



Outcome of ESR ENVI vote 30 May 2017

With input from Carbon Market Watch and Transport and Environment

Why was this vote important?

The ESR covers about 60% of the EU's greenhouse gas emissions. If designed correctly, it can drive innovation in the sectors involved, and lead to great benefits for the society such as cleaner air, reduced energy poverty and more liveable cities.

The effectiveness of the ESR as a climate instrument is however threatened by a too low ambition and the inclusion of several loopholes which, if adopted, will further water down the already weak proposal. The target of -30% compared to 2005 levels proposed by the Commission means the EU aims to reduce its emissions by merely 1% per year over the next 16 years, while in the last five years an annual reduction of almost 2% was achieved. It also means we postpone necessary reductions to much later. However, in order to fully decarbonize the non-ETS sectors by 2050 or earlier, much higher reductions will be necessary after 2030.

To be in line with the EU's commitment to the Paris Agreement, a target of at least 47% for the ESR sectors would need to be adopted, alongside a starting point that reflects real emissions levels and no loopholes.

What was on the table?

- The compromise amendments up for vote were the ones from the Rapporteur Gerbrandy and supported by all political groups except the conservatives (EPP and ECR). They include a strengthening of the starting point (2018 trajectory) and a reduction of the LULUCF loophole to 190 Mt. These compromises however do not decrease the ETS loophole (still at 100 Mt) and it also includes a new "early action reserve" which would allow some countries to use some pre-2020 surplus to reach their 2030 targets, to a total of 70 Mt.
- All individual amendments covered by the above compromises (COMP A: Objective and long-term ambition; COMP D: trajectory, trading, borrowing, banking, reserve, adjustments; COMP E: ETS and LULUCF flexibility; COMP C: Corrective action and compliance; COMP B: Review) would fall if the compromises were adopted.

- The conservative groups (EPP and ECR) tabled their own compromise amendments countering COMP D and E. These amendments propose to further increase all the above mentioned loopholes, which severely would threaten the environmental integrity of the system. These would however fall if the rapporteur's compromises amendments were adopted.

What was the result?

- All compromise amendments by the rapporteur were adopted.
- The compromise amendments by the EPP and ECR thereby fell
- The report as such was adopted with 42 in favor, 4 against and 20 abstentions
- The name has been changed to "Climate Action Regulation implementing the Paris Agreement".
- The adopted text would lead to almost 400 million tonnes extra emissions cuts compared to the Commission's proposal: 372 million tonnes extra cuts due to the better starting point, 90 million tonnes extra cuts as a result of the lower LULUCF flexibility but an additional 70 million tonnes through the new 'early action reserve'

What happens now?

The report will go to plenary vote sometime in June, date still TBD. Until then, groups can again table amendments. Pressure is therefore needed to protect the ambitious amendments that were adopted and limit the damaging amendments that might get re-tabled.

What did we win?

- 1. A change of the starting point to better reflect real emission levels**
 - a. Win:** The starting point is set as a decreasing trajectory starting at 2018 emissions levels, capped at 2020 ESD target levels - whichever is lower. This is a great improvement to the Commission's proposal, which suggested it to be starting at 2020 levels and without a cap of 2020 targets.
 - b. Ideal:** would have been to have the trajectory starting in 2017. This would most correctly reflect the real emission levels as they will be in 2021.
- 2. A limited LULUCF loophole**
 - a. Win:** LULUCF is limited to 190 Mt (As opposed to 280Mt the Commission proposed). Commission is however empowered to include Forest management credits once the reference levels are set.
 - b. Ideal:** would have been to eliminate the loophole completely and not allow for forest management to at all be included
- 3. More frequent compliance checks**

- a. **Win:** Compliance checks will take place every 2 years as opposed to every 5 years as proposed by the Commission
 - b. **Ideal:** would have been to have it every year
- 4. **A limit on banking of credits**
 - a. **Win:** They have adopted a limitation of the banking flexibility: 10% for the period 2021-2025; and 5% in the last 5 years.
- 5. **Climate Impact of Union Funding**
 - a. **Win:** This amendment specifies that the Commission shall carry out a comprehensive, cross-sectorial study of the impact of funding granted from the Union budget or otherwise pursuant to Union law on the mitigation of climate change. This study shall be accompanied, if appropriate, by legislative proposals aimed at discontinuing any Union funding which is not compatible with the CO2 reduction targets or policies of the Union. It shall also include the proposal of a mandatory ex-ante climate compatibility check which applies to every new Union investment from 1 January 2020.
 - b. **Ideal:** would have been to explicitly include the European Investment Bank (EIB), The Fund for Strategic Investments (EFSI) and all other financial instruments inside and outside the EU into the scope of the assessment; and to apply the ex-ante compatibility check horizontally to the entire EU Budget after the year 2020.

What did we lose?

- 1. **Limitation of the use of ETS surplus to offset emissions in ESR sectors**
 - a. **Why it is a loss:** ETS loophole remains as in the EC proposal: 100Mt
 - b. **Ideal:** would this loophole have been rejected
- 2. **Avoiding new loopholes to be introduced**
 - a. **Why it is a loss:** The ENVI committee has adopted the 'Early Action Reserve': a new so called 'flexibility' in the form of a pool of credits to reward Member States for their actions to reduce emissions taken up until 2020. This pool of credits of total 70Mt allow for 'hot air' to be carried over from the current commitment period.
 - b. **Ideal:** this loophole would have been rejected
- 3. **A robust ratchet and review mechanism to scale up ambition**
 - a. **Why it is a loss:** the review clause adopted asks the Commission to come up with a communication following the Facilitative Dialogue to the Paris Agreement in 2018, but only in 2024 to come up with a report to suggest a ratchet up of ambition. This is too late, and it also does not guarantee higher targets will actually be set.

- b. **Ideal:** would have been to adopt a review clause which refers to targets being revised when the EU submits its new NDC, which is to be informed by the 2018 facilitative dialogue and submitted in 2020

4. A credible reference to a long-term target

- a. **Why it is a loss:** A new Article (4a) states that Member States should continue reducing emissions linearly in the ESR sectors after 2030, ending in 2050 on a level of emissions that is 80% below the 2005 level for that Member State. The 80% target is too low to be in line with the EU's commitments to the Paris Agreement.
- b. **Ideal:** would have been to refer to an ESR target of at least -94%, which is what is needed to ensure consistency with the upper end of the EU's economy-wide 2050 target (95% emission cuts)¹. We say "at least" since also the -95% economy wide target for 2050 needs to be raised in light of Paris.

5. Removal of the zero carbon rating for unsustainable bioenergy

- a. **Why it is a loss:** Amendments which suggested that the zero emission factor for biomass should only apply to bioenergy from waste and residues were rejected. With these rejected, we are still with the Commission's proposal, which basically states that all bioenergy used in the ESR sectors (such as biomass for heating or biofuels for road transport) is rated as carbon-neutral even when unsustainable sources of biomass are used.
- b. **Ideal:** would be if bioenergy use in ESR sectors are only counted as carbon-neutral if they comply with the sustainability criteria set out in the Renewable Energy Directive.

Contact:

Caroline Westblom
CAN Europe
EU Climate and Energy Policy Coordinator,
caroline@caneurope.org, +32 2 894 46 74

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<https://www.transportenvironment.org/sites/te/files/Oeko-Institut%20-%20Effort%20Sharing%20pathways%20compatible%20with%20the%20Paris%20Agreement%20commitments.pdf>