

The EU's 2030 Effort Sharing Agreement

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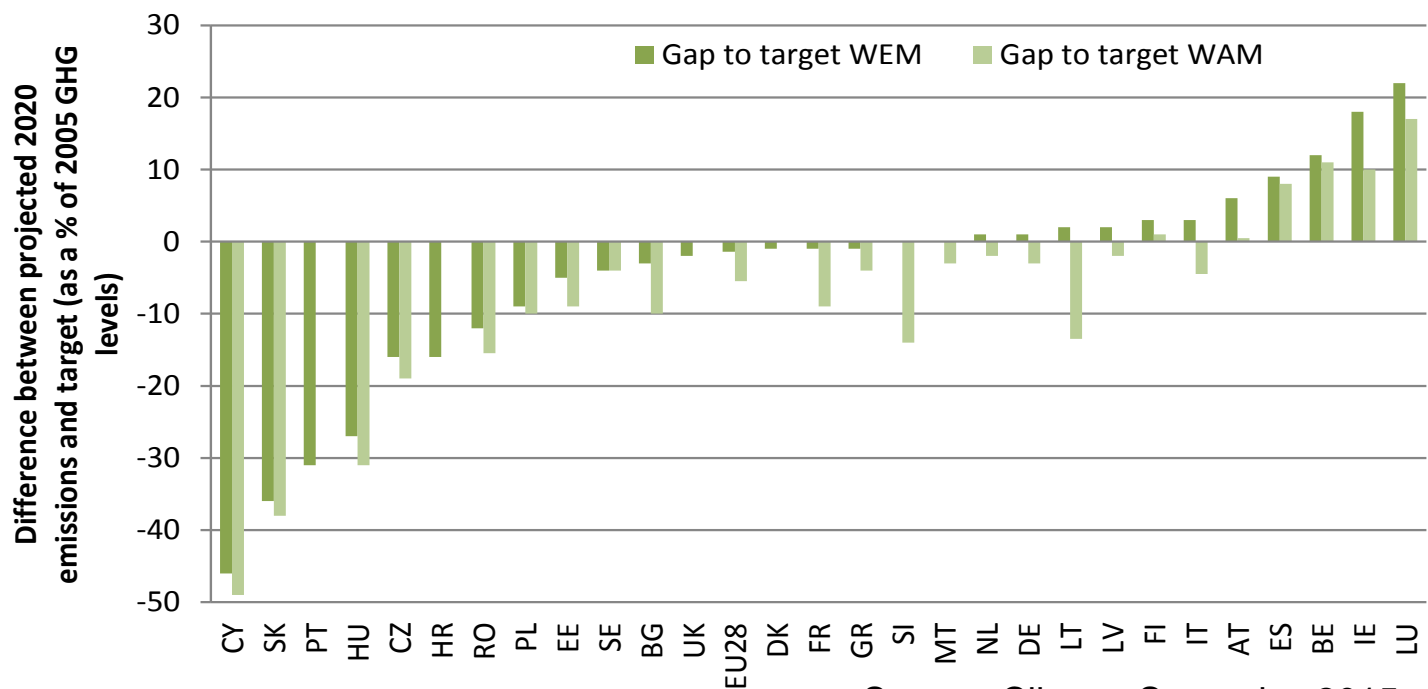
Why do we want a flexibility mechanism?

- An insurance policy to ensure EU targets are met
- To limit costs for some Member States if short run costs are extreme
- To help all Member States take action in non-ETS sectors,
 - Spread action to more Member States
 - Spill-over benefits for host country

Why does flexibility need to be « enhanced » ?

- The 2020 experience of non-ETS sector trading is limited
- But flexibility needs should be met via exchanges of existing surpluses.

Figure 1. Difference 2020 ESD targets and emissions projections for Member State as of end 2013

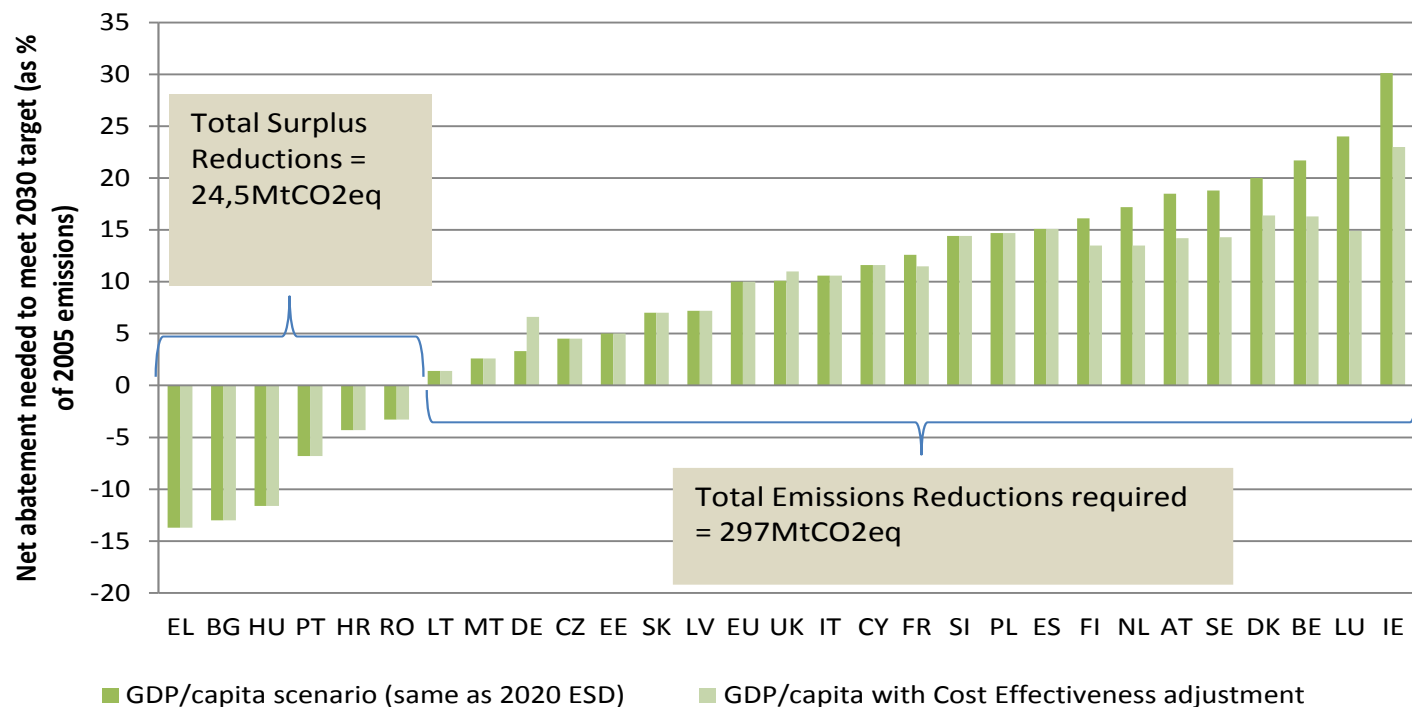


Source: Climate Strategies 2015

Why does flexibility need to be « enhanced » ?

- But the 2021-2030 experience is currently forecast to be quite different.

Figure 1. Abatement gap in the year 2030 by Member State, assuming an identical distribution of targets as the 2020 Effort Sharing Decision



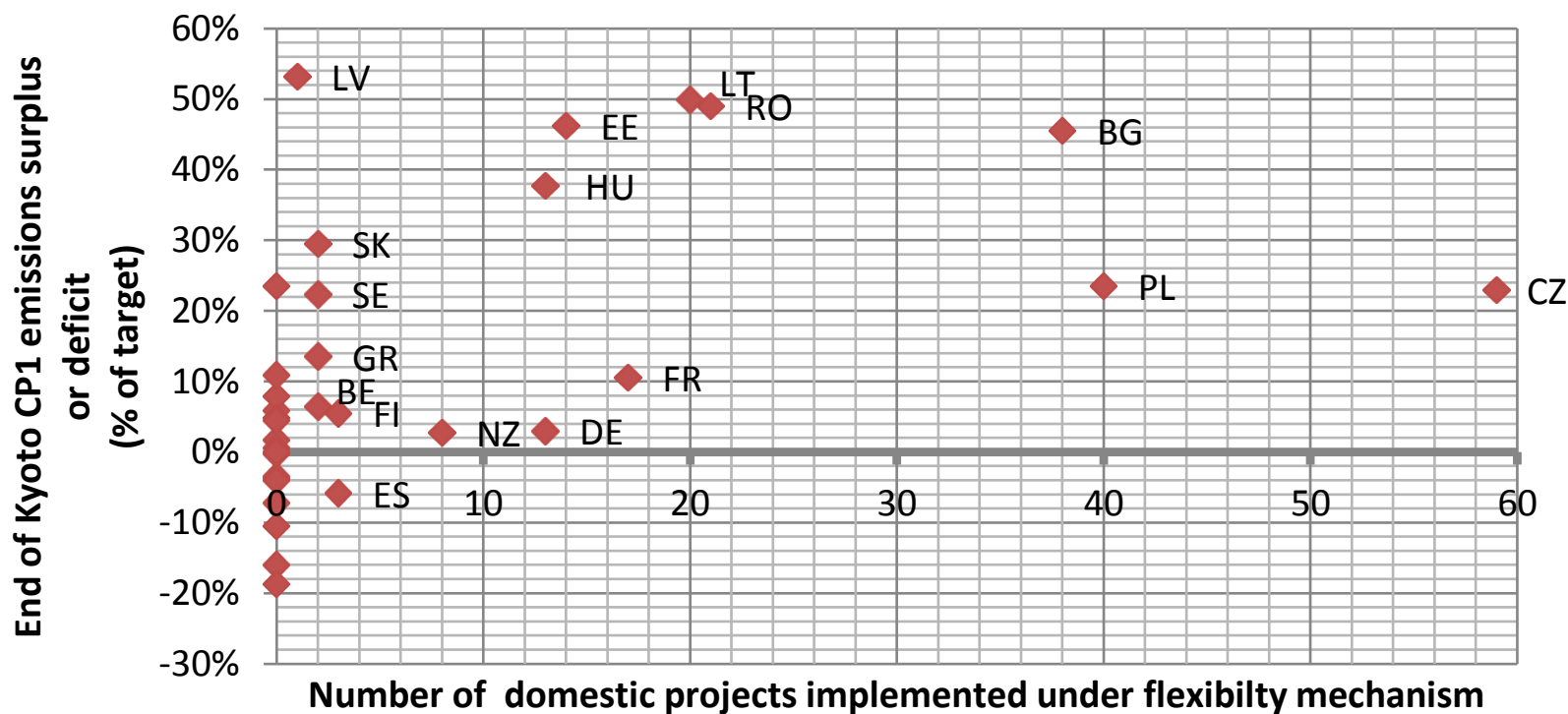
Source: Climate Strategies 2015

Why does flexibility need to be « enhanced » ?

- MS are not profit-maximising risk optimising entities (sellers slow to sell; buyers reluctant to buy)
- How are project developers to be given transparent signals to invest in a timely way?
- How are transaction costs of 28 Member State governments searching for buyers/sellers/project developers to be managed efficiently?

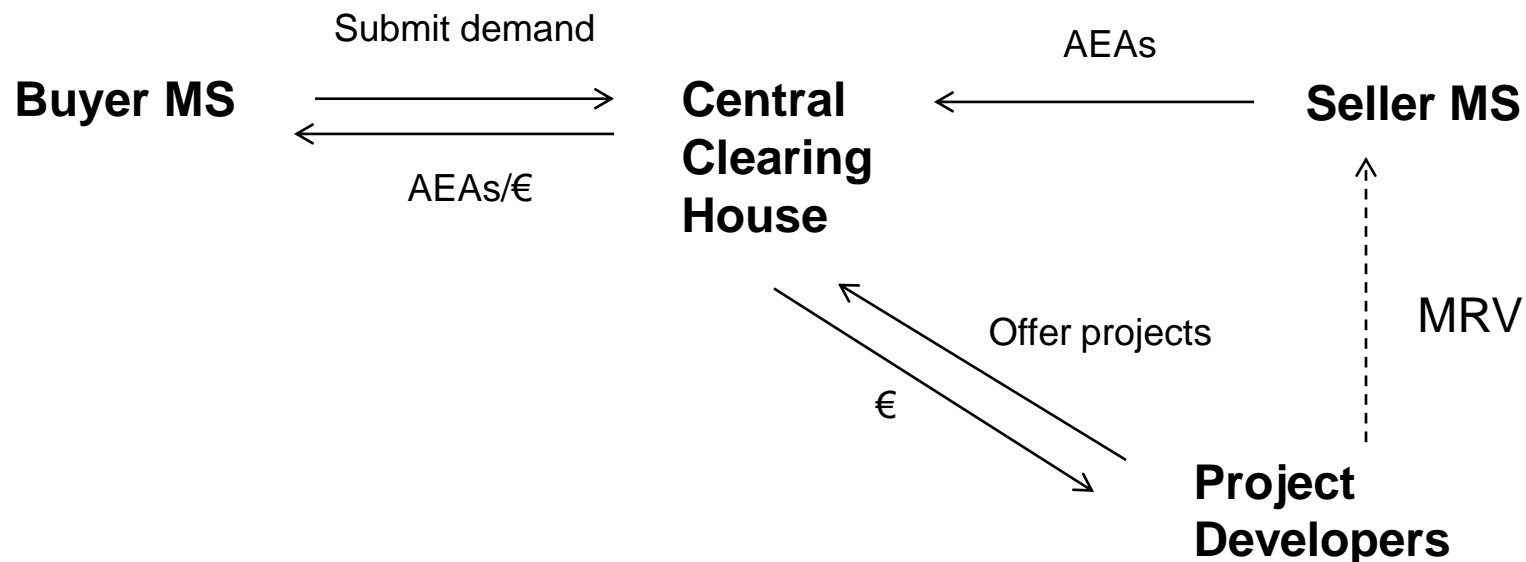
JI experience

Figure 1. Annex I countries only hosted projects if they were expecting a large surplus of AAUs under the first commitment period of the Kyoto Protocol



Source: authors, Data: UNEP Risoe/CDM-JI Pipeline

An AEA Clearing House for non-ETS projects



Provides:

- *Better visibility* for buyers and project developers
- Reduces transaction costs due to *transparent demand/supply*
- *Clear reference prices & reduced trans. costs* for sellers

Further suggestions for non-ETS sectors post-2020

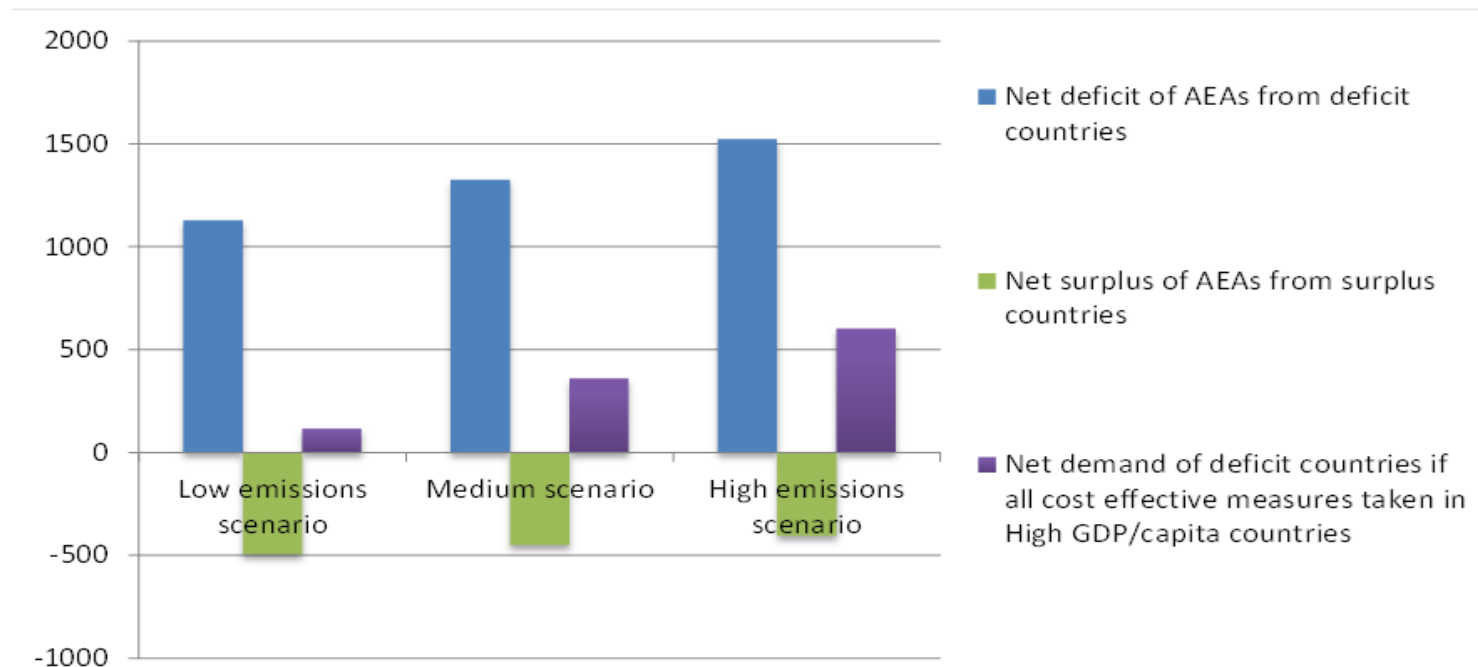
- **Seperate agriculture and forestry into a seperate framework**
 - Separates out forestry; synergies with agriculture.
 - Convergence between top-down targets for GHG and bottom up policy measures for Energy Efficiency, Renewables, (and Transport) reinforces governance of EU targets.
- **Protect legal status of ESD instrument**
 - As targets become tougher, a robust compliance framework necessary.
- **Align new planning template for actions in ESD sector with information on financing for climate activities under future MFFs.**
- **Allow for one-way ETS-to-non-ETS exchange as a limited flexibility option of last resort.**

Annex

Why does flexibility need to be « enhanced » ?

A significant number of new projects will probably need to be generated to meet demand...

Figure 1. Demand and supply scenarios for AEA over the 2021-2030 period



Note: the inclusion of LULUCF doesn't change this result very much.