Second workshop on developed country targets

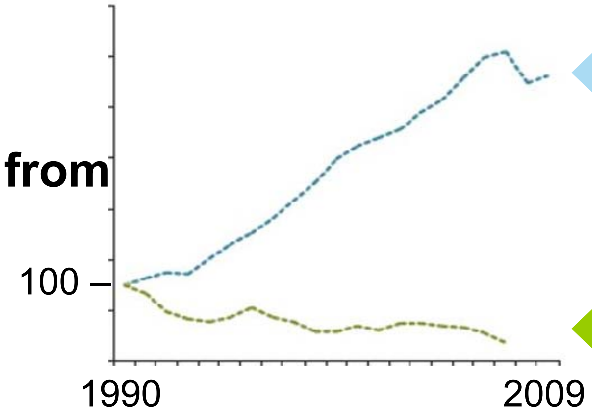
Bonn, 9 June 2011

–

EU contribution

EU action in a nutshell
Key points from Bangkok workshop

- **<u>EU delivers significant reductions</u>, decoupled from GDP growth:**



1990-2009:
EU GDP +40%,
EU manufacturing +34%

EU emissions -16%

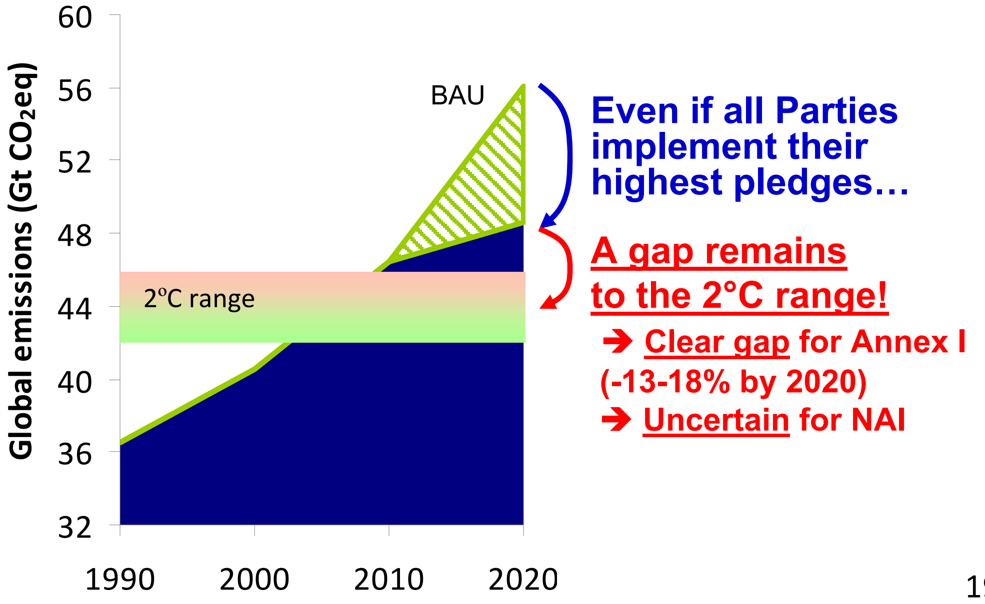
- **<u>EU will meet its Kyoto target</u>**

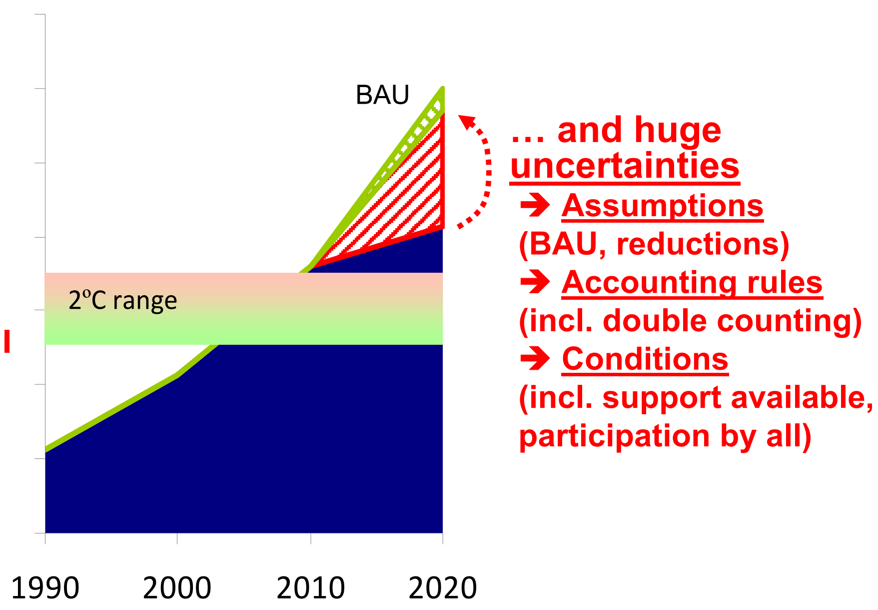
- **<u>EU pledge: independent 20%, offer to move up to 30%</u>** 2020/1990
  - **<u>We already put legislation in place</u>** to achieve a 20% reduction (2009 "Climate and Energy Package")
  - Reductions through both **<u>EU ETS</u>** and in **<u>non-ETS sectors</u>**
    - ETS: -21% below 2005; non-ETS: -10% below 2005
  - **<u>Ambitious and challenging targets</u>** ➔ new initiatives already in preparation

To meet the agreed "below 2°C" goal: A clear "ambition gap"

- **<u>Meeting the Cancun « below 2°C » objective requires efforts by all</u>**
  - Global "2°C pathway" – peak by 2020 at the latest, at least -50% below 1990 by 2050
  - **<u>Leadership by developed countries</u>** (-25-40% below 1990 by 2020, -80-95% by 2050)
  - Deviation from BAU for developing countries (-15-30% from BAU by 2020)

- **<u>Cancun pledges are a useful step forward but…</u>**





Insufficiency ➔ need to explore ways to increase the overall level of ambition

Uncertainties ➔ need dialogue to understand better

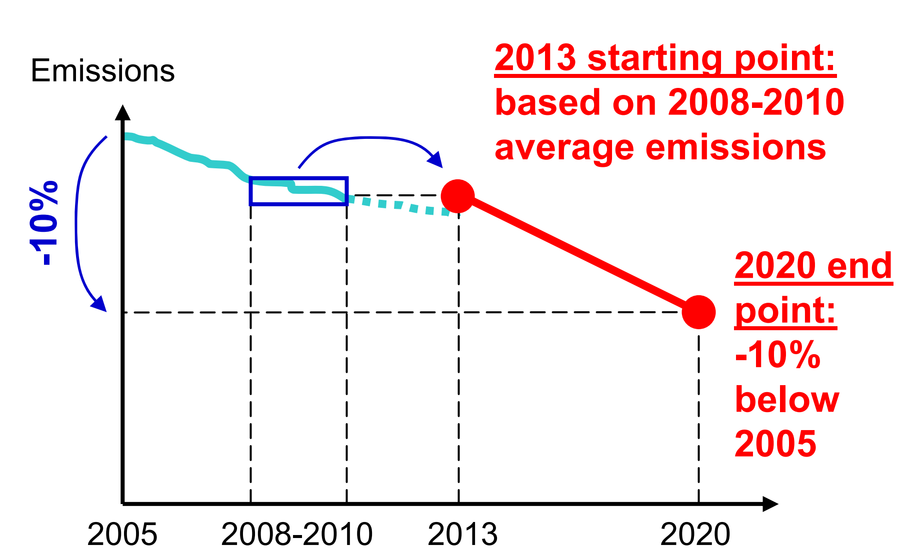
Rules matter

The EU domestic experience

Rules matter for the EU:

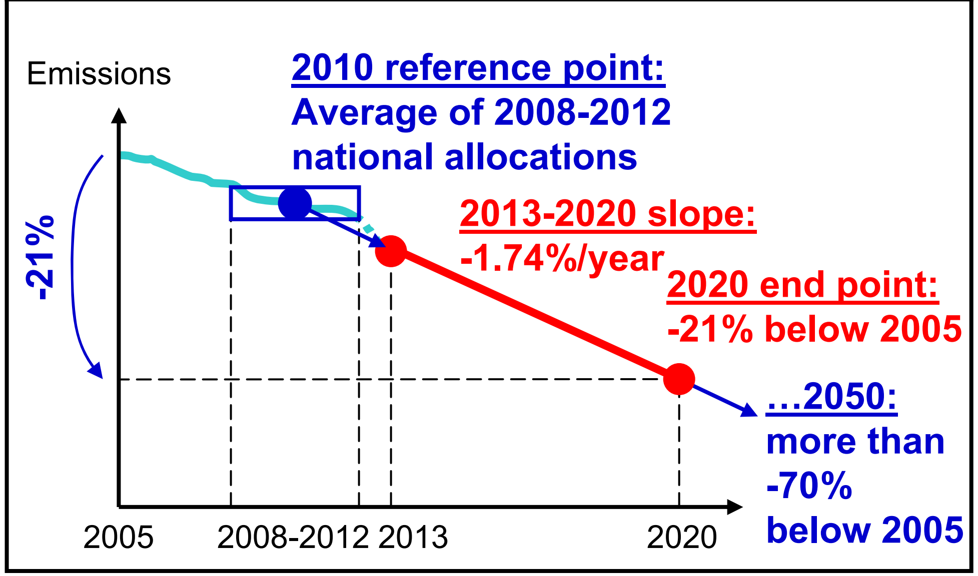
EU trajectory clearly defined in legislation

NON-ETS SECTORS



➔ All Member States have **annual and binding emission limits**

ETS SECTORS

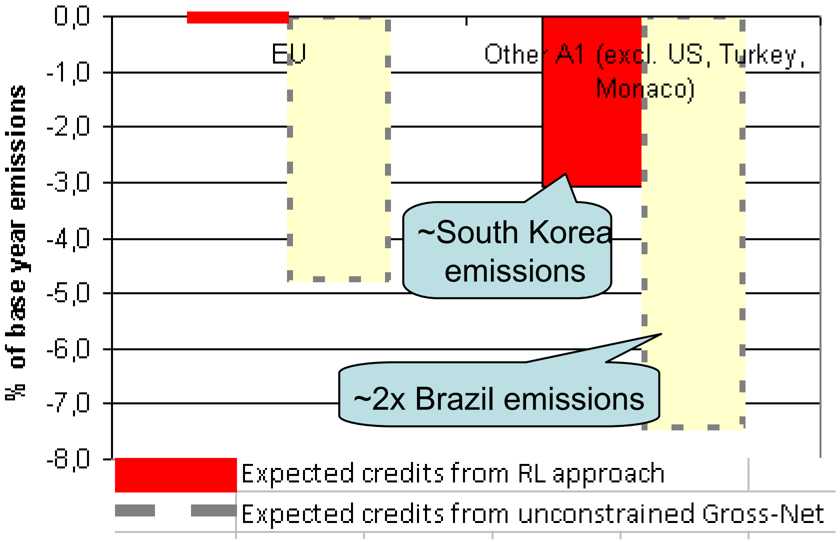


➔ Trajectory clearly defined with a **yearly reduction rate**

- **A 2020 figure is not enough!**
  - Essential to have clarity on starting point, base year, reduction rate, timeframe
  - If not, impossible to understand the ambition of pledges and to compare them

Rules matter for the EU:
LULUCF accounting rules

- **Rules are particularly critical for LULUCF sector – need rules before targets**
  - **Huge variability of results** for different LULUCF accounting methods:



•KP discussions on LULUCF:
EU favours option of « reference level » for forest management accounting:
-environmental integrity: EU's RLs set to exclude BaU net-removals from accounting
-safeguards: review, technical correction, caps

- **EU internal implementation: under development**
  - LULUCF rules not yet included in 2009 Climate and Energy Package (-20%).
  - But work is currently underway to assess and, as appropriate, include emissions and removals related to LULUCF in addition to the EU's current commitment
    - "… based on harmonised modalities ensuring permanence and environmental integrity, accurate accounting rules and accurate monitoring"
    - report to be made available Summer/Autumn 2011
  - Compatibility with international rules important

Rules matter for the EU:
Market-based mechanisms

- **Further development of global carbon markets is indispensable ➔ key element of the EU's vision**
  - For cost-efficiency and to reach the necessary level of ambition
  - We need improved exisiting mechanisms and establishment of new market-based mechanisms
  - EU drives demand (97% of the carbon market demand in 2010) and will continue to do so

- **The EU has specified supplementarity rules <u>in its legislation</u>**
  - We must keep access to international carbon markets in **balance with significant domestic reductions!**
  - Overall use of credits **cannot exceed half of the EU reductions below 2005 levels**

<u>For non-ETS sectors:</u>

- **Ceiling**: each Member State can use no more than 3% of 2005 non-ETS emissions every year from 2013 to 2020
- **12 Member States can use extra CDM credits from LDCs** up to 1% of 2005 non-ETS emissions every year
- Resulting in maximum use of offsets: **no more than 3.3% of 2005 non-ETS emissions every year** from 2013 to 2020
- Compares to reduction of -10% below 2005… and to even more effort below BAU
- Corresponds to max. demand of ~800 Mt in 2013-2020

<u>For ETS sectors:</u>

- **Robust rules on quality and maximum quantity of international credits allowed**
- Estimated maximum use of offsets: **no more than 5.5% of 2005 ETS emissions every year**
- Additional quality requirements: no forestry, HFC-23, N_2O (adipic acid) credits accepted
- Compares to reduction of -21% below 2005… and to even more effort below BAU
- Corresponds to max. demand of ~1700 Mt in 2008-2020

  - **Focus on the LDCs:** use of CDM credits from projects registered after 2012 will be limited to credits from LDCs (continued use possible for projects registered before 2012)

➔ Overall, use of international credits is limited to around 4% of 1990 emission levels yearly
  - To be compared with the reduction target of 20% by 2020 compared to 1990, and even more effort compared to BAU
  - In case of step-up to 30%: half of the additional reductions required could be met by using international credits

Rules matter for the EU:
Banking

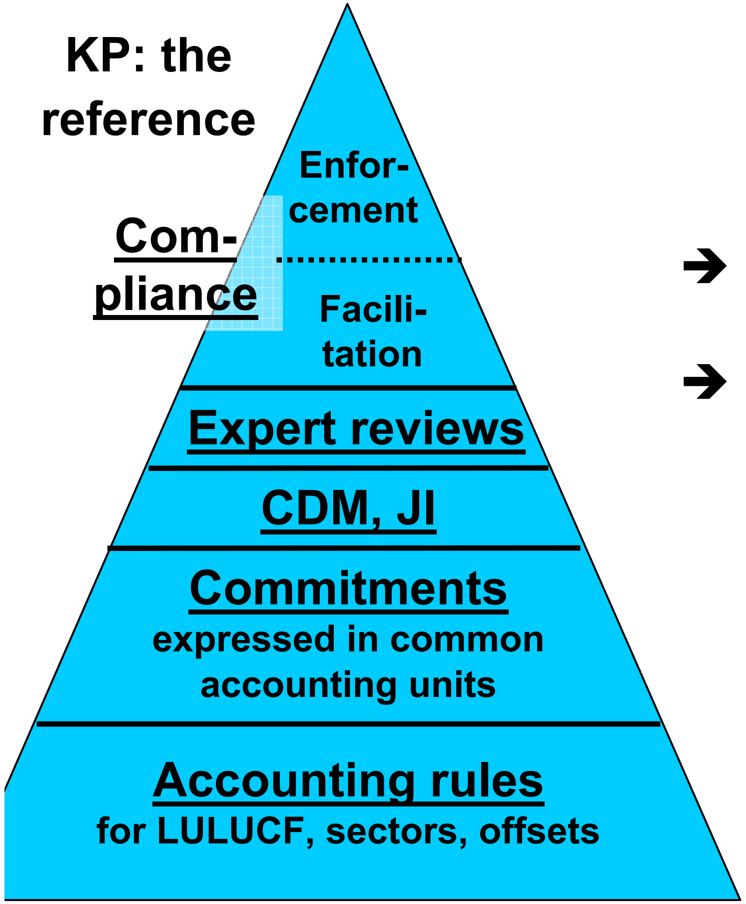
- **The principle of banking (rewarding action) is good.**
  - **But need to ensure that it rewards real effort**

- **AAU surplus: potential serious risk to environmental integrity**
  - Secretariat estimates surplus at 7-11 GtCO2e.
    EU modelling suggests the top end of this estimate at least.
  - Carried-over AAUs could lower Annex I reduction efforts
    - Up to 15% of 1990 Annex I emissions if fully used
    - EU carry over: approx. 2-3 GtCO2e

- EU rules (20% scenario):
  - Non-ETS sectors: **banking is allowed for each Member State:**
    - Overachievement during 2013-2019 can be carried over to subsequent years, up to 2020
    - Emission allocation up to 5% during 2013-2019 may be carried forward from following year
    - However, CP1 surplus AAUs cannot be used for compliance
  - ETS Sector: **ETS allowances can be banked between phases**
    - AAUs cannot be used for compliance

Accounting rules matter

A basis for the whole system

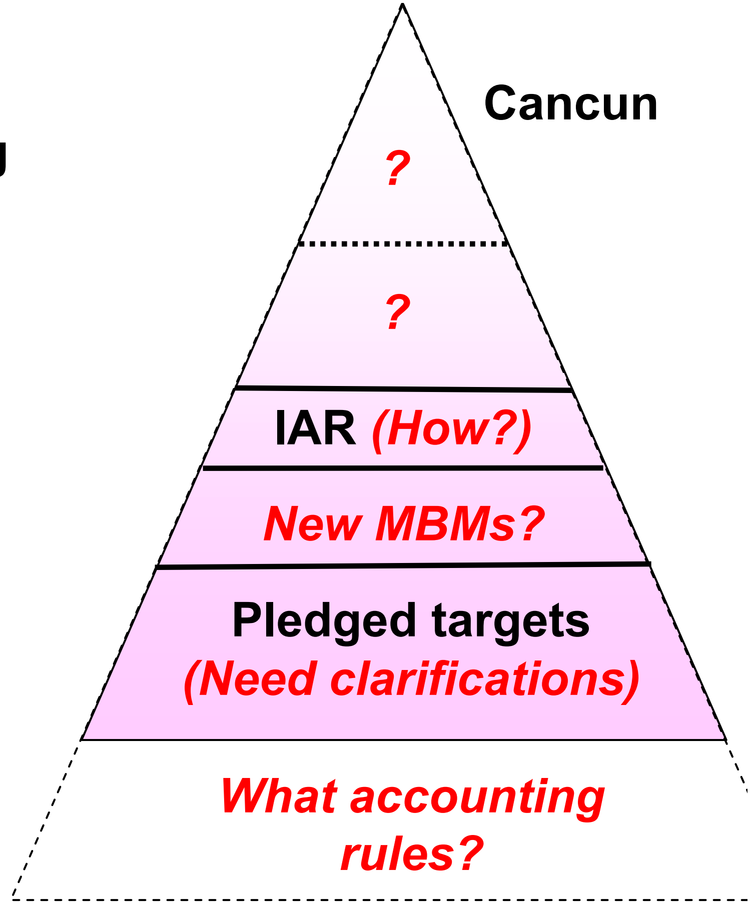


The KP accounting rules allow:

➔ Keeping track of progress wrt 2°C

➔ Comparing countries' efforts

How to maintain these functions?



➔We need <u>robust, common, transparent accounting rules</u>

➔EU: robust and transparent rules at home

Increasing ambition

Possible ways forward

How to increase ambition?

Stronger participation by all, enhanced actions

- **<u>Opportunities to reap!</u>**
  - On top of avoiding dangerous climate change, increased ambition will bring energy security, innovation, growth, jobs, health benefits

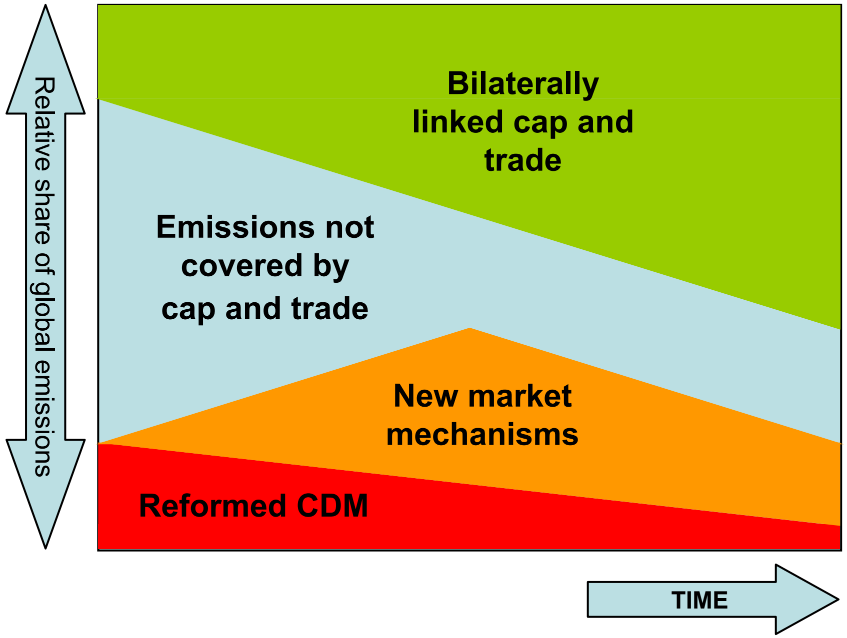
- **<u>Best way to increase ambition: collaborative step-up in all countries</u>**
  - **Reassurance that ambitious action is happening builds confidence for all to act**
  - **Balance, reciprocity essential for each country to engage**
  - This is reflected in the EU conditions to move to 30%
  - All developed countries are expected to deliver a comparable effort

- **Developed countries must close their "ambition gap"**
  - Developed country commitments in INF.1: -13-18% by 2020 below 1990 levels – not in line with <2°C
  - IPCC reference: -25-40% reduction from 1990 levels by 2020

- **Deviation from BAU expected from developing countries**, especially the most advanced among them
  - Reference: -15-30% deviation from BAU by 2020
  - **We encourage DCs without pledges to formulate pledges!**

How to increase ambition?
Global carbon markets

- Build an international carbon market to **facilitate increased ambition by all**:
  - achieve mitigation objectives at **least cost**
  - enable **increased mitigation in all countries**
  - **generate important financial flows** to DCs
    - AGF report: USD 30-50 billion annually



- Durban: establish new market-based mechanisms in the UNFCCC context
  - **More support to DCs**
  - **Go beyond project level** (sectors)
  - **Appropriate own contribution by DCs**
    - Go beyond pure offsetting
    - Leave low-cost reduction options to DCs
    - Reflect CBDR

  ➔ Need common, robust rules

- EU keen to work with interested countries to develop market-based mechanisms

How to increase ambition?
Support to NAMAs

- **Contribution by developing countries will be necessary**
  - We welcome action already taking place in DCs
  - DCs should act on their own but can also **go further with support**

- **EU stands ready to provide support to DCs**
  - EU has a long experience as the world's largest donor; fast-start funding; cf. USD 100 bn for 2020
  - EU already supports NAMAs
  - But EU also supports enabling elements: MRV, LEDS, market mechanisms

- **Diversity of NAMAs means diversity of support!**

- **But in all cases:**
  - **Don't waste time with a formal / rigid definition** of 'unsupported' vs. 'supported' NAMAs
  - **DCs in the driving seat**: DCs should articulate their needs and solicit support wherever needed
  - **Complement national efforts**: support should enable DCs to go beyond their autonomous efforts, help lift barriers to NAMAs
  - **In line with CBDR**: support should be provided depending on DC's capabilities
  - **Cost-efficient**: optimise mitigation benefits for support provided, avoid duplication, promote synergies

➔ Priority: **we expect DCs to articulate needs and engage in dialogue** with donors

'Non-Annex I pledges workshop' tomorrow:

➔ *EU will elaborate on its vision and experience of concrete support*

How to increase ambition?
Tap potential in aviation and maritime

- **All sectors should contribute** – incl. international aviation and maritime transport
  - Emissions from international aviation are due to triple on 1990 by 2020 (ICAO)
  - Emissions from international maritime are due to more than double by 2050 (IMO)
  - Significant reduction potential – in many cases at negative cost!

- The EU has been pursuing **reductions through ICAO / IMO and UNFCCC** to develop robust targets and measures to reduce emissions in these sectors.
  - To date, no mandatory measures have been agreed at IMO/ICAO or UNFCCC

- Revenue potential from these sectors is significant (AGF: **USD 3-25 billion**)

- EU is acting: aviation
  - Aviation included in EU ETS (5% reduction below 2005)
  - 'De minimis' rules: ETS legislation exempts the smallest aircraft operators, de facto excluding airlines from around 100 countries, many of these LDCs
  - Exemption of incoming flights when third countries implement equivalent measures
  - Revenues from aviation auction should be used for climate action, including in DCs

- EU is committed to action on international maritime transport
  - Preferably through IMO / UNFCCC

How to increase ambition?
Exploiting synergies to address HFCs

- **Increase in use of HFCs as substitutes to ozone depleting substances phased out under the Montreal Protocol**
  - Emissions could be up to 8.5 $GtCO_2$-eq by 2050 (~9-19% of projected global emissions)
- **Environmentally sound alternatives already available for most sectors**
  - Driven by EU domestic policies in place since 2006
  - Identified in 2009-2010 Reports from MP Technology and Economic Assessment Panel
- **Montreal Protocol can drive a global transition of the relevant sectors to low-carbon technologies**
  - Has the necessary expertise and operational infrastructure, including a fully operational financial mechanism to provide assistance to developing countries
  - Can incorporate a phase-down schedule for production and consumption of HFCs based on the model followed for ozone depleting substances
- **Opportunity for rapid, efficient climate mitigation action**
  - Highly cost-effective way to avoid more than 100 $GtCO_2e$ emitted by 2050
- **UNFCCC should encourage such complementary action**
  - Prime example of a non-market based approach

Concluding remarks
EU's contribution today

- **Need robust, common, transparent accounting rules** to ensure environmental integrity and comparability

- **Options to address the insufficiency of pledges / "ambition gap"** to our "below 2°C" goal:
  – Stronger participation by all,
  – Enhanced implementation and pledges,
  – Clear rules-based system,
  – Market-based mechanisms,
  – Support for NAMAs,
  – Addressing emissions from aviation and maritime transport,
  – Addressing emissions from HFCs.

Concluding remarks

Next steps

- Each developed country domestically: **deliver on current pledges! And explore step-up**

- Move forward in UNFCCC negotiation:
  - "Pledges workshops" are key
    - Essential space to enhance understanding
    - We need more workshops in Autumn and Durban
    - Those workshops should be even more specific and focus on **accounting rules** and **ambition level**
    - Secretariat should update developed countries' Technical Paper:
      - with further information provided in workshops in a more structured way (questionnaire to ensure consistent information)
      - With information on « ways to increase the level of ambition »

  - In parallel, start AWG-LCA discussion to prepare Durban mitigation outcome
    - Written report from workshop should be an input to our discussions here in Bonn