Flexibilities and domestic projects under the post-2020 Effort Sharing Regulation

Jasper Braam
Federal Ministry for the Environment, Nature Protection, Building and Nuclear Safety

Leveraging domestic offset projects for a climate-neutral world

Regulatory conditions and options?

Berlin, 27 September 2016
ESD 2013-2020:

- Binding national GHG mitigation targets for every Member State
- Flexibility between years and between MS


- In principle: Continuation of the existing methodology, incl. target distribution
- Significantly enhanced flexibility
Part I

The ESR proposal
The proposal: Effort Sharing Regulation

Preamble (Recital 14): “As a means to enhance the overall cost-effectiveness of total reductions, Member States should be able to transfer part of their annual emission allocation to other Member States. The transparency of such transfers should be ensured and may be carried out in a manner that is mutually convenient, including by means of auctioning, the use of market intermediaries acting on an agency basis, or by way of bilateral arrangements.”
Preamble (Recital 14): “As a means to enhance the overall cost-effectiveness of total reductions, Member States should be able to transfer part of their annual emission allocation to other Member States. The transparency of such transfers should be ensured and may be carried out in a manner that is mutually convenient, including by means of auctioning, the use of market intermediaries acting on an agency basis, or by way of bilateral arrangements.”
The proposal: Effort Sharing Regulation

• Member states can sell part of their national emissions allocation:
  • 5% at any point in time
  • All surplus after the compliance check (2027, 2032)
• Clear limit on trading, in order to safeguard compliance in later years
“With respect to project-based activities (which could occur in any of options F1, F3 or F4), in theory, projects would be most attractive in those countries where reduction costs are the lowest and so investments in additional emission reductions would be directed to them. There would be a flow from countries with high abatement costs to countries with lower abatement costs, which also tend to be Member States with lower-than-average GDP per capita. This is in line with the objective to enhance cost-efficiency and fairness across the EU. Additional emission reduction projects could also provide benefits in terms of increased local employment and income.” (p. 78)
Part II

A European Project Mechanism?
A European Project Mechanism (EPM) could help to:

• Increase cost-efficiency
• Safeguard environmental integrity
• Unlock investment and modernisation potential
• Involve the private sector in climate action
• Accelerate convergence
Preconditions & requirements

• Preconditions:
  • Very significant reduction of ESD surplus
  • Openness for private sector initiative
  • Only projects within the non-ETS sectors eligible, no international and/or LULUCF projects

• Requirements:
  • Transparency
  • Effective control for host country
  • Limited bureaucracy
  • Generate co-benefits in host MS (climate, air quality, employment...
EPM: Potential project cycle

1. Call for tenders by buying MS
2. Buying MS awards a private project proposal
3. Host MS approves the project
4. Formal approval by central oversight body
5. Project implementation
6. Payment to project developer and transfer of emission rights to buyer
• Art. 24a ETS Directive:
  – Not implemented, quite uncertain basis
  – Disadvantages with regard to functioning of ETS
  – Should not be used as legal basis for ESD projects

• JI and CDM:
  – Not domestic
  – Trade either with very high surplus (some JI countries) or without caps (CDM)
  – Inherent incentive to convert surpluses into project credits (JI: RUS, UKR)
Why we still think it’s a good idea

- Give planning certainty
- Reduce transaction costs
- Reduce compliance risk for host countries (over-crediting)
- Raise awareness among MS and project developers
- Introduce exception from trade limitations (5% cap) for verified emission reductions
Projects are possible: Raise awareness, speak to potential buyers (e.g. DNK, NLD, BEL, ...), sellers (e.g. BGR, ROU, POL, Baltics, ...) and project developers

Collaborate to introduce EPM clause in ESR (Art. 5)

Timeline: Negotiations started in 09/2016 and will take about 12-18 months
Thank you for your kind attention!

Jasper Braam
Federal Ministry for the Environment, Nature Protection, Building and Nuclear Safety

Leveraging domestic offset projects for a climate-neutral world
Regulatory conditions and options?