

In a nutshell

The Safety Reserve will prevent new investment and internal transfers in Effort Sharing sectors.

The Environment Council plans to introduce a Safety Reserve to the Effort Sharing Regulation (ESR), encouraging Member States to decrease their low-carbon investment. The Safety Reserve also undermines internal flexibilities in the ESR by substantially reducing the need for Annual Emission Allocation (AEA) transfers and new project developments under Article 5.

Under a range of emissions scenarios, most of the potential new project sellers that are eligible for the Safety Reserve will overshoot their 2030 targets and are not expected to need it. Other recipients that are eligible may choose to use the Reserve's collective AEA surplus instead of seeking allowance transfers and new project development.

To attract more funding for emissions reduction projects, Member States planning to take full advantage of the Art. 5 flexibility should oppose the Safety Reserve, or opt out and limit other countries' access to their portion of allowances in the Reserve.

About Sandbag

Sandbag is a London and Brussels-based not-for-profit think tank conducting research and campaigning for environmentally 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; deep decarbonisation of industry through technologies including Carbon Capture & Storage.

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What is the Safety Reserve proposal?

The proposed Safety Reserve would create an additional pool of 100 million AEAs in the ESR, taken from 2013-2020 surplus allowances. These would be available to Member States with a GDP per capita in 2013 below the EU average, once they have exhausted all other flexibility options, and would be equivalent to up to 20% of their 2013-2020 surplus. If the sum of all applications does not exceed 100 million, Member States in deficit can apply pro rata for the remainder of the Reserve.

How does the Safety Reserve affect the 2021-2030 ESR budget?

The Safety Reserve comes on top of a range of concessions already present in the Commission's proposal that increase the overall ESR surplus: An ESR trajectory starting point well above real emission levels, flexibilities with the EU ETS and LULUCF, and Annex IV adjustments. Together they will bring about 520 million additional allowances to the whole ESR budget, compared with the European Parliament's position. This diminishes overall demand for other flexibilities under Article 5, including enhanced transfers and low-carbon projects pursued between Member States.

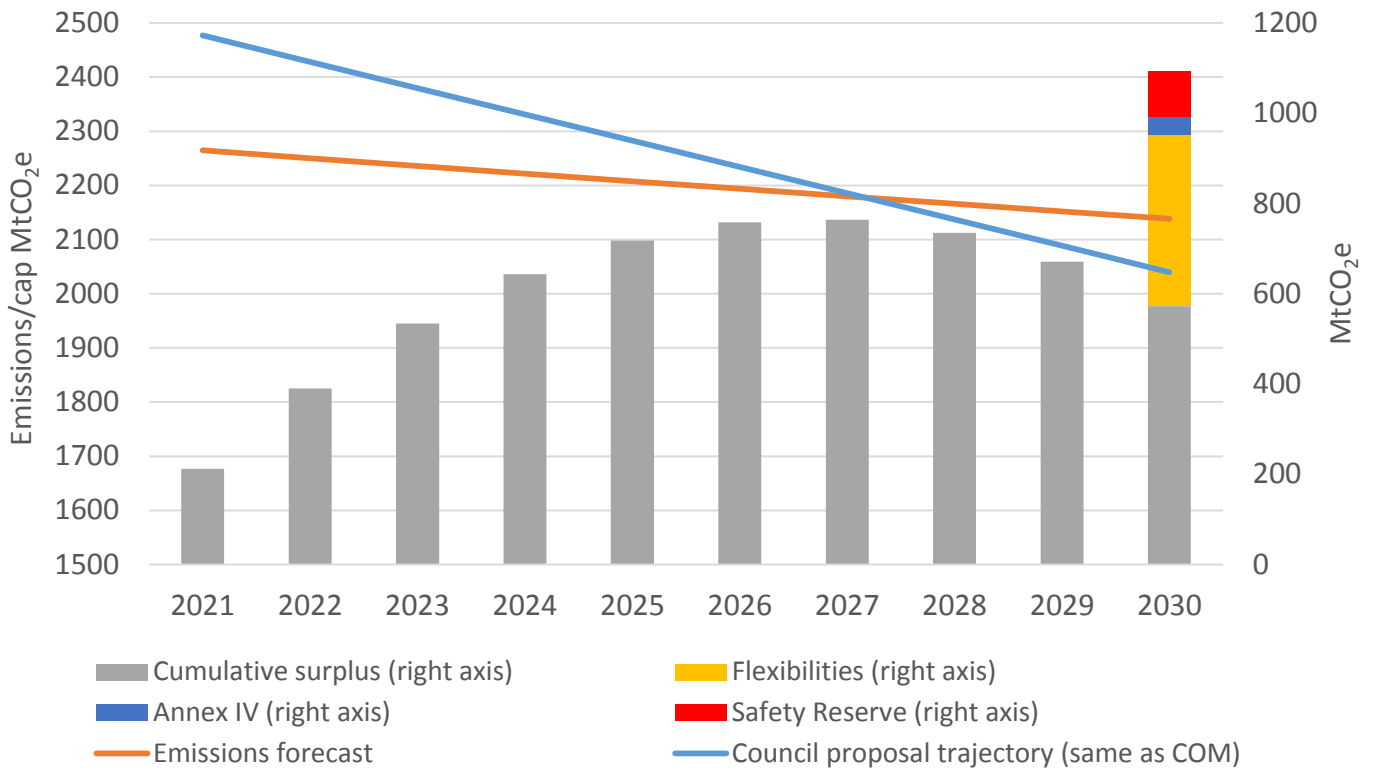


Figure 1: Effort Sharing supply and demand balance with the introduction of the Safety Reserve under the EU Reference Scenario. Emissions forecast from in-house model based on PRIMES / GAINS in IA + CEP + Sandbag.

Most Member States that are eligible for the Safety Reserve will overachieve against their 2030 ESR targets

Plans to introduce a Safety Reserve into the ESR are at odds with the evidence that most countries with access to it will easily reach their 2030 targets under the European Commission's Reference scenario. Under this scenario, most Member States are in surplus and consequently demand for AEA transfers over the 2021-2030 period will be very limited which would have the effect of dampening low-carbon investment in ESR sectors.

Member State	Flexibilities + Annex IV	2021-2030 EU Reference AEA balance after flexibilities + Annex IV	2021-2030 WEM AEA balance after flexibilities + Annex IV	2021-2030 WAM AEA balance after flexibilities + Annex IV
Austria	14.12	-3.16	-42.36	27.72
Belgium	19.72	-42.19	-76.03	-76.03
Bulgaria	5.70	20.50	12.80	12.80
Croatia	2.05	29.64	-6.67	9.57
Cyprus	0.60	2.86	5.33	5.42
Czech Republic	7.04	34.71	42.98	85.31
Denmark	22.22	-7.65	-0.67	-0.67
Estonia	1.05	9.07	-1.26	5.96
Finland	11.26	3.85	-12.04	-8.60
France	58.20	54.64	-274.40	-274.40
Germany	22.30	-21.84	-253.69	-253.69
Greece	6.70	105.59	90.91	90.91
Hungary	8.81	104.31	85.28	107.27
Ireland	46.28	-11.98	-22.81	6.34
Italy	11.50	-67.79	-198.28	28.11
Latvia	3.65	11.71	-8.07	2.00
Lithuania	8.67	13.44	0.20	8.33
Luxembourg	4.33	-13.60	-25.09	-25.09
Malta	0.25	0.74	-0.32	-0.24
Netherlands	38.88	-55.19	-5.21	-2.86
Poland	29.16	-87.24	-68.18	-68.18
Portugal	6.86	52.05	55.55	65.91
Romania	24.13	57.53	-106.26	-67.19
Slovakia	3.36	-10.41	-13.85	2.36
Slovenia	1.48	14.67	-0.49	-0.49
Spain	29.10	143.86	-267.71	-186.36
Sweden	13.86	4.29	10.04	10.04
United Kingdom	17.80	-49.52	-153.58	-114.40
EU 28	419.06	292.87	-1233.89	-610.17

Table 1: Cumulative surplus balances (millions of AEAs) over the 2021-2030 period for Member States potentially eligible for the Safety Reserve, comparing the EU Reference Scenario (bold), WEM and WAM emissions scenarios. Source: Sandbag's own calculations based on the EU Reference Scenario and Member State projections. Highlighted rows indicate Member States with lower than the EU average GDP per capita in 2013.

AEA surpluses may be even higher than in both the EC Reference scenario and the WEM scenario, particularly in Central and Eastern European (CEE) Member States'. This is due to a significant amount of untapped cost-effective emission reduction potential which can only be unlocked with additional financing, such as which will now be available under Article 5.¹ The introduction of the Safety Reserve would act to hinder these developments by giving Member States license to meet short-term targets without investing in projects or remunerating others to do so.

¹ Additional project financing should increase the uptake of cost-free abatement options in lower GDP/ capita Member States, changes in technology, practices and capital stock. For more on how these will most likely affect the EU emissions and the comparison of the ESR emission forecasts see 'Effort Sharing Dinosaur' report (Sandbag, 2016).

The distribution of AEs in the Safety Reserve would benefit few Member States and discourage investment in low-carbon projects

Member States with no AEA surplus from 2013-2020, or no deficit at the end of 2026-2030, or that have a higher GDP per capita than the EU average in 2013 will not have access to AEs in the Safety Reserve (hence, these are not shown in Table 2). Member States that are eligible could claim a number of allowances equivalent to up to 20% of their 2013-2020 AEA surplus. If the total number of allowances allocated from the Safety Reserve is not equal to 100m, the number of allowances distributed is adjusted pro rata to eligible Member States until the Reserve is exhausted or the recipient is no longer in deficit.

We consider three scenarios for determining which Member States will have access to the Safety Reserve: these use EU Reference, WEM and WAM projections for 2013-2020 and 2021-2030 emissions. The results are shown in Table 2.

Member State	Safety Reserve (EU Ref)	Balance + Safety Reserve (EU Ref)	Safety Reserve (WEM)	Balance + Safety Reserve (WEM)	Safety Reserve (WAM)	Balance + Safety Reserve (WAM)
Croatia		29.64	2.94	-3.73		9.57
Estonia		9.07	0.74	-0.52		5.96
Italy	68.96	1.16	38.59	-159.69		28.11
Latvia		11.71	1.12	-6.95		2.00
Malta		0.74	0.30	-0.02	0.52	0.28
Poland	23.61	-63.63	13.21	-54.96	22.29	-45.89
Romania		57.53	12.33	-93.93	24.35	-42.84
Slovakia	7.44	-2.98	4.16	-9.68		2.36
Slovenia		14.67	1.75	1.25	2.95	2.45
Spain		143.86	24.87	-242.84	49.89	-136.46
EU 28	100	392.87	100	-1133.89	100	-510.17

Table 2: Distribution of the Safety Reserve among eligible Member States using EU reference scenario (with WEM and WAM emissions projections for comparison). All values given in millions of AEs.

Source: Sandbag's own calculations. Projected 2030 balances account for flexibilities and Annex IV adjustments.² GDP data from Eurostat. For the EU Reference scenario calculation, the 2013-2020 Member State balances were calculated using WEM 2015 projections (due to discrepancies between real and projected emissions for selected countries with GDP/capita lower than EU average in 2013) while the 2021-2030 balance was calculated using the EU Reference scenario values. Both WEM and WAM calculations use the respective 2015 projections for determining both 2013-2020 and 2021-2030 Member State AEA balances.

² AEA balance for 2021-2030 is determined from the Council's starting point and trajectory and EU reference scenario emissions. We assume no AEA carryover from 2020. Flexibilities (LULUCF + ETS) and Annex IV adjustments are added to the 2030 balance.

About this briefing

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Briefing Authors: Ola Mirowicz and Wilf Lytton (data analysis). Contact ola@sandbag.org.uk or on (+44) 02071 486377.

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Trading (Correspondence) Address: 40 Bermondsey Street, London, UK, SE1 3UD.

Registered Address: BWB Secretarial Ltd, 10 Queen Street Place, London EC4R 1BE.

EU Transparency Number: 94944179052-82.

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