissions from aviation and shipping in order to stay within the 1.5°C target.

ICAO has been tasked to propose a global market-based mechanism by October 2016 to offset future emissions that are above the levels seen in 2020, but this target is not compatible with limiting temperature increases to below 1.5°C. Earlier in 2015, IMO refused to even start thinking about a target for the sector.

> **Recommendation for the EU to decarbonize the aviation and maritime sectors:**
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> - **Ensure that the EU ETS covers 50% of all outgoing and 50% of all incoming flights from 2017 onwards (including those to non-EU destinations)**, unless the 2016 ICAO Assembly proposes an adequate market based measure in line with the aviation sector's fair share to limiting global warming below 1.5°. The CO_2 emissions from aviation from aviation should furthermore be subject to a multiplier of at least 2 to address the additional climate impacts caused by aviation.
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> - **Ensure that maritime emissions are covered by the EU ETS or a compensation fund** to deliver shipping reductions within its 2030 commitment.

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