ENERGY AND CLIMATE FRAMEWORK FOR 2030

College orientation debate

The Commission's work programme for 2013 announced a new policy framework for climate and energy for the period up to 2030. This paper sets out several key issues on which political orientation is needed to inform the preparation of this framework by the end of 2013.

A. Policy context

The current EU policy framework

The EU has a comprehensive framework for energy and climate policies up to 2020 based on three headline targets for greenhouse gas (GHG) emission reductions, renewable energy and (non-binding) energy savings. There are additional targets for energy used by the transport sector. This framework is taken forward within the Europe 2020 growth agenda and the Energy 2020 Strategy that addresses the competitiveness, sustainability and security of supply pillars of energy policy. The EU is making good progress towards meeting 2020 targets as outlined in the annex.

In 2011 the Commission provided a longer term perspective for its climate and energy policies in the Roadmap for moving to a competitive low carbon economy in 2050, the Energy Roadmap 2050 and the Transport White Paper. These roadmaps were all developed in line with the EU objective of reducing GHG emissions by 80 to 95% by 2050 compared to 1990 levels in the context of similar efforts by other developed countries. Some of the key findings of the Roadmaps are:

- By 2030 greenhouse gas emissions need to be reduced by 40% to be on the right track towards reaching the internationally agreed target to constrain atmospheric warming to 2°C.
- Higher shares of renewable energy, energy efficiency improvements and more potent and smarter energy infrastructure are "no regrets" options in going forward with the transformation of the EU's energy system. As regards renewable energy, the decarbonisation scenarios indicate a share of around 30 percent in 2030.
- Energy prices will increase in the period up to 2030 because of the investments which are needed in the energy system with or without significant decarbonisation. However, certainty about the long term regulatory framework is needed now because of the extended lifetimes of energy installations (technology "lock-in").

The Council was unable to adopt conclusions on the roadmaps because of the reluctance by one or more Member States to commit to e.g. milestones for 2030. It also requested more detailed information about the impacts for each Member State.

The case for a 2030 policy framework

Early agreement on the 2030 framework is important for three reasons: first, long investment cycles mean that infrastructure funded in the near term will still largely be in place in 2030 and beyond and investors need, therefore, certainty and reduced regulatory risk. Secondly, meeting the objectives of a 2030 framework will create more demand for efficient and low carbon technologies and can spur research, development and innovation activity, which can create new opportunities for jobs and growth. Creating clarity for the long term therefore reduces both directly and indirectly the economic cost. Thirdly, whilst the negotiations of a new legally binding international agreement on climate mitigation have been difficult, an agreement is still expected to be concluded before the end of 2015. The EU will, therefore, have to agree upon a series of issues, including its own ambition level, well in advance of this date in order to engage actively with other countries.
In agreeing on the 2030 framework, it will be essential to consider a number of options as part of a strategy towards stronger global climate action, and for the EU as an integrated strategy for growth and jobs, innovation, competitiveness and energy security. This 2030 framework must be sufficiently ambitious to ensure that the EU is on track to meet longer term climate objectives, but it must also reflect the consequences of the on-going economic crisis, the budgetary problems of Member States who have difficulty to mobilise funds to deliver the 2020 targets and the concerns of households and business about the affordability of energy. It will be important, therefore, to ensure the support of Member States, MEPs and public opinion, and to maximise synergies and deal with trade-offs between the objectives of competitiveness, security of energy supply and sustainability.

B. Key Issues for Discussion

1. Targets

There are currently three headline targets to be achieved by 2020: (1) an EU based target for GHG emission reductions of 20% relative to emissions in 1990; (2) a 20% share for renewable energy sources in the energy consumed in the EU with specific target for the Member States; (3) 20% savings in energy consumption compared to projections. In addition, there are specific 2020 targets for renewable energy for the transport sector (10%) and decarbonisation of transport fuels (6%).

There are diverging views regarding the need for targets and types of targets (EU, Member State, sectoral, legally binding). Some stakeholders argue that the existing targets and policies to reach them are not necessarily coherent or cost efficient, or that they do not take competitiveness sufficiently into account. Member States are split between those only favouring a GHG target for 2030 and those desiring at least a new renewables target in addition.

On this basis, there is a need, therefore, to assess which targets can best, and most simply and cost effectively, drive energy and climate policies in the period up to 2030, and whether the current approach can be streamlined. An analysis needs to be made of whether having only a GHG emissions target for 2030 could also deliver on the security of supply and competitiveness objectives. The 2020 target for renewable energy has proved to be effective in accelerating change and so a new 2030 target could also be envisaged. In addition, some also consider that there is a need for a separate target related to energy efficiency.

2. Fostering competitiveness of EU industry

EU energy prices and their competitiveness in an international comparison are of increasing concern for many business and households. Energy prices are expected to increase in the period up to 2030 irrespective of whether new climate targets are established because of the investments which are needed to modernise the energy system, which underlines the importance of considering this aspect in defining the 2030 framework. Ultimately it is the energy cost (which also depends on energy consumption levels) and not only the energy price that will be crucial for the competitiveness of our industry. This makes a strong case for continued cost-efficient improvements to energy efficiency. Moreover, the completion of the internal energy market and diversification of energy supply are important aspects to enhance competition and thereby contribute to competitive energy prices. In this context, it is important to consider potential adverse impacts on energy prices when defining and implementing the new framework. Cost-efficiency of various measures to reach set objectives will be crucial in this regard.

The EU currently represents 11 percent of global GHG emissions and its share is decreasing and so effective international action is required to tackle climate change. However, there is uncertainty over the climate mitigation efforts that third countries will make. In addition, there will be changes in the comparative position of the EU relative to its trading partners because of their energy situation and policies such as the exploitation of shale gas in the USA.
The International Energy Agency (IEA) has recently highlighted how the European Union will see a steady move towards greater reliance on oil and gas imports through to 2035\(^1\).

In this context, it is increasingly important to ensure that EU energy and climate policies also contribute to competitiveness of the entire economy, affordability of energy and security of supply. Whilst the economic crisis has had a severe impact on Europe's industrial base, the Roadmaps have shown that increased investments in high added value low carbon equipment (in particular in the energy, transport and construction sector) could provide a major opportunity for Europe's manufacturing industry and can create growth & jobs. At the same time, it would substantially reduce energy costs and the EU's economic vulnerability to high oil and gas prices.

Auctioning has been established as the norm for the allocation of carbon allowances, but some parts of European industry are energy intensive and exposed to competition on a global scale and for these industries free allocation of allowances (relative to performance benchmarks) has taken place to prevent "carbon leakage" as well as access to international credits under the Clean Development Mechanism (CDM) and state aid in some cases. Such competitiveness concerns will remain an issue until a legally binding climate mitigation agreement is concluded internationally amongst the EU's major trading partners. These international CDM credits have unfortunately contributed to a problematic surplus in phase 3 of the ETS and the observed low carbon price. Continued access to international credits after 2020 will need to be assessed in the context of competitiveness and delivery of domestic climate mitigation efforts.

3. Acknowledging the differing capacity of Member States

More stringent climate and energy targets will impact each Member State differently and options to enable effective cooperation and an equitable sharing of the burden will need to be assessed as part of the new framework in order to ensure the acceptance by all Member States.

The current policy framework reflects the differing capacities of Member States by sharing the effort of reaching Union climate and energy targets amongst the Member States, with a lighter burden falling on the economically weaker Member States. Auctioning revenues are also partially redistributed to compensate for cost differences. There are also cooperation mechanisms in the Renewable Energy Directive that enable renewable energy produced in one Member State to count towards the target of another. However, despite the potential economic benefits for both sides, this scheme has with the exception of Sweden and Norway not been utilised so far. In order to take into account national circumstances, the Energy Efficiency Directive provides a "menu" of flexibilities that Member States can apply to their 1.5% yearly saving targets such as a gradual phase-in of the 1.5% target, exclusion of the ETS sector, inclusion of the energy transformation and distribution sector or recognition of early action. These flexibilities can be used in a cumulative way according to national circumstances but must not undermine the overall energy savings required by the Directive.

Member State-specific information will need to be prepared and presented as part of the new framework in order to inform discussions about the equitable distribution of effort and to enhance the acceptability of the new framework. As it did in the current package the Commission may also need to propose ways of sharing the effort to avoid an undue burden on any one Member State.

4. Policy instruments

The 2020 targets are implemented through policy instruments at EU level which are closely related to the internal market. Member States have larger room for manoeuvre when implementing EU legislation e.g. for renewable energy and energy efficiency, and GHG emissions outside the ETS and the automotive sector. This has resulted in national instruments such as renewables support schemes,

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\(^1\) IEA World Energy Outlook 2012, page 76
energy and CO₂ taxation, energy performance standards for buildings and other energy efficiency policies.

These instruments interact with one another. For example, the increased use of renewables and improved energy efficiency may reduce the demand for ETS allowances and exert a downward pressure on the carbon price. Some stakeholders have criticised the overall consistency between policies because of such interactions. In addition, some national measures risk leading to fragmentation of the internal energy market. Moreover, it is increasingly important to improve the cost-efficiency of various measures.

The 2030 policy framework should, therefore, outline general directions of key policy instruments affecting the various sectors and a more optimal interaction between them. The current balance of the approach between EU level instruments and Member States targets/national instruments will have to be assessed in more detail. As before, the distribution of efforts will need to be considered as well.

C. Questions

1. Targets
   • Should the new framework be based around one or more climate and energy targets?
   • If so, which targets would be the simplest and most effective to drive the objectives of climate and energy policy?
   • Is 2030 the most relevant time horizon for the new framework?

2. Competitiveness
   • How should the EU’s 2050 climate objectives and the need to foster European competitiveness be reconciled?
   • How should we take into account uncertainty about efforts that other developed countries and economically important developing nations will make?

3. Distributional aspects
   • How should the new framework ensure an equitable distribution of effort among Member States by taking into account their different abilities to implement climate and energy measures?

4. Instruments
   • Beyond the issue of targets, are changes necessary to other policy instruments and how they interact with one another?

5. Process
   • Should this Commission present legislative proposals as part of the new framework at the end of 2013?
   • Is it appropriate to proceed initially with a Green Paper based around the issues raised in this orientation debate?