



## **THE EUROPEAN COMMISSION'S PROPOSED 2030 CLIMATE AND ENERGY FRAMEWORK – SOME FIRST REFLECTIONS**

### **Summary of key points:**

- Given the current political climate in parts of Europe, the Commission's proposed 40 per cent greenhouse gas (GHG) reduction target for 2030 represents progress. Although less than needed it is a starting point for further negotiation. This target, however, came at the expense of a serious weakening of the new framework compared to the EU's 2020 energy and climate package, adopted in 2009.
- Any attempts to weaken the proposed 2030 framework further, in particular a reduction of the GHG target, will need to be resisted vigorously, not least to maintain the EU's credibility in the upcoming global climate negotiations. The ball is now firmly in the court of the Member States and the European Parliament.
- Very disappointingly, the Commission suggests a step back in European energy policy with the removal of binding national renewable energy targets. A binding EU-level target on its own appears a potentially rather void instrument and will not deliver the necessary investments in low-carbon technologies.
- The lack of any proposed EU target on energy efficiency aggravates the situation further.
- The 2030 Communication calls for energy security, affordable energy and investments in low-carbon technologies to ensure long-term economic growth. To meet all these goals requires drivers for a major energy transition. This could be provided by a set of targets that help to create a market demand for low carbon technologies, now in order to benefit from technological leadership and low-cost domestic energy sources into the future.

## **1 THE PROPOSALS**

With the publication of the Communication on a new policy framework for climate and energy policy on 22 January 2014 the Commission completed a political juggling act. It outlined how it believes the EU's goals and key policies should be shaped for 2030.<sup>1</sup> At the heart of the framework, the Commission put forward a headline target for a binding 40 per cent reduction of domestic EU greenhouse gas (GHG) emissions in 2030 relative to emissions in 1990. This would translate into emission reductions of 43 per cent in the ETS sector and 30 per cent in the non-ETS sector. Given the difficult political and economic conditions at the moment, this represents progress and a platform for further negotiation. It is clear at the same time, however, that this is less than required by the science and that no further watering down of this target is admissible, particularly given the EU's ambition to send a strong signal ahead of global climate negotiations. The other key elements of the Communication include:

- An EU-wide binding target for renewable energy of 27 per cent in 2030;
- No 2030 target for energy efficiency, contrasting with the present target now in place for 2020;
- A new governance framework based on national plans for competitive, secure and sustainable energy.

The policy framework Communication was accompanied by a set of additional communications. There was an analysis of 'Energy prices and costs in Europe', and also a proposal for the establishment and operation of a market stability reserve for the EU Emissions Trading System (ETS), although not to be introduced for several years. A recommendation on minimum principles for the exploration and production of hydrocarbons such as shale gas was put forward. This was in place of a regulatory approach, as had been considered earlier. Finally was a communication on the exploration and production of hydrocarbons (such as shale gas) using high volume hydraulic fracturing in the EU.

## **2 AIMS OF THIS PAPER**

The proposals are critical for the EU's internal climate and energy policy and role in international negotiations in the next few years, but also impinge heavily on the strategy for promoting green growth. They are clearly a compromise in the face of strong lobbying from many national governments and others. How do they measure up to the requirements of a robust strategy for addressing this issue, so central to both climate change and the momentum behind a new, more sustainable, EU economy?

This background paper reviews a set of issues raised in the Communication that seem essential to the development of an effective and efficient EU 2030 climate and energy framework. In light of these requirements the paper assesses the Commission's proposed framework, with a focus on its ability to deliver sustained investments in renewables and

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<sup>1</sup> European Commission (2014) A policy framework for climate and energy in the period from 2020 to 2030, COM(2014) 15 final, Brussels, 22.1.2014

energy efficiency technologies. It is selective; the reform of the ETS, regulation of shale gas and other issues outside the main Communication, while important, are not examined here.

### **3 MULTIPLE POLICY OBJECTIVES – MORE THAN “JUST” REDUCING GREENHOUSE GAS EMISSIONS**

In developing and designing an effective new strategy, an essential first step is the definition of the policy objectives to be achieved and the problems to be addressed. Here, the Communication displays some of the weaknesses of the last year of discussion on the 2030 climate and energy framework. This has not gone far enough in clarifying and prioritising objectives and problems.

Some have suggested that climate change is the only serious problem and hence the reduction of greenhouse gas emissions should constitute the only strategic objective for the ‘new’ 2030 climate and energy framework. However, this view is too narrow. It seems evident that a wider set of interlocking policy objectives need to be pursued. These include *inter alia* greater energy security and sustainable economic growth. Climate policies are related closely to low carbon energy policies.

*Energy security* encompasses a variety of components, such as avoiding too high a level of dependence on energy imports or specific energy generation technologies and building and maintaining a resilient energy infrastructure.

Sustainable *economic growth* requires *inter alia* a stable energy system that delivers energy at costs that do not put at risk the competitiveness of European businesses. The great importance the Commission attributes to energy prices and costs is evident given the publication of a dedicated communication on that issue as part of the framework. A further important stimulus for long-term sustainable growth is technological innovation. This too needs to be supported by appropriate policy measures. In current conditions, driving forward the deployment of low carbon technologies by policies that are confidence inspiring for investors would contribute to both innovation and growth policy. If we accept these inter-related objectives, they have important implications for the design of a 2030 climate and energy policy framework.

The Commission’s Communication does indeed point to a suite of such policy objectives, referring to ‘competitive and affordable energy for all consumers’, ‘security of energy supplies’, ‘greenhouse gas emission reductions’, and ‘regulatory certainty’ for investments in low carbon technologies. All this is to be aimed for at as little additional (short-term) cost and as little EU policy intervention as possible (in the light of the difficult economic and political situation in most Member States) while utilising experience with the current policy framework.

We question below whether this is really possible. In particular it is difficult to claim that all these goals can be reached without proposing the necessary policies for the purpose. Even if the only policy objective was the reduction of greenhouse gas emissions, a single legally binding policy target on emission reductions seems unlikely to be sufficient, given the lack of pan European measures other than ETS (which is subject to continuing uncertainties) and the reliance on EU measures by so many Member States. Since in practice another

important policy objective is to maintain an attractive long-term policy framework for innovative low carbon technologies, a more ambitious framework is warranted.

#### **4 THE NEED FOR A TRIPLE TARGET FRAMEWORK**

The proposed single greenhouse gas emissions target is certainly not sufficient to achieve the transition to a low carbon economy at the required pace and to reap the potential environmental, economic, and social gains.

It is often argued that technology neutral public policies are most cost-efficient in that they leave the technology choice to the market, leading to the adoption of least-cost solutions. From this perspective, a single greenhouse gas target may seem attractive because it appears as a simple and low cost policy approach that favours the use of the cheapest available low carbon technologies, which of course will include greater use of gas in some countries. However, it puts a premium on short run cost-savings and does not stimulate the deployment of a diverse range of innovative low carbon technologies that should be cost-effective in the long run to society. Nor does it address the non-economic barriers that have held back the deployment of low cost low carbon technologies - such as the necessary reconfiguration of the electricity grid infrastructure and the institutional inertia on energy conservation.

In addition, a single, EU wide greenhouse gas target appears to sharply alter the course of EU policy on renewables and create great uncertainties about how national governments will proceed with incentives beyond 2020. Consequently, it does not provide sufficient stimulus for the scale of investment needed, especially for early stage technological innovations with the potential for further technical breakthroughs and subsequent cost reductions.

Given the scale of transformation needed in Europe, it is not sufficient to rely on technology-neutral support policies complemented with RD&D funding (a 'technology push' approach). Rather, sector specific targets both for renewable energy sources and energy efficiency (a 'demand pull' approach) will be needed in the EU to attract sufficient investment in these sectors and achieve the required scale of market take-up of new low carbon technologies. Reliance on the ETS as the primary motor of investment in this domain is also questionable given current perceptions of its effectiveness and the deferral of measures to strengthen it. The proposed market stability reserve that would foresee automatic adjustments to the ETS would not be introduced until 2021.

For these reasons, separate targets on renewables and energy conservation binding at the national level would complement a greenhouse gas emission target. Three binding targets would help to overcome barriers in these sectors while contributing significantly both to the exploitation of cost-effective low carbon options and to achieving the greenhouse reduction target. Experience with the Renewable Energy Directive is instructive. Thanks to a clear and stable long-term framework building on targets for renewable energy sources a sizeable market has developed in the EU with great potential for further job creation and economic growth.

The EU renewables target of 27 per cent by 2030, as proposed by the Commission, lacks ambition against these criteria but instead seems to reflect estimates of what may be

achieved anyway. It is expected that, with current policies in place, a share of nearly 25 per cent could be achieved by this date. Moreover the Commission notes that the proposed greenhouse gas target of 40 per cent 'should by itself encourage a greater share of renewable energy in the EU of at least 27%'. It is not surprising that investors are interpreting this as a sea change in policy which is undermining their confidence.

As for energy efficiency, the Commission paper underlines its 'essential contribution' to all policy objectives. Indeed energy efficiency has to be the centrepiece of a meaningful climate and energy framework, all the more so given the level of concern about EU energy prices.

The gap between EU and US energy prices will not be eliminated in the near future on any likely scenario. The case for a stronger focus on energy conservation in the years to 2030, including in the energy intensive sectors, transport, and buildings is particularly compelling. If the huge cost-effective energy savings potentials were exploited more fully, the related investments would generate net benefits to businesses, citizens and the public budget, not to mention the environment. These would include cost reductions due to energy savings (including reduced infrastructure expenditure), more energy-efficient and innovative products for global markets, and increased employment.

Despite this, as in the past, policy action on energy efficiency is postponed to a later date on the basis that the timeline of the Energy Efficiency Directive suggests a review later in the year and so will be de-coupled from the strategic debate on targets and frameworks. The opportunities for a consistent, mutually reinforcing target system, with all three targets discussed in parallel rather than sequentially, will be lost.

## **5 A 'NEW GOVERNANCE SYSTEM' INSTEAD OF BINDING NATIONAL TARGETS**

EU sectoral targets for greenhouse gas emissions, renewable energy sources and energy savings are not sufficient unless they are translated into specific national commitments. Legally binding targets, at the national level seem to be a fundamental condition for progress. The increased rate of investment since 2009, when the Renewable Energy Directive (with its legally binding national targets) entered into force, directly activating a host of national measures, provides the evidence for this. By comparison, action on energy efficiency and progress towards the indicative EU-level energy efficiency target has been disappointing.

This is the primary reason why such EU targets need to be translated into legally binding national targets. These can be based on a transparent and fair methodology, taking account of past efforts, capacities and cost-effective potential/resources. Targets that are binding at the national level are the cornerstone of a robust compliance system. Ultimately they enable the Commission to take legal action against Member States that do not meet their targets and hence have the force to trigger policy action at national level.

At the same time, such targets need to leave Member States with sufficient flexibility to focus national action in their preferred areas, such as certain renewable energy sources or energy efficiency measures. This is currently the case with the National Renewable Energy Action Plans. The current extent of flexibility is understated by the Commission which argues against binding national targets on the basis of a need for greater flexibility for Member States. It is worth noting that a renewable energy target would still leave sufficient

‘space’ in national energy mixes for other low carbon technologies to be deployed if Member States wish to do so. They are not excluded.

Binding targets would provide long term certainty to attract and leverage the sustained and large scale private investments which are urgently needed in the low carbon sector in Europe in times of severe constraints on public budgets. This applies to R&D as well as financing the deployment of market tested low carbon technologies

For the moment it remains unclear how the new governance system outlined in the Commission’s Communication would be able to make up for the lack of national binding targets. How can non-binding national plans provide for the required long-term certainty? On what (legal) basis will the Commission assess these plans and develop recommendations? Experience with the apparently rather similar governance structure under the European Semester and the pace at which the Member States are complying with the Commission’s country specific recommendations may be relevant. It suggests that the new governance system could become a resource-intensive exercise with rather a low impact.

Ultimately this approach signifies the re-nationalisation of an important strand of EU energy policy – ironically under the auspices of a Commission that has, for the first time, a ‘real’ legal basis to act on energy policy as enshrined in the Lisbon Treaty.

Nonetheless, the idea of ‘regional approaches’ put forward by the Commission, involving consultations between neighbouring countries is innovative and interesting. Such consultations should involve different levels of government and could help to encourage urgently needed coordination of national and regional energy policies. But instead of replacing binding national targets, enhanced regional coordination should be used to work towards the achievement of such targets in efficient ways in different contexts.

## **6 THE ENERGY PRICES QUESTION**

Concerns over energy prices in Europe have spilled over into climate policy, often in an emotive way. Increasingly, climate and renewables policies are blamed for being the main cause underlying high energy prices. In fact, the Commission’s own analysis suggests that renewable energy subsidies added only about 6 per cent to average EU household electricity prices and 8 per cent to average industrial prices, if the benefits of exemptions are excluded<sup>2</sup>.

Furthermore, the impact of targets on prices has been greatly influenced by the design of national support schemes for renewable energy sources. In several cases, policy design has misjudged market conditions and led to excessive support levels that have failed to reflect technological advances and hence achieve cost reductions over time. In other cases, the distribution of the cost of renewables support across energy users has been greatly skewed. Some Member States have been granting over-generous exemptions to industrial users, with consequent burdens falling on private consumers. Moreover, as the Commission’s analysis of energy prices and costs shows, increasing amounts of renewable electricity have exerted downward pressure on wholesale prices. Industry can profit from this, whereas

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<sup>2</sup> European Commission (2014) Energy Prices and Costs in Europe, COM(2014) 21 final, Brussels, 22.1.2014

most households have to bear higher prices on the retail market as the costs of support schemes are passed on to domestic consumers.

It is therefore of fundamental importance to get renewable support schemes right. The Commission aimed in this direction in its guidelines published in early November last year<sup>3</sup>. These call for fostering more competition between various generation technologies, ideally using competitive tendering processes. Clearly support schemes do need to be adapted to the maturity of the different technologies, including their costs. In addition there is no doubt that more mature renewable energy technologies need no protected niche but should be exposed to competition. As the guidelines suggest, support policies should be less 'national' and exploit the benefits of the internal market to take more advantage of cross-border benefits.

## **7 A DEDICATED APPROACH TO BIOENERGY**

The Commission does acknowledge in the Communication that "an improved biomass policy will also be necessary..." and refers to some of the considerable challenges in the present policy. It does not however indicate how this goal could be achieved within the framework of initiatives that it is proposing. There is a considerable vacuum here in the absence of sustainability criteria for solid biomass (which have been under discussion for a while but with no proposals tabled yet). Equally, there is great uncertainty surrounding policy on biofuels given the failure to agree any EU measure to address the indirect land use effects of feedstock production, which are also referred to in the Communication.

There is an opportunity now to put in place a more strategic approach to bioenergy in parallel with a new generation of targets for renewable energy. As a minimum it would be desirable to establish a European strategy for the utilisation of a diverse range of bioresources<sup>4</sup>, including wastes and residues, in a rational and sustainable way. This would recognise that a growing proportion of these reusable materials are being diverted into bioenergy pathways by EU policy measure at the expense of other, sometimes preferable, applications. A strategy could address some urgent technical policy issues, such as the appropriate accounting rules for establishing the climate impacts of different forms of bioenergy and lay down sustainability requirements for different feedstocks.

Beyond this, it would provide a framework for directing bioresources into appropriate uses, prioritising those with the greatest environmental and economic benefits (including traditional biomass uses such as in the wood-using industries but also novel uses such as bioplastics). Thus it could remove the current bias in EU incentives towards energy use. Incentives would be governed by a hierarchy of public benefit rather than by ad hoc requirements which have increased the use of unsustainable forms of bioenergy.

Such a framework would need to interact with the Renewable Energy Directive and any successors that may emerge but would extend to several other economic sectors as well. It

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<sup>3</sup> European Commission (2013) COMMISSION STAFF WORKING DOCUMENT European Commission guidance for the design of renewables support schemes Accompanying the document Communication from the Commission 'Delivering the internal market in electricity and making the most of public intervention', SWD(2013) 439 final

<sup>4</sup>ie biomass used for food, feed, energy and material purposes.

could create goals and rules which could be applied within national plans for energy post 2020 as part of the suggested new governance structure. Such measures cannot be purely voluntary if they are to be effective and to create a coherent European market. They will need to include a mandatory component. Indeed, it would probably be desirable for such a strategy to take the form of a bioresources directive.

This is an issue which needs to be included in the new climate and energy framework, that is intended to flow from the Communication. It is helpful that the Commission has flagged it up, but it needs more recognition as a strategic question with requires a substantive place in the policy panorama rather than appearing as a side issue.

## **8 TIMETABLE FOR DECISION-MAKING**

One argument for trying to adopt an (ambitious) EU 2030 climate and energy framework quite rapidly is the timetable for the international climate negotiations. If the EU was to agree on an ambitious post-2020 framework well ahead of the critical climate negotiations in Paris in 2015, it has been argued, this would be an important boost for the negotiations. It could trigger similar action from other key players in the negotiations. However, this argument has force only if the targets are truly ambitious and there is a credible commitment to delivering them. The swift adoption of a 40 per cent target would have a reasonable chance of securing some wider leverage over the next year or so, though the environmental community can only point out that European ambition should be stronger in the light of the scientific evidence.

At the same time, given current political conditions in many Member States, it is laudable that the Commission has resisted conceding to pressures for a lower, eg 35 per cent target. It is now absolutely clear that the level of ambition needs to be maintained through the upcoming discussions among European heads of state or government and the eventual legislative proposals by the Commission. The suggestions tabled on the 22 January already imply a significant weakening of the existing 2020-framework, given the loss of binding renewable targets and the absence of energy efficiency targets. Any further weakening of the emissions reduction target, either by an explicit cut on paper to eg 35 per cent or a *de facto* reduction by allowing the use of international flexibility mechanisms needs to be resisted all the more strongly, whatever the arguments for securing a quick decision.

The onus is now on Member States and the European Parliament to ensure the positive elements of the proposal are maintained and the weaker aspects strengthened. The Commission still has the chance to propose an ambitious energy efficiency target for 2030 that would go beyond the mainly business-as-usual improvements implied by the proposed new framework once it assesses the performance of the Energy Efficiency Directive later in the year. This opportunity should not be neglected.

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