

Ecologic Institute
Science and Policy
for a Sustainable World



Effort Sharing Decision 2030

How to enhance flexibility?

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Existing flexibilities

- Banking
- Borrowing
- AEA transfer between MS
- Project based mechanism with link to ETS
- Surplus
- Use of JI and CDM

The case for enhanced flexibility after 2020

- **Higher target: 30 % instead of 10 %**
- **No international credits**
- **Mitigation potentials and costs differ between MS**

BUT

- ▶ FIs only complementary
- ▶ Different national circumstances largely addressed by differentiated targets
- ▶ no experience in the implementation of the existing FI

Possible new flexibilities

- **One-Off ETS / ESD**
- **AEA auctioning**
- **European Project Mechanism (EPM)**

One Off ETS ESD

- “**limited, one-off**, reduction of the ETS allowances”: eligible Member States could use ETS allowances to meet their ESD targets.
- Unclear **how many** MS would qualify for this FI and to what extent admissible **AEAs increase**:
 - ▶ between six and twelve Member States
 - ▶ up to 266,2 million AEAs or 10% of the AEAs for 2021
 - ▶ overall impact of this FI on total allocated ETS allowances for the period 2021 - 2030 between a small 0,08% - 1,72 %.
- FI has its **problems**
 - ▶ makes an already complex system even more complicated.
 - ▶ exports parts of the current problems of the ETS
- FI should be **limited** in scope and volume; **discount factor** should be introduced.

AEA Auctioning

- AEA auctioning would **mimic the ETS** (in principle): uniform price, single round, closed bid
- **Differences**
 - ▶ volumes would be significantly lower
 - ▶ only Member States would be entitled.
- **Earmarking** contested issue; ETS Directive is a possible compromise (Article 3 d paragraph 4)
- **Advantages**: transparent price discovery, lower transaction costs , fair price, no regret option
- **Challenges**: insufficient liquidity
 - only 28 Member States of very different size participate
 - ‘market makers’ are absent
 - Member States could use other flexibility mechanisms instead of auctioning.
 - **Possible solution**: set aside 1-2% of annual allowances for auctioning, no obligation to bid.

European Project Mechanism (EPM)

- Participation of **companies** and other **private institutions**
- **Decentralized structure**
 - ▶ MS approve projects
 - ▶ EPM Board only checks whether projects meet the overall eligibility criteria
 - ▶ Monetary payment of investors, not AEsAs (Public tendering)
- ▶ **Important difference between EPM and JI**
 - ▶ In the ESD, only Member States can hold AEsAs, not companies
 - ▶ Concerning JI and CDM, most demand for CERs and ERUs comes ETS.

EPM – Possible Design

Step 1: Member States call for projects through a public tender.

Step 2: Project developers interested in the call approach Member States that have an interest in buying AEAs (preliminary agreement).

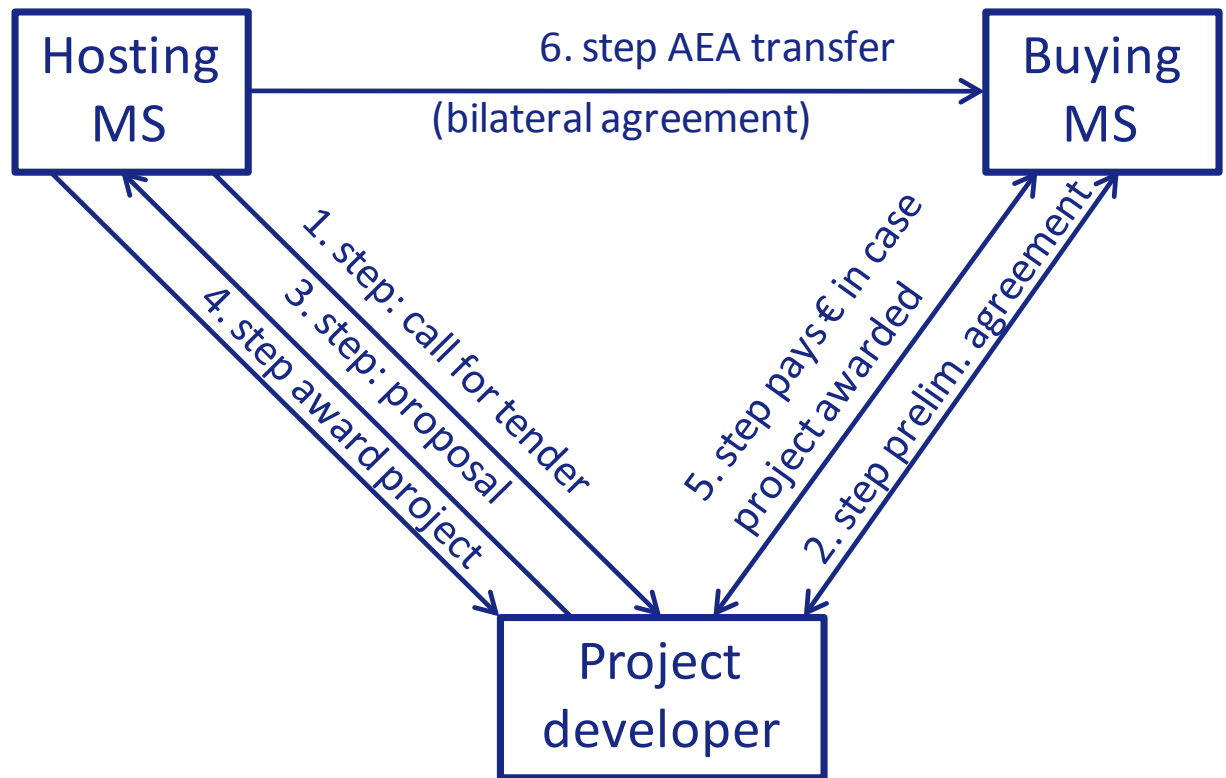
Step 3: Project developers respond to calls. Hosting Member State decides to which investor the project is awarded.

Step 4: AEA buying Member State pays € to the project developer according to the proposal.

Step 5: The buying Member State receives AEAs from the host country.

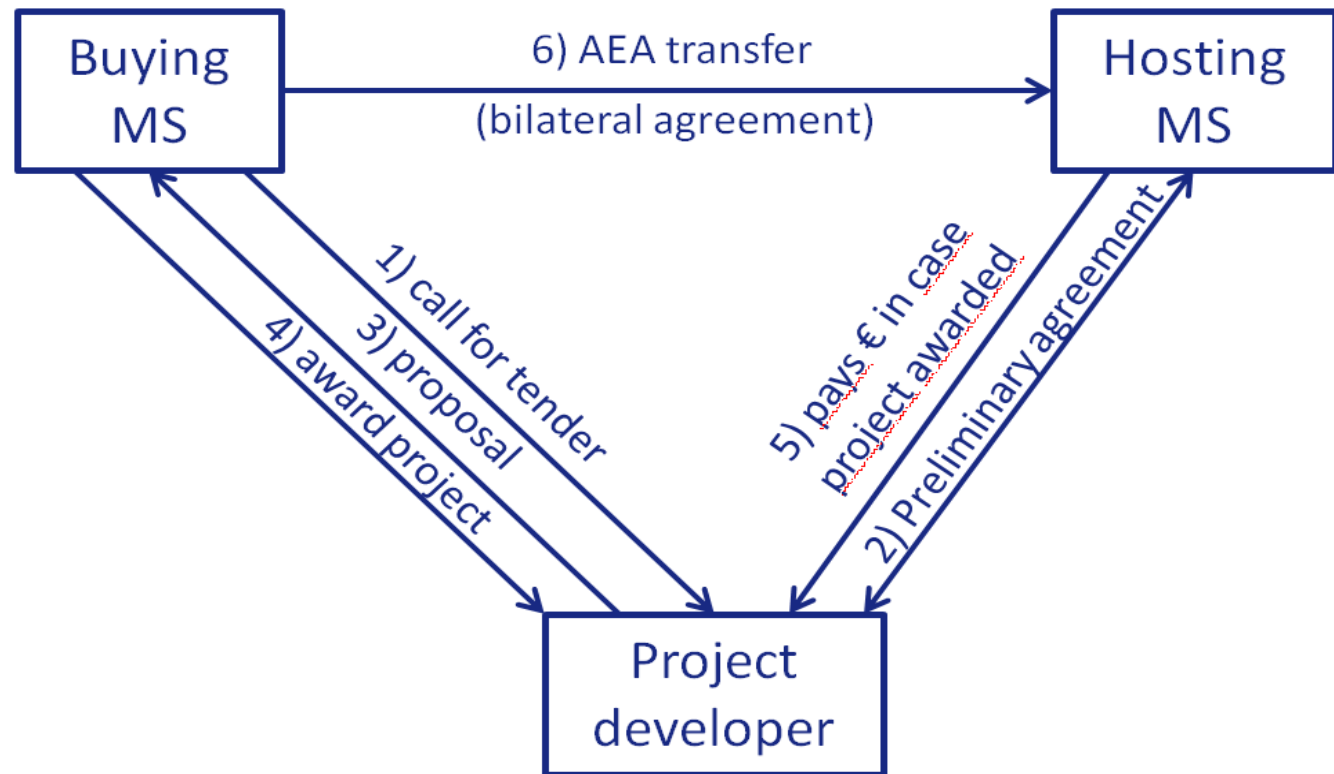
EPM: Based on public tendering and monetary payment

Member State interested in selling AEs and hosting the project issues the call for tender

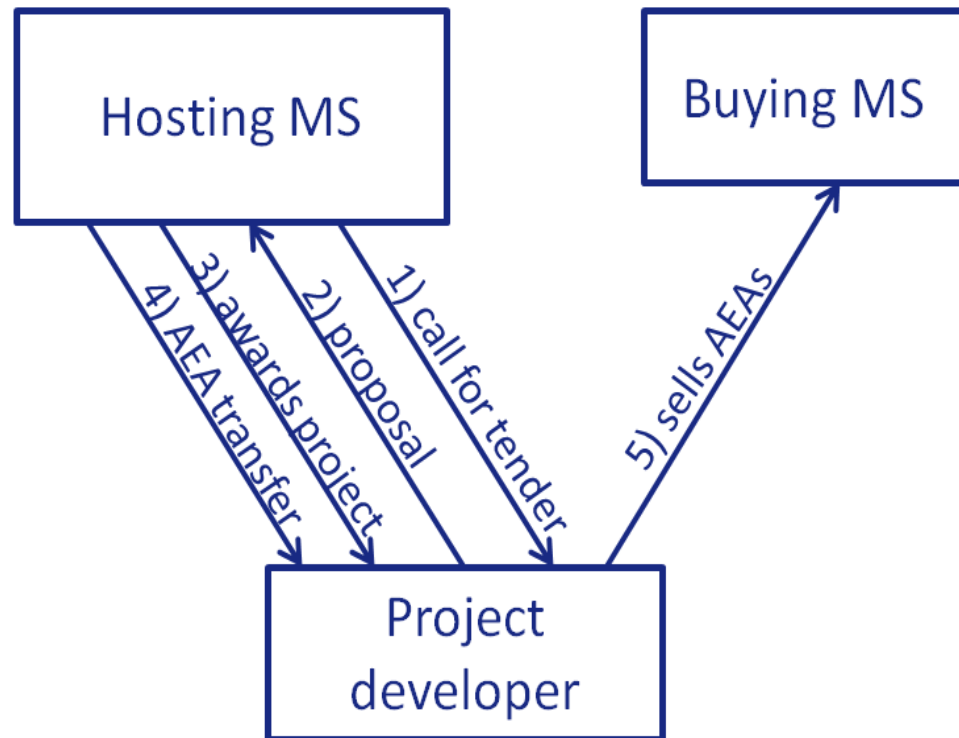


EPM: Based on public tendering and monetary payment

Member State interested in buying AEAs issues the call for tender



EPM: Based on public tendering and transfer of AEAs



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Thank you!

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