



EC Public Consultation on the Effort Sharing Decision: CEPS Submission

June 29, 2015, Brussels

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The ESD consultation

- The questions focus on the Effort Sharing Decision and in particular on the flexibility mechanisms which are part of it
- The ESD only sets the targets (or emissions budgets), translated into Annual Emissions Allocations (AEAs) for Member States to achieve in the non-ETS sectors; it does not prescribe how MS should achieve these targets
- Targets currently include positive and negative ones (some MS may still grow non-ETS emissions) – post 2020, the range becomes 0 to -40%

Question 1: flexibility mechanisms

- How can the **availability and use of the two existing internal flexibility instruments under the ESD be enhanced to ensure cost-effectiveness of the collective EU-effort in 2021-2030:**
 - a) for banking and borrowing; and
 - b) for AEA transfers among Member States, respectively?
- With respect to the latter, is there **need for more transparency in how Member States engage in AEA transfers? Could the current rules be further enhanced through more transparent reporting, the use of trading platforms, project-based mechanisms, auctioning, or through other means? Are there examples from other areas that could provide useful experience in designing a post-2020 transfer system?**

Question 1: flexibility mechanisms

- Visible price signal is important – anything which improves this visibility is therefore positive (trading and/or auctioning platforms)
- AEA trading has barely happened so far (little need) but this may change post-2020
- Increased flexibility, including through increased banking and borrowing provisions (also across phases) could be considered – but caution is warranted as MSR-like mechanisms to deal with oversupply are lacking

Question 2: monitoring, reporting, compliance

- On the basis of experience with the present set of rules on reporting, monitoring, and corrective actions, which aspects should be maintained and which should be changed after 2020?
- Please select one of the following:
 - a) Keep it as it is: Annual reporting and annual compliance checks with existing corrective action
 - b) Annual reporting with biennial compliance checks with existing corrective action
 - c) Biennial reporting with biennial compliance checks and enhanced corrective action
 - d) Other

Question 2: monitoring, reporting, compliance

- We feel that an **option D, Other**, which we define as: “annual reporting and annual compliance checks with enhanced corrective action” would provide the best solution for monitoring, reporting, and compliance post-2020
- More stringent targets post-2020 increases the risk of non-compliance
- Annual reporting allows for closer policy monitoring, which is advisable keeping in mind that many MS will have to implement more ambitious policies
- Potential new flexibility mechanisms require close monitoring

Question 3: Setting national targets for GHG emissions (non-ETS)

- How can cost-effectiveness be reflected in a fair and balanced manner in adjusting individual ESD targets for Member States with a GDP per capita above the EU average?
- What can be the role of the one-time reduction through a limited amount of ETS allowances in achieving these Member States' ESD targets, while preserving predictability and environmental integrity?

Question 3: Setting national targets for GHG emissions (non-ETS)

- Auctioning as a means of adjusting targets:
- EU needs to balance cost-effectiveness with fairness and equity
- Auctioning parts of AEA share could be an efficient way to adjust individual MS targets
 - It would aid price discovery and gives MS an opportunity to raise funds
 - At the same time, such an adjustment may have distributional consequences and affect the ‘fairness’ inherent to using targets derived from GDP per capita
 - Voluntary or compulsory?

Question 3: Setting national targets for GHG emissions (non-ETS)

- One time reduction in ETS auctioning share:
- Option is mentioned in Oct 2014 EUCO Conclusions
- Some questions arise:
 - Creates uncertainty for operators under EU ETS and may also impact its market functioning
 - MSR was envisaged to tackle surpluses in ETS. If surpluses are instead moved into the realm of the ESD, this has consequences for environmental integrity
 - Introduce constraints?
 - Only allow the transfer at the end of a compliance period as a last-resort option
 - If MS want to make use of it, this (including the details of the transfer) should be announced at the beginning of a phase to ensure predictability

Question 5: Complementary EU-wide action in the sectors covered by the Effort Sharing Decision

- ***Is the current scope of EU-wide action and legislation OTHER than the ESD to support Member States' emission reductions in ESD sectors sufficient, or should it be enhanced?***
 - a) The current scope is sufficient; or***
 - b) The current scope should be enhanced.***

Question 5: Complementary EU-wide action in the sectors covered by the Effort Sharing Decision

- An option could be, instead, to move more sectors into the ETS, as this is frequently seen as the central pillar of EU climate policy
 - Fuel distributors (as in California)
 - Transportation
 - Performance standards proving to be effective
 - Issue of double regulation
 - Very high carbon prices required before consumers would change purchasing behaviour
 - Allowing international credits in ETS
 - Only in context of higher target than -40% - it would allow the EU to continue being a player in a global carbon market

Question 6: Capacity building and other support to implementation at national, regional and local level

- ***6. Is there a need for additional EU action in terms of capacity building and similar support targeted at the regional and local level to facilitate national policies and measures under the ESD after 2020?***
 - a) Yes***
 - b) No***
 - **As 2020 targets have been met with relative ease, it seems reasonable to first see how the current support framework fares in a more ambitious setting, before proposing changes to the system**