

Frequently asked questions on the ESR Safety/Early Action Reserve

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Summary

The Effort Sharing Regulation (ESR) defines the carbon budget for EU member states for the non-traded sectors (surface transport, buildings, agriculture, small industry and waste) until 2030. If the ESR's headline goal of -30% compared to 2005 is undermined through loopholes, the ESR will not lead to real-world emission reductions in those sectors.

This FAQ is aimed at bringing clarity to one element being discussed during the negotiations: the ESR Safety/Early Action Reserve.

1. What is the ESR safety/early action reserve?

The ESR Safety Reserve, as known in the Council of the European Union, or Early Action Reserve, as known in the European Parliament, would allow some countries to access additional emission allowances (that are carried over from the pre-ESR period) in case they are not able to meet their own target towards the end of the ESR period. This means that instead of actually reducing emissions, they can (and will) use credits.

2. Does it impact the environmental integrity of the system?

Yes. Some countries, including the Maltese presidency, argue that the reserve would not undermine the integrity of the regulation - which is not true. The end purpose of the ESR is to be a driver so EU, national and local measures are taken to reduce emissions to decarbonize the economy. If some member states have access to the reserve, the need to take measures to reduce emissions disappears. This is better illustrated with an example:

Country X has access to the ESR safety/early action reserve. This country forecasts that, towards the end of the period, and after having used other loopholes (LULUCF credits and ETS one-off, if applicable), they will have a deficit of allowances. The government of country X knows that they have 3 options to meet their targets:

- A. Take measures today at a national level to reduce emissions, and support strong action at EU level during negotiations in Brussels, so their target can be achieved by reducing emissions.
- B. Buy allocations from other EU member states, which will come at an economic price for the buyer country.
- C. Use allocations from the proposed ESR safety/early action reserve.

Obviously, countries will choose option C, the cheapest of them all: the allocations are free. This clearly goes against the main goal of the regulation: countries will not need to take measures to reduce its emissions. If the ESR safety reserve would not exist, economic opportunities would arise as countries could buy credits from other countries. As that comes with a cost, the country could choose to take measures to reduce emissions instead. With the reserve, that motivation to take climate measures disappears.

3. Is it compatible with the Paris Agreement?

No. The Paris agreement mandates “holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C”. The overall ESR target of 30% by 2030 - especially when taking the existing loopholes into account - does not put the EU in a trajectory to meet this target by 2050. Introducing additional provisions to the ESR that discourage action by member states goes against the spirit of the Paris Agreement.

4. Is it in line with previous agreements at EU level?

No. The European Council Conclusions of October 2014 did not establish a carry-over of surplus from the ESD period (2013-2020) and the ESR (2021-2030). The establishment of the ESR safety reserve goes against that idea. The ESR early action reserve is an undercover way to carry-over credits generated in an artificial way. Countries that have taken real measures to reduce emissions between 2013 and 2020 already benefit from being in a trajectory to reduce emissions.

5. Is it beneficial for member states with lower GDP per capita?

No. Member states with GDP per capita below the EU average might initially think that the ESR reserve is good for their economy because it implies that they need to take less measures to reduce emissions in ESR sectors. However, in the long-term, it just creates a larger gap between richer and poorer member states. Richer member states will have the incentive to keep investing in decarbonising their economy, spurring innovation and getting ready for the future, while having cleaner air in their cities and less energy poverty. Companies from wealthy member states will also be ready to sell their products, as they had to put forward products in their national context, to less wealthy EU countries which, sooner than later, will also need to decarbonise, but will start from a less competitive situation.

The ESR safety reserve goes against the principle of European cohesion, and it contributes to creating a EU of two different speeds: those that take on board the climate challenge and modernise their economy, and those that make use of loopholes, like the ESR safety reserve, and do not have the incentives to reduce their emissions.

6. Which countries would get the most allocations from establishing the reserve?

Italy and Spain, among others. These two countries will have the largest surplus within the ESD period (2013-2020). The European Environment Agency estimates that it will be 226 million tonnes of CO₂ (Mt) for Italy and 143 Mt in the case of Spain. There are many explanations for these large surpluses: the economic crisis, the combination of EU and national measures to reduce emissions, a non-ambitious target... However, without the introduction of new [measures](#), Spain projects that its emissions will grow again, while in the case of Italy they will remain stagnant. The ESR should change that, and motivate ALL member states, to take measures to reduce emissions and to support at EU level the introduction of ambitious sectoral measures. The creation of the ESR safety reserves will prevent this from happening.

7. Which countries would lose the most from the ESR safety reserve?

Portugal, Czech Republic, Greece, Hungary and Bulgaria, and potentially others. All these countries are, under all scenarios, projected to have a large surplus of emissions in the ESR. If the ESR safety reserve would not exist, and countries expected to have deficits would not take enough measures to reduce emissions, deficit countries would need to buy from their surplus - creating a functioning competitive market. However, with the creation of ESR safety reserve, deficit countries will not need to buy from their surplus, decreasing demand and bringing prices down. Therefore the potential gain from this sale, that

could translate into even further emissions savings if the revenues are used to implement more measures, would disappear.

8. Which member states are pushing more strongly to get the reserve?

Poland, Italy, Spain and France, among others. In the case of Poland, all their proposals since the negotiation started were framed to reduce ambition on the ESR, so its support does not come as a surprise.

In the case of Italy and Spain, they are afraid that they might not be able to reach their target unless they take strong measures to reduce emissions. Instead of pushing to undermine climate ambition through the creation of the ESR safety reserve, they should actually take those measures - that's what the ESR is for. Italy and Spain should not hide behind these type of proposals and [align](#) with countries like Poland.

France, under the current criteria presented by the Maltese Presidency, is not eligible to have access to the ESR safety/early action reserve. However, they are pushing to change the criteria (to be below EU GDP per capita average) to access the reserve. If they would succeed, the reserve would potentially become even bigger, undermining the ESR ambition even more. France, the climate champion in COP21, should lead by example and reject the creation of the ESR safety reserve.

9. Should European member states and members of the European Parliament support the ESR safety reserve?

No. The ESR safety reserve just introduces more hot air into the system and deters countries from having to take measures to reduce emissions. Therefore, it should not be supported by countries and members of the European Parliament that try to fight climate change, unless it is part of a package of amendments as explained in the paragraph below.

10. If despite being problematic the reserve is agreed, which safeguards are needed to minimise its negative impact?

The ESR safety reserve is a bad idea because it is effectively another loophole which avoids real emission reductions. However, some might try to use it as the only way to find a compromise to agree on the text. If it is finally introduced, the measure should be part of a package that would help to minimise the negative impact of its creation. The main elements of this package should be:

1. **Change the starting point** to 2017 linear emissions, capped by 2020 targets, to reduce the amount of hot air that is introduced in the ESR.
2. **Avoid making the reserve “a free meal”.** A possibility is that, whatever the reserve amounts for, could transform into additional credits to the LULUCF flexibility, so member states would need to take additional measures in the LULUCF sectors to get access to it. Spain, for instance, has proposed this idea.
3. It is made **conditional after the use of all other existing loopholes and flexibilities**, without allowing for the sale of allowances. Another option would be to link access to the reserve to having a credible national climate strategy as well as adequate measures introduced nationally. The reserve should be accessed only in case of “force majeure”, not by default.
4. The loophole introduced through **article 10.2** of the proposal (39 Mt of CO₂ to be split between certain member states) **should be deleted** from the text.

5. Introduce a **limitation on banking** to ensure that hot air is not accumulated in the ESR throughout the years and used at the end of the commitment period.
6. The EU as a whole has achieved its target, and it should be **accompanied of a discount**. For instance, if the EU overachieves its 2030 target by 50 Mt, only 25 Mt would be allowed within the ESR safety reserve.
7. Introduce a **maximum limit as small as possible**. The current amount suggested of 70 Mt of CO2 is equivalent to the emissions of 67 million cars in one yearⁱ.

Further information

Carlos Calvo Ambel
Transport and Energy Analyst
Transport & Environment
carlos.calvoambel@transportenvironment.org
Tel: +32 (0) 2 851 02 13

Endnotes

ⁱ We used a conservative value for a car with a fuel efficiency of 75 g of CO2 per km. On average, we assumed a car would drive 14,000 km in a single year