Climate Leadership Coalition's proposal for ambitious long-term climate goals and a systemic, market driven solution

On 11 September, 2019 Climate Leadership Coalition (CLC) made a statement calling for a more ambitious and predictable EU-wide systemic solution for achieving climate goals. This document summarizes and clarifies the key messages.

Supporting the European Commission's Green Deal we have four recommendations:

- Set clear, ambitious and actionable climate targets
- Plan and agree on a more systemic market-based solution
- Strengthen financing mechanisms to support the transformation of society
- Secure a level playing field for the competition

Why?

As climate change accelerates, we have to increase our investments now that the European Commission has estimated that modernisation and decarbonisation of the EU economy would require additional annual investments in the range of EUR 175 to EUR 290 billion. Today, around 2% of GDP is invested in our energy system and related infrastructure. This would have to increase to 2.8% in order to achieve a net-zero greenhouse gas economy.

Since the need for low carbon investments will increase considerably, it will be even more important to put a predictable and market-based climate policy framework in place. It will be difficult to anticipate and plan for changes in the national regulatory environment, since country-based climate policies tend to vary following national general elections depending on the parties in power. An EU-wide, predictable and market-based framework, with a sufficiently high carbon price, would create a strong enough incentive to develop clean, climate-friendly solutions on the scale required.

Long-term targets

Industrial and energy-related investments typically have an economic lifecycle of 40-60 years. Investors require clear long-term targets that decrease uncertainty and accelerate large-scale investments.

In 2018, CLC and almost 100 Nordic companies, cities, universities, business confederations and networks, financing institutions and NGOs made an initiative for setting ambitious and clear climate targets to the EU. The coalition proposed that the EU sets a climate neutrality target by 2050, a binding carbon budget for the remaining GHG emissions until 2050, including emission reductions and carbon sinks, and after this, the alignment of 2030 and 2040 targets with the longer term net-zero target.

It is excellent that the legally binding climate neutrality target by 2050 is already agreed within the Council of the European Union. CLC will also support the EU Commission's proposal to increase the 2030 target to 50-55%. In addition, CLC proposes that the EU clarifies the 2050 target even further by setting a carbon budget for net-emissions (see Appendix 1).

Plan and agree on a more systemic market-based solution

The current EU Climate Policy is based on three pillars, the Emissions Trading System (ETS) covering

around 45% of emissions, the effort sharing sector (ESD) and the land use sector (LULUCF). In the subsectors to which the ESD and LULUCF apply, each EU Member State defines and implements national policies and measures based on the national targets agreed at the EU level.

The current set-up of the pillars, in particular the national elements, creates uncertainty. It will be difficult to anticipate and plan for changes in the regulatory environment since country-based climate policies may vary following national general elections depending on the parties in power. By 2050, around 200 general elections will have been held.

In addition the technical boundaries between the current three sectors are on their way out in the future. Transport will both electrify and is expected to use a range of new types of technologies e.g. Power-to-X-fuels, hydrogen and waste- and residue-based fuels. Biomaterials will bring the LULUCF sector close to the other two pillars and Carbon Capture and Utilisation and Storage (CCU/CCS) will lead to a "horizontal flow" of carbon through all three pillars. This development will bring CO_2-removals into EU climate legislation.

CLC proposes:

- Widening the use of the EU emission trading (ETS) system as a cornerstone policy instrument to develop the competitiveness of companies and sectors, and to expand ETS gradually also to other sectors in the future;
- Absorbing carbon from the atmosphere by factoring in measurable, verifiable carbon sinks and storing carbon via carbon capture and utilisation solutions, as well as substituting high carbon footprint materials with low carbon footprint materials;
- Developing enhanced mechanisms to address carbon leakage;
- Enabling international integration between compatible emission trading systems and verifiable development projects.

The planning for this more systemic solution should begin as soon as possible and the solution for the time period after 2030 should be agreed in synchronisation with ETS revisions and the COP Global Stocktake in 2023. The widening of ETS and bringing new sectors under the ETS umbrella must be planned carefully and take into account how to not dilute the existing policies in a harmful way. In transport, there are some sectors which would be easier to bring under EU ETS, whereas for example road transport, with the recently adopted multiple policy instruments, would need careful consideration and planning.

The California Cap-and-Trade Program is a good benchmark, covering more than 85% of emissions and enabling also Low Carbon Fuel Standard incentivising early development of cleaner fuels and vehicles.

In addition, the ETS system can offer a unique benefit when we need to accelerate climate actions. By reducing ETS allowances, we can influence the rate of emissions and regulate price levels in the trading of allowances. In contrast, the operationalisation of policies within the ESD and LULUCF sectors depends on national legislation and the implementation of such legislation could take years.

Strengthen financing mechanisms to support the transformation of society

CLC proposes that, in addition to climate- and energy-related investments, a greater share of the EU ETS incomes should be earmarked and used to support science, research and the development of new climate solutions, and to support the low-income stakeholders involved. The pivotal technologies are, for example renewables, storage, power-to-X, carbon-free steel, carbon-absorbing concrete and biomaterials. If effective, the ETS can help to expand the use of these technologies at a later stage; however, to create the

required impact, they would need to be commercialised well before 2030.

Secure a level-playing field for the competition

As a large market, the EU should do its best to secure a level playing field for companies and the effectiveness of market-based solutions by minimising risks of unilateral compliance burden and carbon leakage. If there is evidence of unfair competition, the first action to level the playing field should be to find ways to help the EU's trading partners to improve their policies, for example by implementing carbon pricing and promoting trade in climate-friendly goods and services. Other possible actions could include using new and existing regional trade agreements (RTAs), holding talks with like-minded WTO Members, including climate-related issues in the WTO Trade Policy Review Mechanism (TPRM) and border carbon adjustments (BCA) for those sectors that cannot be levelised otherwise. An evaluation should be made of how trade policies and agreements could be utilised in this, starting with those sectors that cannot be levelised otherwise.

Supporting means

In addition, it is CLC's view that much wider use than at present needs to be made of "demand-based policies", such as using carbon footprint in public and private procurement, and enabling citizens to make sustainable choices.

This paper was published on CLC www-site on May 6th, 2020. https://clc.fi/2020/05/06/climate-leadership-coalition-proposes-ambitious-long-term-climate-goals-and-a-systemic-market-driven-solution/#more-6023

Climate Leadership Coalition (CLC) is a non-profit organisation committed to the pursuit of carbon-neutrality through the sustainable use of natural resources. The purpose of CLC is to promote the sustainability of businesses, city planning strategies and activities of research organisations towards more sustainable and resource efficient models. CLC enhances its members' ability to respond to the threats posed by climate change by sharing information, ideas and best practice solutions. We make proposals to governments and other stakeholders to harness the market economy in a more sustainable direction and to attract sufficient investments for such a transition. CLC believes that green transition can be economically beneficial, and therefore financeable, and that early adapters can benefit and become more profitable.

CLC currently has 65 organisational and 25 personal members (as at March 2020).

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APPENDIX I:

In this appendix, we explain our idea of a long-term, EU-wide carbon budget for total emissions. The assumptions regarding long term emission development are based on the Clean Planet for All background scenarios 1.5ºC scenarios (1.5Tech, 1.5Life ja 1.5Life LB).

The aim of the long-term carbon budget is to increase the long-term predictability of the investment environment to meet the investments needed during the coming decades. The use of a carbon budget would not change the current climate policy framework based on EU ETS, non-ETS and LULUCF sectors. The carbon budget can be shared between EU ETS and non-ETS sectors.

We present two different options for the use of a long-term, EU-wide carbon budget.The first presents a case in linear development from the current level to reach climate neutrality by 2050 with the current level of carbon sinks. The second option is based on the concept of 'Carbon Law' proposed by a team of international researchers. The main idea of Carbon Law is to halve emissions within each decade. In this case, the gross emissions remain at a slightly higher level in 2050 and thus more carbon sinks are needed to reach climate neutrality. However, the cumulative carbon budget is considerably lower than in the first option.

The Figure 1.a below illustrates the carbon budget in the case of climate neutrality by 2050. The cumulative budget between 2021 and 2050 is 55 Gt CO_2eq.

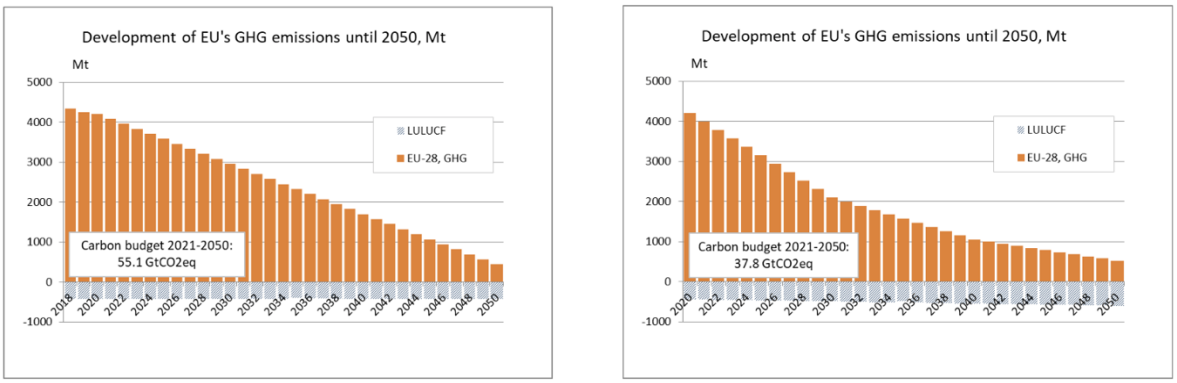

Figure 1. a. Linear EU Carbon budget 2021-2050 and b. based on Carbon Law[1], Gt CO_2eq.

Figure 1.a illustrates a carbon budget with linear reduction towards climate neutrality by 2050. The cumulative budget between 2021 and 2050 is 55 Gt CO_2eq. Figure 1.b presents a case where EU-28 emissions would be decreased according to the Carbon Law principle as proposed by an international team of researchers[1]. In this case, the carbon budget would be lower, around 38 Gt, and to reach climate neutrality by 2050 the EU would have to enhance long-term carbon sinks by 50% up to 600 Mt CO_2.

The EU strategy presents cumulative CO_2 emissions – carbon budgets – for the 1.5C scenarios. Between 2018-2050 cumulative CO_2 emissions would be 48-49 GtCO_2 for 2018-2050, 39-41 GtCO_2 for 2018-2070 and 23-28 GtCO_2 for 2018-2100.

[1] 50% reduction by 2030, additional 50% 2040 and further 50% by 2050.