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26th May 2017

Nick Hurd,
Minister of State – Department for Business, Energy, Innovation and Skills

Support a robust Effort Sharing Regulation policy on June 19th

Dear Minister,

I am writing in advance of the EU Environment Council on 19 June at which you will discuss one of the EU's key climate laws, the Effort Sharing Regulation (ESR).

Europe's contribution to delivering against the Paris Agreement will be determined, in large part, by the Effort Sharing Regulation (ESR), covering the majority of the EU's total emissions. If well-designed, this law could play a crucial role in incentivising cost-effective new low-carbon investment across Europe. We therefore call on you to support the strengthening of the ESR.

In particular, Sandbag is concerned that the relatively weak 2030 ESR targets set for some Member States will compromise the EU's ability to meet our 2050 climate objectives without transitional shocks. We believe the solution to this is to introduce a mechanism that incentivises additional low-carbon projects. This is covered in our short briefing *EPM: European Project-Based Mechanism*¹. We have attached it to this letter for your convenience.

Under what is known as the "European Project-based Mechanism" (EPM), additional projects in "host" countries to reduce emissions in ESR sectors would be financed by "sponsor" countries in exchange for allowance transfers that are already possible under the ESR. This would promote emissions reduction projects where mitigation opportunities are the most cost-effective.

To avoid the risks associated with higher future ESR targets, especially for the Member States with relatively weaker targets, it is essential that the projects are additional to what the host country would do in the absence of additional financing and are pursued within the ESR sectors. One easy way to ensure that would be to re-invest the revenues from all transfers towards additional projects.

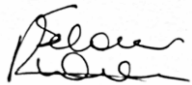
Other alternatives - such as the use of flexibilities which increase the supply of allowances in the ESR system, or changing the Commission's proposal on the post-2020 cap starting point - would further disincentivise new investment and potentially lead to an emissions reduction

¹ <https://sandbag.org.uk/project/european-project-based-mechanism/>

cliff-edge after 2030. These policy options should be considered a solution of last resort only after Member States make use of the EPM.

We encourage you to take these points into consideration when you debate the ESR legislation on the 19th of June.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rachel Williams', written in a cursive style.

Rachel Solomon Williams
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