Carbon Market Watch

A Guide to European Climate Policy

Vol. 2 - EU's Effort Sharing Regulation

Introduction

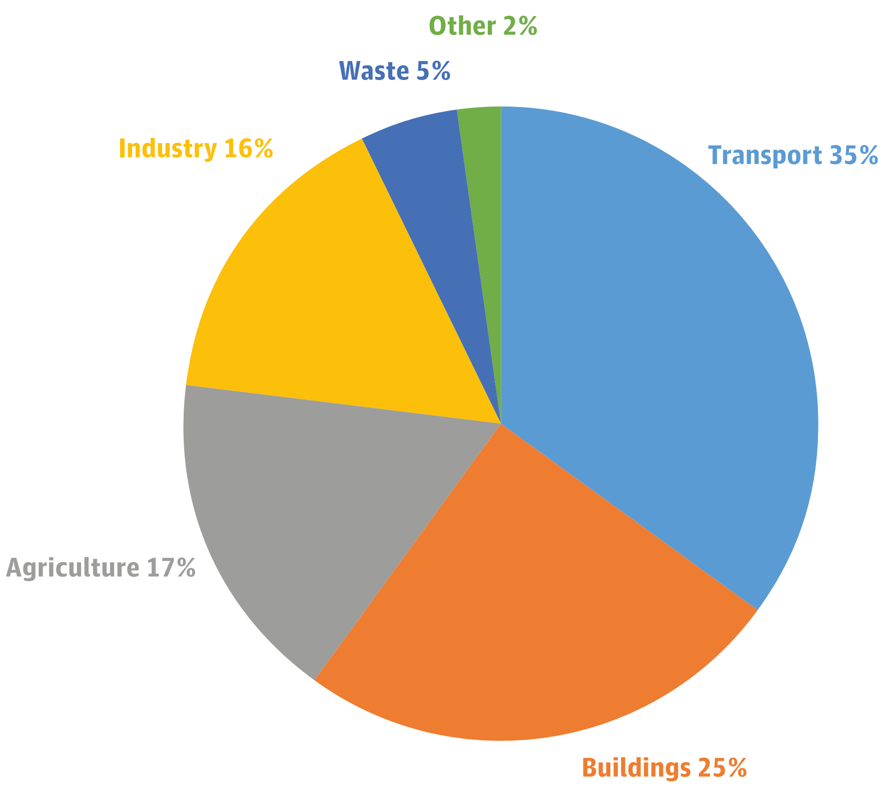
The Effort Sharing Regulation is Europe's tool to reduce the climate impact of sectors that are not covered by the EU Emissions Trading System (#EUETS, see guide here[1]). The Effort Sharing Regulation will be the EU's largest climate instrument after 2020 as it will regulate about 60% of our total greenhouse gas emissions. The EU has long been a leader in taking action on climate change, and the Effort Sharing Regulation (#EUESR) will be instrumental in helping to deliver the climate friendly transformation of our society.

The proposal for the Effort Sharing Regulation is currently being discussed by European policymakers. This comes at a time when world leaders have agreed on the first ever universal climate deal – the Paris Agreement – which calls on governments, businesses and citizens around the world to do their part in minimising the risks and impacts of climate change.

It is imperative that the objectives agreed in Paris are embedded in the ongoing reform of the EU's climate legislation, including the Effort Sharing Regulation. This requires effective stakeholder engagement from all sides, including civil society and academia. The increased level of public participation in the process will help to significantly increase the environmental and social integrity of the #EUESR.

This guide to the ESR aims to build knowledge and understanding of Europe's climate tool for civil society organisations and other interested parties who wish to learn more about EU climate policies. It provides introductory knowledge on how the ESR is designed and functions and aims to increase awareness that will ultimately empower civil society and citizens to get involved in the ESR decision making process and its implementation.

EFFORT SHARING EMISSIONS PER SECTOR (2015)



1. For more info on the EU ETS see volume 1 of our guide: http://carbonmarketwatch.org/european-climate-policy-guide-vol-1-eu-ets/

1. What is the Effort Sharing Regulation?

The Effort Sharing Regulation **(ESR)** is one of Europe's main tools to combat climate change and reduce greenhouse gas **(GHG)** emissions in the sectors outside the Emissions Trading System **(ETS)**cost-effectively.

Under the Effort Sharing Regulation, the EU-wide GHG reduction effort is shared between all the EU Member States. This is done mostly on the basis of a country's wealth as measured by GDP per capita. The wealthiest Member States need to reduce their emissions by 40% below 2005 levels by 2030 and the poorest is allowed to keep its 2005 emissions stable until 2030. These national targets add up to an overall ESR 2030 target of -30% compared to 2005 emission levels.

The combined targets for both the ESR and the ETS are meant to deliver the EU's overall climate target of at least 40% less emissions domestically by 2030 compared to 1990 levels.

The EU's Effort Sharing Decision – the ESR's predecessor

The Effort Sharing Regulation sets climate targets for the 2021-2030 period. The predecessor of the ESR is the Effort Sharing Decision (ESD) which currently regulates the non-ETS emissions in the 2013-2020 period. The ESR is very similar to the ESD except in certain areas such as what kind of flexibility mechanisms are allowed to be used.

2. The greenhouse gas emissions covered by the ESR

The Effort Sharing Regulation will regulate about 60% of the EU's total GHG emissions as it only covers the emissions from sectors that are not included in the ETS. The GHG emissions that are covered by the Effort Sharing Regulation:

35%
from Transport

Around 35% of the emissions in the ESR come from transport. The GHG emissions from cars, trucks, domestic shipping, non-electric trains and other transportation forms are covered by the ESR. Domestic aviation is not included in the ESR as it is covered by the Emissions Trading System.

25%
from Buildings

Around 25% of the emissions in the ESR come from buildings. Only the GHG emissions associated with the heating and cooling of buildings are covered by the ESR. The electricity use of buildings is not included in the ESR as it is covered by the Emissions Trading System.

17%
from Agriculture

Around 17% of the emissions in the ESR come from agriculture. Only the non-CO_2 emissions from agriculture are covered by the ESR. These emissions are linked to the livestock sector (for example cows burping methane) and the use of fertilisers. The CO_2 emissions from agriculture are not included in the ESR as they are covered by the land use, land use change and forestry (LULUCF) regulation.

16%
from Industry

Around 16% of the emissions in the ESR come from industry. The GHG emissions of smaller energy industries and F-gases (potent GHGs) used in fire protection, aerosols and electric switchgear are covered by the ESR. Larger industrial installations and the power use of industry are covered by the Emissions Trading System.

5%
from Waste

Around 5% of the emissions in the ESR come from waste. The GHG emissions associated with solid waste disposal land, wastewater, waste incineration and any other waste management activity are covered by the ESR.

Did you know ?

The Effort Sharing Regulation sets an overall GHG reduction target for the sectors it covers, but it does not specify where, how and with what policies a country should reduce its emissions. The choice of measures is therefore the responsibility of each Member State, although existing and new policies help Member States achieve their targets

3. The low-carbon transformation of the ESR sectors

The Effort Sharing Regulation sets the pace of decarbonization of the sectors it covers, in particular of the transport, agriculture, buildings and waste sectors. These sectors will need to undergo radical changes both in the short and longer term in order to meet the commitments made in the Paris Agreement.

Keeping global temperature rise to below 1.5°C requires the Effort Sharing sectors to reach zero emissions before 2040. In order to meet the lower range of the EU 2050 target, i.e. 95% less emissions than the 1990 levels, the Effort Sharing sectors would need to reduce their emissions by 95% by 2050 compared to 2005 levels.[2]

The low-carbon transformation of the transport, agriculture, buildings and waste sectors comes with a price tag, but it will also result in clear benefits for citizens such as cleaner air, better health and more comfortable homes that outweigh the costs. In the non-ETS sectors, the benefits are related to the implementation of new EU and national measures that reduce emissions.

The Effort Sharing Regulation can help promote the uptake of these measures and incentivise the low-carbon transition, not only up to, but also beyond 2030. Although a pathway with climate targets beyond 2030 is currently not included in the ESR, countries are required to submit climate plans on how they will reduce their emissions beyond 2030.

The 2030 ambition level of the Effort Sharing Regulation will be reviewed in light of the global stock takes agreed under the Paris Agreement to see if the current contributions are sufficient to avoid dangerous climate change. The 2030 target of the Effort Sharing Regulation would need to be raised from 30% to at least 47% to align the EU's targets with the Paris Agreement ambition according to Climate Action Network Europe[3].

The ESR compliance regime

If a Member State fails to meet its climate target, after taking the flexibility mechanisms into account, it will be faced with an automatic penalty. This penalty takes into account the environmental cost of delaying emission cuts: The excess emissions are multiplied by a factor of 1.08 and added to the emissions of the following year, so that this target becomes more stringent. Every five years, the European Commission checks if the Member States complied with their annual targets. If not, a penalty will be applied to the future Annual Emission Allocations.

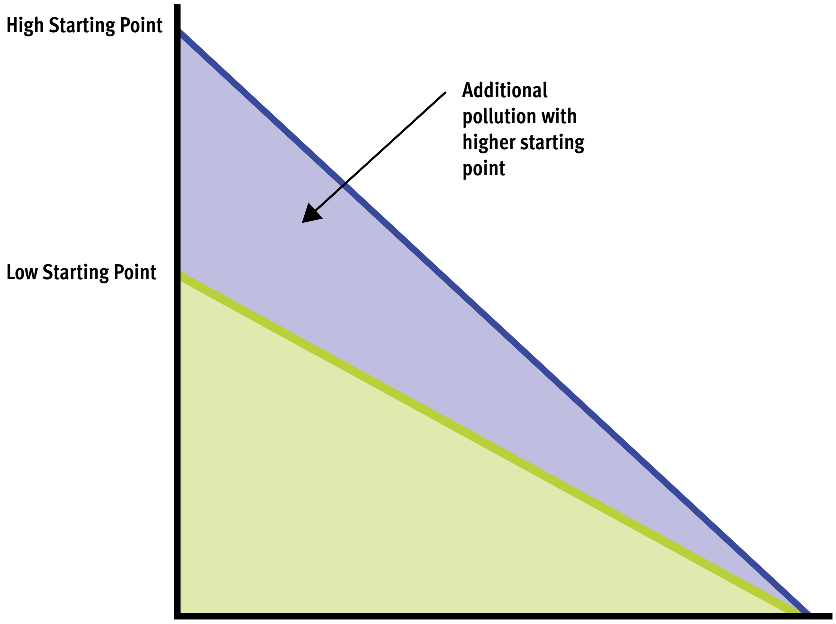
4. National carbon budgets under the ESR

The Effort Sharing Regulation does not just set a climate target for the year 2030, because it sets climate targets for all years in the 2021-2030 period. It prescribes the amount of GHG emissions a Member State is entitled to emit in each year. This is called the Annual Emission Allocation (AEA).

2. See Oeko-institut (2016), Targets for the non-ETS sectors in 2040 and 2050 here
3. See CAN-Europe (2016), CAN Europe's Position on the Post-2020 Effort Sharing Regulation here

The 2030 climate targets are presented as a percentage of emission reductions to be achieved by a certain year. However, what matters for the atmosphere, in addition to the value of this end target, is how much pollution is released along the way: Once greenhouse gases are in the atmosphere, they stay there for a long time. Therefore, the fewer total emissions are released over time, the lower the GHG concentration and the smaller the effect on global temperature rise.

Under the ESR, the carbon budget for the 2021-2030 period (the total amount of AEAs) is determined by drawing a straight line from the starting point in 2021 to the reduction target for the year 2030. This means that the size of the national carbon budgets are dependent both on the percentage of emission reduction to be achieved by 2030, as well as on the starting point in 2021.



A lower starting point will result in a lower amount of pollution in the ten-year period and a lower concentration of greenhouse gases in the atmosphere. The starting point can be set on the basis of the national 2020 targets under the Effort Sharing Decision, on the basis of a country's actual emission levels, or by using a combination of these two approaches.

Did you Know ?

Under the Effort Sharing Decision, the 2020 climate target was collectively already met in the first compliance year in 2013. As the EU emissions are projected to decline further from now until 2020, the actual emissions by that time will be much lower than the 2020 climate targets.
Starting the ESR on the basis of the 2020 targets of the Effort Sharing Decision will therefore result in a higher carbon budget than if the actual emission levels were used as the starting point.
Although the EU overall is projected to overachieve its 2020 climate target, a handful of Member States will not meet their targets domestically.

5. Flexibility mechanisms

Each year, Member States have an obligation to keep their GHG emissions below their Annual Emission Allocation. To make it less costly to comply with these climate targets, Member States are allowed to make use of different flexibilities (or "loopholes"; see the box below).

Under the Effort Sharing Regulation, the following types of flexibilities can be used by Member States:

Flexibility over time

Member States can make use of two different flexibilities between years:

- **Banking**: Any overachievement of the target in a certain year can be banked for use in a future year. Banking of surplus between commitment periods is not possible.

- **Borrowing**: Member States can borrow AEA units from following years for up to 5% of their annual target.

Flexibility between countries

Member States can trade emission reduction units with each other (in exchange for financial resources for example):

- If a Member State's emissions are lower than its target for that year, that country is allowed to transfer its surplus units to another Member State without quantitative limitations.

- A Member State is furthermore allowed to transfer up to 5% of its AEA allocation to other Member States. For example, a country which expects to over-comply with its future targets and generate surplus AEA can initiate trade already today.

Emission reduction credits from countries outside the EU are not eligible for use in the Effort Sharing Regulation.

Flexibility with the EU ETS

Each year, certain Member States are entitled to use a limited amount of allowances from the EU ETS to comply with the Effort Sharing Regulation. If a country chooses to make use of this flexibility, the ETS allowances will be subtracted from its auctioning volumes, leaving it with less auctioning revenues. The ETS allowances can then be used to offset emissions under the Effort Sharing Regulation.

Flexibility with the land use sector

Each year, all Member States are allowed to use a limited amount of forestry and land use (LULUCF) credits if these sectors absorb more carbon from the atmosphere than they emit. The credits from planting trees or properly managing cropland and grassland can be used to offset emissions under the Effort Sharing Regulation.

The pitfalls of certain flexibility mechanisms

Flexibility mechanisms have the aim of allowing targets to be met more cost-effectively. Certain flexibilities however undermine the low-carbon transition of the non-ETS sectors by allowing more greenhouse gases to be emitted in the Effort Sharing sectors up to 2030. This applies for example to the flexibility with the EU ETS and the land use sector. These flexibilities have therefore also been called "loopholes".

To learn more about the national emission reduction targets in the ESR and how they are negatively affected by loopholes visit www.effortsharing.org to use the Effort Sharing Emissions Calculator, designed by Carbon Market Watch and Transport & Environment. The website has a wealth of information on the ESR in our library and direction on how you can get involved in the ESR decision-making and implementation processes.

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For more information see:
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