

EPM: European Project-Based Mechanism

New investment opportunities in Central and Eastern Europe

May 2017

Climate targets and investment in the EU Effort-Sharing sectors

The EU's long-term climate policy goal is to reduce greenhouse gas emissions by 80-95% by 2050. A strong legislative framework is needed to incentivise investment that will cut emissions in agriculture, transport, waste and buildings (approximately 60% of the EU's total). The policy that covers these sectors is known as the Effort-Sharing Regulation (ESR).

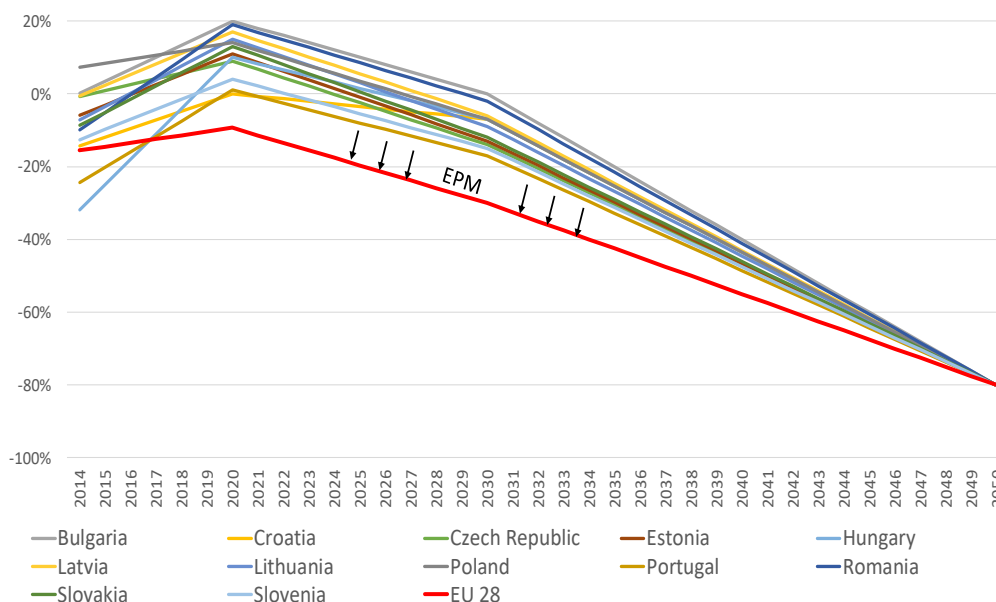
Emissions data indicates that EU Member States won't realistically be able to meet their 2050 targets on their own, and Central and Eastern European (CEE) countries might be faced with transitional shocks. Under their relatively weak ESR targets, these countries will have little incentive to invest in decarbonisation and unlock their low-carbon potential before 2030.

About Sandbag

Sandbag is a London and Brussels-based not-for-profit think tank conducting research and campaigning for cost-effective climate policies.

Our research focus includes reforming the EU Emissions Trading System and the Effort-Sharing Decision; accelerating the phase-out of old coal in Europe; and deep decarbonisation of industry through technologies including Carbon Capture & Storage. For more information, visit sandbag.org.uk or email us at info@sandbag.org.uk

Chart 1: Difference between the reductions that Member States will face after 2030 to comply with their national targets. Weaker 2030 targets among selected Member States (Annex IV) can result in a long term economic disadvantage



CEE Member States with weaker 2030 ESR targets could benefit from a European Project-Based Mechanism (EPM). The EPM is a flexibility proposed for the Effort-Sharing Regulation that would direct financial support towards additional low-carbon investment.

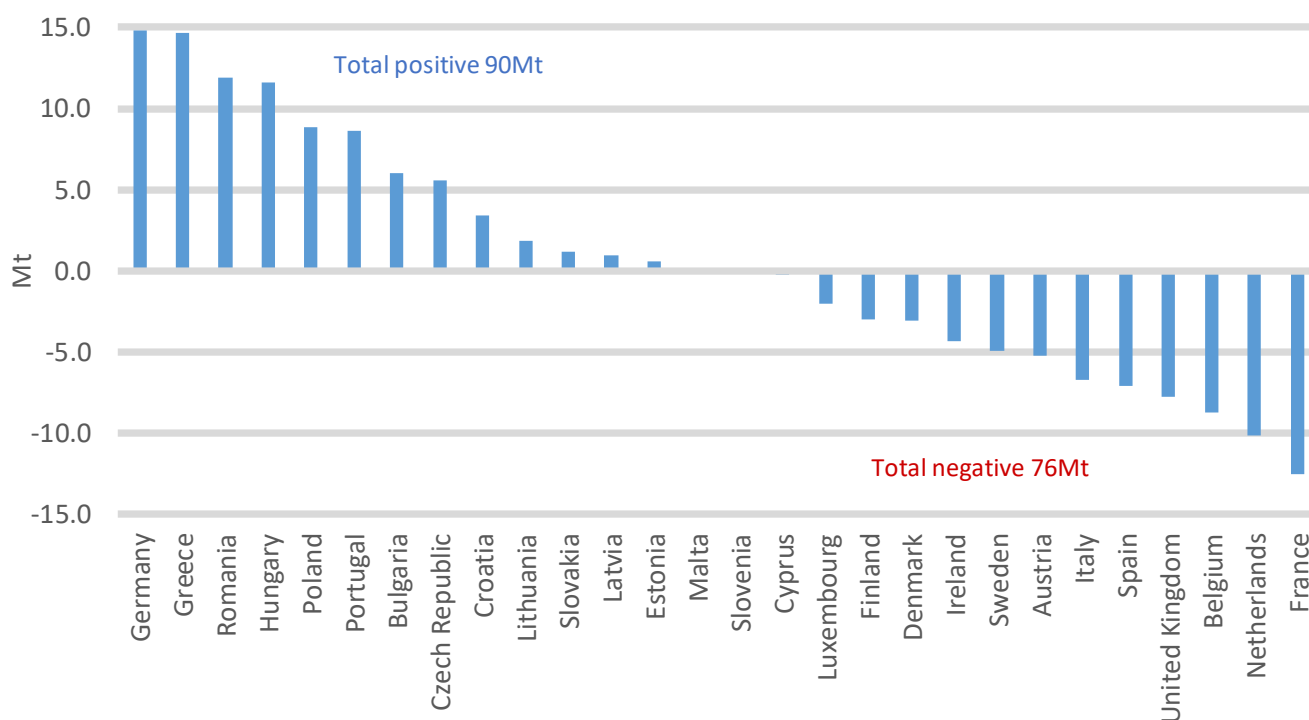
The function of a European Project-Based Mechanism (EPM) is to enable emissions reductions to be made in the most cost-effective places. A Member State with higher reduction targets and higher decarbonisation costs, can fund emission reduction projects in another Member State as part of meeting its own reduction targets. Currently the ESR - unlike the EU ETS - is not a market-based instrument and therefore prevents price discovery.

The EPM is not a new idea: Member States have reported positive experiences when using project-based approaches under the Kyoto Protocol's Joint Implementation (JI) and with Green Investment Schemes (GIS). The Netherlands, for

example, has purchased 3 million of tonnes of emissions reductions from Latvia under GIS and proceeds were spent on renewable energy and energy efficiency projects.

The graph below shows countries with the most cost-effective opportunities for emissions reductions (left-hand side), which might be potential project “hosts” - compared with those, on the right, with the fewest opportunities, which might be “sponsors”.

Chart 2: Difference between implied reductions under 30% ESD target weighted by GDP/capita and Member State cost-efficient emission reduction potential in 2030



Source: Minimum cost-efficient potential (CEP) for 2030 from European Commission Impact Assessment and ESR targets proposed by European Commission.

If the sharing of effort was better aligned with cost-effective reduction opportunities, up to 2 billion tonnes of additional emission reductions could be delivered. An EPM provides further benefits for the private sector by enabling common price discovery for emission reductions in the ESR sectors, and greater private sector involvement and transfer of knowledge and technologies. For Member States it comes with a range of co-benefits high on government agendas – increased employment, cleaner air in cities, reduced health costs, reduced energy poverty and reduced fuel import dependency.

We are encouraging Member States to promote the use of a European Project-Based Mechanism during negotiations on the ESR. However, the EPM must be a strictly internal mechanism: Credits from outside Europe would undermine the climate targets and slow down the modernisation of the European economy. The same applies to almost 380 million weak offset credits, which are currently being considered during ESR negotiations for helping to meet higher ESR targets in wealthier Member States. These offsets, from poorly quantified sources such as forestry or ETS, risk further decreasing investment in the ESR sectors in Central and Eastern Europe.

About this briefing

We are grateful for the support of the KR Foundation for helping to fund this work.

This briefing builds on our extensive analysis from 2016 on cost-effective ESR mitigation potential across Europe published in “[Effort-Sharing Dinosaur](#)” report and on the flexibility mechanism under the Effort-Sharing covered by the “[Bend it, don’t break it](#)” report. Both publications can be accessed at sandbag.org.uk/esr/.

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