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# A NEW WAVE OF EUROPEAN CLIMATE AND ENERGY POLICY

## TOWARDS A 2030 FRAMEWORK

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Design by Brian Martin, Creative Director, IIEA
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This content forms part of the Environment Nexus project, which is part-funded by DG Communication of the European Parliament.

EUROPEAN PARLIAMENT

# A NEW WAVE OF EUROPEAN CLIMATE AND ENERGY POLICY

## Towards a 2030 Framework

Gina Hanrahan

# 1. INTRODUCTION

In the heady days of 2007, when climate change was climbing the political and public agendas, EU leaders committed to the ambitious trio of 20-20-20 headline climate and energy targets, to be delivered by 2020. This political commitment, formalised in the 2008 Climate and Energy Package, was designed to have normative force and demonstrate the EU's climate leadership in the run up to the critical 2009 Copenhagen Conference.

Six years on, however, the landscape has changed dramatically. Political capital in Europe is consumed by the economic crisis and recovery efforts; climate has fallen down the list of political priorities globally; the Emissions Trading Scheme (ETS) – the EU's flagship climate protection instrument – is in turmoil; global investment in renewable energy fell in 2012; the unconventional oil and gas revolution in the US is driving a coal rush in Europe and casting EU high energy prices into sharp relief; momentum has not built around Carbon Capture and Storage (CCS) and there is a shortfall in delivering the EU's 2020 energy efficiency target.

Nevertheless, significant progress has been made in beginning the low carbon transformation of Europe's economy. Emission reductions are on track and the 2020 target looks set to be over-delivered, though much of this success is a result of economic stagnation. The rollout of renewable energy is also proceeding apace, aided by the decreasing cost of renewable technologies, which is in turn associated with economies of scale in Chinese manufacturing in particular. Member States have made a political commitment to 80-95% decarbonisation by 2050 and the European Commission's Low Carbon, Energy and Transport Roadmaps to 2050 have begun to articulate what is possible in this respect. Many Member States are also busy setting out decarbonisation agendas, with the German *Energiewende* perhaps the best-known example.

Certainly, the 2020 trio targets and their underpinning legislation have given impetus to many of the positive developments outlined above. But it is clear that there remain many stumbling blocks to achieving a secure, low carbon and competitive energy supply in Europe. It is against this complex, challenging, and oftentimes contradictory background that the EU is currently trying to decide what kind of climate and energy regime it wants and needs in the post-2020 period. Should it replicate the formula of the 2008 package to 2030 and beyond? Or are there other pathways that may prove more effective or politically palatable?

With a view to canvassing opinion on these questions, the European Commission launched a consultative Green Paper on a 2030 framework for climate and energy policies on 27 March 2013, which will run until 2 July 2013.[1] The consultation paper provides indications of the Commission's initial thinking on its 2030 approach. In parallel, the Commission launched a consultation on a 2015 international global agreement.[2] The two issues are clearly interlinked – thinking now about its internal approach post-2020 will help to inform its international negotiating stance and its influence on the UNFCCC process over the next three years.

There is widespread agreement that a 2030 framework is needed to ensure that Europe is on the required trajectory towards 80-95% decarbonisation by 2050, including total power sector decarbonisation. Regulatory certainty is required to incentivise the major infrastructural investment in generation, transmission, distribution, smart grids and storage that will be required to put Europe on a cost-effective path to 2050.

1 European Commission Green Paper, A 2030 Framework for Climate and Energy, COM/2013/0169
2 European Commission, The 2015 International Climate Change Agreement: shaping international climate policy beyond 2020, SWD/2013/97

Notwithstanding consensus on the *need* for a 2030 framework, there is much debate about what it should look like. This debate is in full swing in Brussels and across the EU capitals as Member States, energy companies, NGOs, lobby groups, and market players expend enormous efforts trying to shape the terms of the post-2020 agenda.

This paper attempts to provide an understanding of the current debates and to illuminate the key challenges in designing a new wave of European climate policy. It will first set out the current EU energy and climate framework and discuss progress made to date. Second, it will outline and analyse a range of key challenges in the design of the 2030 framework, including: target setting to 2030; balancing the national and European dimensions; getting the best outcome from a competitiveness point of view; enhancing energy security; preparing the EU position for a 2015 deal; achieving policy coherence and a well-functioning ETS; and getting the politics right. Finally, it will draw some brief conclusions.

## 2. THE CURRENT EU CLIMATE AND ENERGY FRAMEWORK

The development of the EU climate and energy regime has been driven by two key approaches. The first concentrates on setting targets as a mechanism to drive change, underpinned by a variety of instruments, and has as its flagship project the 2008 Climate and Energy Package. The second is rooted in the wider single market agenda of promoting competition and limiting state intervention in the market, and has at its core the Internal Energy Market, underpinned by a series of legislative packages since 1996. Albert Bressand of Clingendael argues that these two approaches, often seen as complementary, amount to two contrasting political and economic "philosophies."[3]

The EU's current climate and energy regime is tripartite in structure. It comprises three high-level targets to 2020:

- 20% greenhouse gas reduction target (compared to a 1990 baseline);
- 20% renewable energy penetration target (including a 10% sub-target for transport);
- 20% energy savings target.

The 20-20-20 targets arose from a political commitment made in 2007 by EU leaders during the German EU Presidency. This commitment was subsequently transposed into legislation in what has come to be known as the EU Climate and Energy Package.

The Package consists of a set of supporting legislative targets and instruments that underpin the headline targets.[4] These include:

- A reformed EU Emissions Trading Scheme (ETS);
- Differentiated binding national targets for non-ETS emissions reduction under the Effort Sharing Decision, based on relative GDP;
- Differentiated binding national targets for renewables penetration, under the Renewable Energy Directive, reflecting relative starting points and potential.

The energy savings target is not dealt with in the original legislative package, as the target is non-binding, unlike the emissions and renewables targets. This omission has been partially addressed by the 2012 Energy Efficiency Directive, which focuses on binding measures rather than on binding targets *per se*.

3 Albert Bressand, *The Changed Geopolitics of Energy and Climate and the Challenge for Europe*, Clingendael, 2012
4 For a list of implementing instruments and policies across all targets, see the Annex to the European Commission Green Paper, p15

The Directive was agreed after it became clear that progress towards the energy efficiency goal lagged behind progress on the renewables and climate targets. The sum of measures contained in the Energy Efficiency Directive is expected to yield a 17% reduction in energy use by 2020 – 3% short of the original headline target. By contrast, the renewables and emissions targets look set to be delivered, though progress is patchy across Member States and certain countries have not met interim targets. Several countries will have to redouble efforts to close distances to target to 2020. Ireland is one of the group of countries that has a gap to close on both climate and renewables targets.[5]

The Internal Energy Market is the other side of the energy policy coin. It was designed primarily to lower prices and drive innovation by spurring competition and providing access to markets of scale, though its goals have evolved over time to include decarbonisation and energy security.[6] It has been implemented through a series of legislative packages: the first in 1996/98, the second in 2003 and the third in 2009.

The development of the Internal Energy Market has concentrated on spurring new market entrants, enabling consumer choice of energy supplier, unbundling generation, transmission, distribution and supply, ensuring the independence of and cooperation between national regulators, developing network codes and accelerating investments in strategic infrastructure (including across borders). In 2009, EU leaders committed to completion of the Internal Energy Market by 2014. While progress has been made, there is still some way to go to open up and integrate Europe's energy markets to deliver this goal and the infrastructure to underpin it.

Though Bressand argues that there are contrasting philosophies at play in European climate and energy policy, the Internal Energy Market should not be seen as divorced from the 2008 package. If decarbonisation is going to happen in a cost-competitive way that sees best use of resources across Europe and integrated European infrastructure and markets, then the Internal Energy Market will be key. It delivers "clear added value in pulling Member States' energy policies together and creating efficient and secure energy systems transcending national borders."[7]

However, as the Commission emphasised in its 2012 Communication, *Making the Internal Energy Market Work,* the market is not functioning as effectively as it should be in its interaction with Europe's climate and energy targets. For instance, there are multifarious national support schemes for renewable energy, which have not always evolved to reflect the maturity of technologies or changing market dynamics. This risks increasing the cost of the transition. Certain nationally oriented policies designed to support Member State decarbonisation (such as capacity markets) also risk undermining the Internal Energy Market and distorting investment signals, according to the Commission, though a number of Member States see them as necessary as energy-only markets may be insufficient to deliver security of supply.[8] Perhaps most importantly, the main pan-European market-based climate instrument – the ETS – is in crisis following the European Parliament's failure to support the European Commission's backloading proposal in April 2013.

5 From *Background information on energy and climate issues* (Annex to European Commission College Orientation Debate), 2013. Statistics derived from COM/201/626 and Eurostat figures June 2012.

6 European Commission Communication, *Making the Internal Energy Market Work*, COM/2012/0163

7 Ibid

8 Malcolm Keay has an interesting discussion of capacity payments, energy only markets and the EU Target Model in a recent paper. He argues that the EU Target Model as currently understood by the Commission is unfit for purpose, particularly with respect to decarbonisation, which is manifest in the its negative attitude to capacity mechanisms. See Malcolm Keay, *The EU 'Target Model' for electricity markets: fit for purpose?* Oxford Energy Comment, 2013, available at: https://www.oxfordenergy.org/2013/05/the-eu-target-model-for-electricity-markets-fit-for-purpose/

The system as it is currently designed has proved insufficiently robust to cope with the vagaries of economic turmoil and political uncertainty about the climate regime. The ETS is suffering from a major overhang of allowances, principally due to the economic crisis, but also to a range of other factors, including the inflow of Clean Development Mechanism credits, legacy credits from Phase II of the ETS and policy overlap. Combined with regulatory uncertainty and mixed political signals, which have undermined confidence in the system, this has led to a fall in the carbon price from approximately €20/tonne to below €3/tonne in the wake of the recent European Parliament vote; a price from which many analysts say it is unlikely to significantly recover in the absence of major changes.[9]

While many commentators argue that the market is functioning just as it should be, because it is delivering the required emissions reduction under the cap at least cost, the abnormal level of market volatility in 2013 may belie this assumption. Not only is a low carbon price and volatility a problem from the point of view of driving green investment, it is also leading to significant discrepancies between the ETS price signal and the price of carbon in the non-ETS sector, where, for instance, Ireland has introduced a carbon tax at €20/tonne. In its current state of flux, the ETS can be seen as an inadequate tool to drive Europe's decarbonisation agenda.

Bolstering the ETS and achieving the appropriate balance between national and European policies are clearly central imperatives both in the short-term and after 2020. But what are the other key challenges that have to be addressed in the debate around a 2030 framework? The following section discusses these and five related challenges.

## 3. KEY CHALLENGES

### 3.1. TARGET SETTING TO 2030

The first and perhaps most contested issue under discussion is what kind of target regime is appropriate to 2030 – how many targets should Europe have and at what level should they be applied?

The Commission Green Paper is strongly supportive of the principle of an emissions target for 2030 and of a target of 40%, which is consistent with the findings of the Low Carbon and Energy Roadmaps 2050.[10]

It is more circumspect about a renewables target for 2030, mindful of the need to minimise negative price and internal market impacts and reflect the state of maturity of renewables technologies. Therefore, it argues that a renewables target would have to be "carefully considered."[11] The Green Paper also raises the possibility of an increased renewables share being driven by the ETS and regulatory measures rather than a target, or by various sub-targets for renewable energy in agriculture, transport and industry. Sub-targets could be excessively complex, but may be of benefit for underperforming areas – progress has been slow on heating, for instance, which, unlike transport, did not have a binding target to 2020.

The Commission is not pushing for an energy savings target at this point, ostensibly because the 2012 Energy Efficiency Directive has just come into force

9 EU climate policy in crisis after ETS rejection, *European Voice*, 16 April 2013, available at: http://www.europeanvoice.com/article/2013/april/eu-climate-policy-in-crisis-after-ets-rejection/76969.aspx

10 European Commission Green Paper, p8

11 Ibid, p8

and a review will not be carried out until 2014. This may well be a response to the political difficulties in reaching agreement on the Energy Efficiency Directive last year, which are still fresh in the minds of Europe's lawmakers. It may also reflect the strong aversion to anything that could even be interpreted as constraining economic growth in the short term. To address this latter challenge, the Green Paper raises the possibility of introducing an energy intensity target (relative to GDP) rather than an absolute target. The Green Paper is agnostic on the question of whether the current savings regime – centred on an aspirational target but with binding measures – should continue to 2030 or whether it should be replaced with a binding target, with more flexible implementation.

Stakeholders are divided on the target regime. Those in favour of a three-target approach include many environment and development NGOs who have called for the existing trio approach to be strengthened with a binding energy savings target, given that binding targets have proved more effective than non-binding targets in delivering the 2020 goals.[12] They also argue that a single emissions target would lead to the substitution of coal with gas, nuclear and CCS, rather than renewables, which they see as a second-best strategy because of the risks of high-carbon lock-in. However, this position risks making the perfect the enemy of the good, especially considering that these fuels and technologies are seen as part of the mix in most scenarios in the Energy Roadmap 2050. The renewables and energy efficiency industries also have a strong preference for ambitious and binding renewables and efficiency targets to 2030,[13] which they argue are needed as market signals to drive continued growth and innovation in the sectors.

Those advocating a single emissions target argue that it would be technology neutral, Internal Energy Market compatible and would deliver decarbonisation at least cost. For instance, EURELECTRIC, the power industry association, supports a single target with the ETS as the central instrument for delivery, supplemented by additional policies only where the carbon market is not delivering in the short-term.[14] For many critics, the current 2020 regime has incentivised the deployment of more expensive, less market-ready renewable technologies over more cost effective, easily available approaches such as fuel switching.

Because of the political signal that targets deliver, much of this debate is focussed on whether Europe should have one, two or three targets. It is easy to lose sight, however, of the fact that targets are effectively meaningless without some form of underpinning instrument. And at present, the flagship instrument for delivering emissions reduction is the crisis-stricken ETS. In the absence of a robust ETS, a single emissions target approach could struggle.

The ETS crisis begs the question whether Europe needs to place greater emphasis on other instruments post-2020, not least because the emissions that Europe

12 Friends of the Earth, Climate Action Network, E3G, Oxfam, Greenpeace and WWF: https://www.foeeurope.org/sites/default/files/foee_cane_letter_2030_commission_december_2012.pdf, https://www.foeeurope.org/sites/default/files/a_new_climate_and_energy_package_2030_-_280113.pdf. A binding target for renewables has in the past driven much greater growth in the renewables industry than an approach with either an indicative target or no target at all. Before an indicative target was introduced in 2001, the share of renewable energy in Europe was growing at a rate of 1.9% per annum. With the advent of indicative targets, this share rose to 4.5% per annum. The rate of growth has increased since targets became binding, but it will need to rise to 6.3% annually to meet the 2020 targets; and this is to say nothing of going above and beyond those targets after 2020. See the European Commission Green Paper, p4

13 EWEA believes this is the implied preference of the Impact Assessment accompanying the Commission's 2012 Renewables Communication: *Renewable Energy: A Major Player in the Internal Energy Market*, COM/2012/0271. Impact Assessment, SWD/2012/0149

14 Jessie Scott, Eurelectric, Vieuws interview, 2012, available at: http://www.vieuws.eu/environment/jesse-scott-eurelectric-on-the-eu-emissions-trading-scheme/

has reduced to date have been driven primarily by economic contraction. Could Europe place more emphasis on other complementary approaches such as carbon taxation to drive low carbon innovation? Realistically, the scope for doing so might be limited given that the necessary consensus on taxation has historically proved politically difficult to achieve. Certainly, environmental regulation, which Europe has traditionally excelled in, is continuing to deliver in many sectors, such as transport and the built environment. Emissions performance standards for the power generation sector might be a useful instrument to drive low-carbon innovation, but they do not afford the flexibility of the ETS.

### 3.2. BALANCING THE NATIONAL AND THE EUROPEAN DIMENSIONS

The second issue that the 2030 framework will have to address is the tension referred to previously between a re-nationalisation of energy policy and protecting the integrity of the Internal Energy Market.

This tension is not a new one and arises from what Bressand argues is an early design flaw in the EU Treaties – "the original agreement deliberately restricts free investment flows that would not conform to each country's list of acceptable energy mix technologies."[15] Mindful of this national competency, the original Climate and Energy Package left significant leeway to Member States to decide on how they would implement the headline targets.

This has meant numerous policy instruments and support schemes for renewable energy across the 27 Member States, creating barriers to cross-border operation, as well as a tendency to introduce unilateral domestic decarbonisation strategies, which could risk fragmenting the Internal Energy Market. For instance, Germany's initially unilateral approach to its *Energiewende* has been criticised for its failure to consult with neighbouring countries and its negative impacts on them. The proposed UK electricity market reforms, including Contracts for Difference (CfDs), capacity markets and a carbon floor price, also present challenges from an Internal Energy Market perspective, not least because they mark a return to government rather than the market at the heart of energy policy in Europe. Indeed, a recent Oxford Energy Studies Institute paper by Malcolm Keay argues that there may be a "fundamental clash between liberalisation and decarbonisation agendas in the EU" and argues that the UK approach is "effectively subordinating liberalisation to environmental concerns, accepting a considerable degree of government intervention and a reduction in the role of market forces..." [16]

While energy mix competencies in the EU Treaties have been a driver of this trend, re-nationalisation of energy policies has also been prompted by policy uncertainty at EU level and weak policy instruments. It could be further exacerbated by the crisis in the ETS, as Member States take unilateral action to compensate for weaknesses in European policies and instruments. Clear, coordinated thinking on a 2030 climate and energy framework, and an ETS solution, will therefore be important in helping to lessen this tension in future.

In terms of target setting and the division between national competency and a European energy market, a single emissions target has the benefit of being

15 Bressand, op. cit.

16 Malcolm Keay, *UK Electricity Market Reform and the EU,* Oxford Energy Comment, 2013. Available at: http://www.oxfordenergy.org/2013/03/uk-electricity-market-reform-and-the-eu/

technology neutral – leaving the fuel mix entirely open at an individual Member State level, which is compatible with the right to national determination of the fuel mix. It also avoids any criticism that the EU may be picking technology winners in the energy transition. At the same time, the principle of a renewable energy target limiting the national choice of fuel mix has already been conceded in the 2020 package, so a renewables target for 2030 would simply continue the current approach.

A single emissions target, underpinned by effective instruments, would also be highly compatible with the Internal Energy Market because decarbonisation would be driven primarily by effective carbon pricing rather than by national supports schemes for renewables or by nationally-oriented attempts to bolster the carbon price (though a major prerequisite here is achieving effective carbon pricing). On the other hand, a renewables target could be more compatible with the Internal Energy Market if it is underpinned by increasing convergence of national support schemes, focusing on commonality in the *principles* underlying support rather than on the *level* of support (much like the CCCTB concentrates on the common principles for calculating the tax base rather than on the rates of tax in any given country). This may be politically and technically more achievable than full harmonisation of support. The Commission has suggested that more coordinated support could take the form of "EU guidelines on financial support, common cost methodologies, as well as further operationalization of the cooperation mechanisms established by the RES directive."[17] On the latter point, renewable energy trading between Member States, which has been underexploited in Member State efforts to meet 2020 targets, would be an example of enhanced compatibility between a renewables target and the Internal Energy Market.[18]

### 3.3. GETTING THE BEST OUTCOME FROM A COMPETITIVENESS POINT OF VIEW

A third challenge for the 2030 package is how to ensure the best outcome from a competitiveness point of view and how to minimise price impacts for domestic consumers. This is no small issue, particularly as the energy competitiveness gap between Europe and the US is widening as a result of the US unconventional gas revolution. In 2012, industry gas prices in Europe were four times higher than in the US. Similarly, real electricity prices for industry in Europe increased by 38% between 2005 and 2012, whereas they decreased in real terms in the US by 4%.[19]

Certainly, competitiveness concerns amongst certain energy-intensive industries (such as chemicals) have been loudly voiced by powerful lobby groups, including Business Europe, who have criticised the Roadmaps' "unrealistic decarbonisation timescale that Europe cannot afford."[20] These concerns have weighed heavily on the minds of Europe's leaders, such that energy competitiveness featured on the agenda of the May 2013 European Council. They also played arguably the most critical role in convincing many MEPs to vote against the ETS backloading proposal in April 2013. Thus, any politically acceptable 2030 framework will realistically have to address the competiveness issue.

17 Renewables Communication, Impact Assessment, op cit. p 22

18 To date, cooperation mechanisms under the Renewable Energy Directive have not been widely exploited. Only a few member states have indicated that they will use cooperation mechanisms to meet their 2020 targets (LU and IT). The Commission is due to issue guidelines on renewable trading in 2013.

19 European Commission Green Paper, op cit. p10

20 *Business as Usual is not an Option*, Business Europe, 27 March 2013: available at: http://62.102.106.140/docs/1/EDAEEMECOCHNOPJPMECBDPNHPDW69DB6269LTE4Q/UNICE/docs/DLS/2013-00353-E.pdf

If European energy prices are high, the argument goes, energy-intensive industries will simply relocate to lower cost countries, leading to carbon leakage and net economic losses for Europe. But are these risks overstated when the price of carbon in Europe is languishing at €3 per tonne and there is little evidence of industries departing for cheaper energy regimes or of damage to Europe's export market share?

One way or another, European consumers and businesses are undeniably facing mounting energy costs, to which national support schemes for renewables are contributing (amongst a whole range of factors). After 2030, rising costs are particularly evident in a high renewables scenario, begging the question whether the focus on a 2030 time horizon is sufficiently long-term. Achieving more cost effective and dynamic support regimes for renewables, which reflect (often rapidly) decreasing costs as technologies mature towards grid parity, will be important in boosting energy competitiveness. Making good on energy efficiency ambition will also be critical as prices rise, given that the cheapest energy is the energy that is never used.

Energy prices are not the whole picture, however. Concerns about the downsides of mounting prices need to be balanced with the important benefits that decarbonisation strategies can bring, such as green comparative advantage, technology leadership, job creation and industrial growth in the renewables and energy efficiency sectors. The jobs and growth benefits of strong renewables and efficiency policies have been well rehearsed and there is much debate underway about whether one, two or three targets will be best from this perspective.[21] But it is the policies chosen (support schemes, R&D and innovation strategies and so forth) as much as the headline targets set, that can realise these benefits.

## 3.4. ENHANCING ENERGY SECURITY

A fourth challenge that will have to be addressed is enhancing energy security. At present, Europe is the world's biggest energy importer, importing more than 54% of its energy needs in 2011 and its dependency could grow as high as 70% by 2030. In 2011, oil imports alone reached US$488 billion.[22] Not only is the Union relying on foreign countries for much of its energy needs, it's relying on a very small set of countries: for instance, Russia, Norway and Algeria together account for 85% of natural gas imports, and 50% of crude oil imports. Security of supply is particularly precarious when imports are concentrated on such few countries. And the weak diversity of energy sources also presents external relations headaches for the Union, particularly where it is reliant on politically unstable or undemocratic regimes for its fossil fuel supply.

Achieving better functioning, more integrated markets, using less energy and developing more indigenous European resources can greatly contribute to energy security. Exploiting remaining European fossil fuel supplies, including shale

21 A single emissions target approach, underpinned by a carbon price, would privilege cheaper technologies that are closer to deployment over technologies that are not yet competitive or market-ready. This could hamper long-term innovation, which is problematic if Europe wants to continue to exert technology leadership vis a vis other regions. In terms of green industrial development, a binding target has historically driven greater growth in the industry than an indicative target. Whether maturing technologies will need a strong target and support schemes to drive continued growth in the sector after that point is an open question, however. On job creation, the potential of energy efficiency and renewables development is well established (on the former see for instance http://www.iea.org/publications/insights/ee_improvements.pdf). But whether they need headline targets or just effective and targeted policies is a matter of debate. See the Renewables Communication Impact Assessment for an analysis of the economic impacts of various scenarios.

22 International Energy Agency, Europe's oil bill is set to reach US$500 billion in 2012, available at: http://www.iea.org/newsroomandevents/news/2012/may/name,27221,en.html

gas, will be important according to the Commission's consultation paper.[23] But Europe is richer in renewable potential than in conventional resources. Thus, in practice, developing indigenous resources primarily means more renewables.

From the perspective of energy security, a trio approach may be preferable to a single emissions target. Indeed, the Commission has said that "promoting strong action to develop renewables and energy efficiency…would lead to relatively greater reduction in expenditure on fossil fuel imports."[24] Moreover, it suggests that an emission target only approach would not offer as many incentives to diversify the source of energy supply. As energy security "depends on the domestic sourcing of renewable energy inputs and on the mastery of associated technologies," a strong trio framework may be preferable.

At the same time, promoting high levels of renewables raises issues around generation adequacy and security of electricity supply, which is another dimension of energy security. Integrating intermittent renewables at scale requires flexibility and back-up capacity. Whether the market alone can deliver the required incentives to ensure security of supply remains an open question, with some Member States already implementing or designing domestic capacity mechanisms to ensure a robust and secure electricity system. Concerned to ensure that any such interventions do not undermine the Internal Energy Market, the European Commission held a consultation on generation adequacy and security of supply in early 2013, the outcome of which will feed into wider discussions on energy security in the context of the 2030 framework.

### 3.5. PREPARING THE EU POSITION FOR A 2015 GLOBAL DEAL

A fifth challenge is balancing the inward-facing negotiations on 2030 with the EU's outward-facing negotiations on a 2015 global deal.

In the international arena, work is underway towards agreement on a global climate deal in 2015, to come into force in 2020, under the Durban Platform for Enhanced Action. Given the post-2020 time horizon of a potential deal, it is necessary to understand what is economically feasible and politically palatable from a European perspective. The 2050 Low Carbon and Energy Roadmaps have already begun this process, though without choosing between alternative pathways to 2050.

The current 2030 discussions are a further step in this process and are designed to help the EU to define its own level of ambition before it reaches the negotiating table in 2015. According to Climate Action Commissioner, Connie Hedegaard, "it would be a mistake to wait till after that and arrive to the international negotiations empty handed."[25] Europe must strike a delicate diplomatic balance, however, between arriving empty-handed and showing its hand too soon. While indications suggest that Europe has learned the lessons of its normative approach to the Copenhagen Conference and has become far more politically astute in how it engages in the UNFCCC process,[26] exercising moral authority and remaining relevant will be a key challenge.

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23 European Commission Green Paper, op. cit., p 10

24 Renewables Communication Impact Assessment, op. cit., p24

25 John Parnell, *Why the EU's 2030 climate targets matter beyond Brussels*, 2013, available at: http://www.rtcc.org/why-the-eus-2030-climate-targets-matter-beyond-brussels/

26 See Joseph Curtin, *The Copenhagen Conference: how should the EU respond*, 2009, available here http://www.iiea.com/publications/the-copengahen-conference-how-should-the-eu-respond and Joseph Curtin, *Art of the possible: the outcome of the Durban climate negotiations*, 2011, available here: http://www.iiea.com/blogosphere/art-of-the-possible-the-outcome-of-the-durban-climate-negotiations

Added to this challenge is the fact that Europe's credibility as a climate leader is currently at stake in the debate around the ETS. If Europe is perceived as unable to get its own house in order, its influence in the UNFCCC system may well be significantly diminished. And from a practical point of view, attempts to link other emissions trading schemes with the EU ETS will flounder if the ETS is not providing a clear price signal.

Should the 2015 process end in disappointment, the EU may also have to consider the competitiveness impacts of its potentially higher-cost decarbonisation strategy against the tangible emissions benefits it delivers on a global scale. After all, its current total emissions are a drop in the ocean in global terms. Will the Union do the "right" thing regardless of the overall emissions impact? Or perhaps the green growth and energy security imperatives will be strong enough to drive Europe's energy transition irrespective of whether a deal is done at COP 21 in Paris in 2015?

## 3.6. ENHANCING POLICY COHERENCE AND BOLSTERING THE ETS

The sixth challenge that the framework will have to address is how to enhance policy coherence, and particularly to limit the overlap between the three targets and their underpinning instruments.

Such overlap has regularly been cited as a contributory factor to the oversupply of allowances (and associated depressed carbon price) in the ETS. Where renewables or efficiency measures reduce overall emissions, or move emissions between ETS and non-ETS sectors, it is argued that demand for allowances is reduced and the ETS cap is essentially cannibalised.

Concerns were loudly voiced during discussions on the 2012 Energy Efficiency Directive that it would damage the already fragile ETS. However, a recent report for the European Parliament's ITRE Committee by CEPS-HINICIO-LBST found limited interactions between energy efficiency policies and oversupply of allowances, as the Directive aims at the 60% of emissions not covered by the ETS. By contrast, the report found some overlap between the EU's renewable energy targets and the ETS, as they are both targeted at the power sector (though it sees the economic crisis as the primary driver of the allowances overhang, with an important role also for the flood of CDM credits).[27]

Accordingly, a single emissions target would be optimal from the perspective of policy coherence and ETS functioning, while an emissions target supplemented by an efficiency target would be preferable to a trio approach with a renewables target.

But as the CEPS-HINICIO-LBST report stresses, it is not targets that are the problem *per se*, but rather the policies that underpin them. So renewables subsidies, for instance, create an implicit carbon price far higher than the explicit carbon price in the ETS. In Italy, this has resulted in implicit carbon prices of €235/ton for wind and €141/ton for green certificates in 2012.[28]

27 Altmann et al, *Energy Efficiency and the ETS*, 2013, available at: http://www.europarl.europa.eu/committees/en/itre/studiesdownload.html?languageDocument=EN&file=83590

28 ENEL, cited in Andrei Marcu, *CEPS Carbon Market Forum submission on the Consultation on Structural Options to Reform the EU Emissions Trading Scheme*, February 2013, p8, available at: http://www.ceps.eu/files/CMFSubmissionEUETS.pdf

As the complex interplay between multiple targets and instruments has exacerbated the ETS difficulties, achieving greater coherence will be critical if cap and trade is to remain the central pillar of EU climate policy post-2020.

One suggestion has been to continue with three targets but to ensure that the energy efficiency and renewable energy targets add up to the overall emissions target. This would, however, require perfect design foresight. A more practicable suggestion is for dynamic supply-side adjustment of the ETS to take account of the impact of other policies, as advocated in the recent CEPS-HINICIO-LBST study.[29] This would go a long way to enhancing the system's robustness.

The European Commission has also suggested a number of long-term reform measures in its 2012 Carbon Market Report, which are still under discussion and will be given renewed urgency by the ETS vote. These include an increase of the emissions target to 30%, a permanent set aside of allowances, a steeper annual emission reduction; the inclusion of more sectors within the ETS; limiting access to international offsets and the introduction of discretionary price management mechanisms.[30] However, the Consultation on structural reform has already revealed divergent views amongst stakeholders, which presents further challenges for the Commission in terms of ensuring a functioning system and a stable carbon price long term.

### 3.7. GETTING THE POLITICS RIGHT

This leads into the final challenge in the 2030 debate – getting the politics right. If the ETS debacle is anything to go by, this might be the biggest challenge.

At the moment, the politics around the ETS reform do not generate confidence that even a long-term solution will be achieved. Though the European Commission has been pushing to have its backloading proposal implemented since summer 2012, Parliament has pulled in the opposite direction, which culminated in the vote against the proposal on 16 April 2013.[31] And its internal committees have also pulled in opposite directions with ITRE rejecting the proposal, whilst ENVI, the lead committee, supported it. Of course, the Parliament's vote in itself should not be seen as portentous for European climate policy. Indeed, it voted in favour of a three target approach in its plenary vote on 14 March 2013, called for the "successful" renewables target to be prolonged to 2030 and asked the Commission to explore a combined high renewables and high energy efficiency scenario towards 2050, boosting support for strong frameworks in both these areas.[32] However, according to *The Economist*, the ETS vote "sends a signal that Europeans are more concerned about the costs of [their] flagship policy than about its benefits."[33]

Member States have left responsibility firmly in the hands of MEPs in the wake of the April vote, indicating that it is up to Parliament to take the initiative.

29 Altmann et al, op. cit.

30 European Commission, The State of the *European Carbon Market in 2012*, available at: http://ec.europa.eu/clima/policies/ets/reform/index_en.htm

31 At the time of writing, the European Parliament's ENVI committee is scheduled to consider the issue again on 19 June 2013, ahead of another plenary vote in the first week of July.

32 European Parliament resolution on the Energy Roadmap 2050, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bTA%2bP7-TA-2013-0088%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN

33 The Economist, *ETS, RIP?* 20 April 2013, available at: http://www.economist.com/news/finance-and-economics/21576388-failure-reform-europes-carbon-market-will-reverberate-round-world-ets

However, many believe that a strong signal is needed first from Council if there is to be a different outcome in a future plenary vote. Amongst Member States, Poland has been vocal in its opposition to the ETS reform plan (echoing its strong stance on the Low Carbon and Energy 2050 Roadmaps), despite the support it received from many other countries, including Ireland, the UK and Denmark, amongst others.

Many Member States have not yet put their heads above the parapet on the specific issue of the 2030 framework, though it is understood that they are split broadly into two camps: those advocating a single emissions target, most notably the UK, which prefers a single target because of its nuclear expansion strategy, and those advocating at minimum a renewables target in addition, such as Denmark and France, reflecting the latter's pivot away from nuclear. Poland remains outside either fold. Its preference is to delay agreement on a 2030 framework until after a global deal is done in 2015. Often criticised as climate laggards, it must be recalled that for many central and eastern European Member States, 2030 is about economic growth and equity as much as it is about the environment. And these concerns will need to be addressed in a 2030 framework.

The split amongst Member States is mirrored in the Commission, with the present Industry and Budget Commissioners, Antonio Tajani and Janusz Lewandowski, apparently pushing out the timescale for any decision until the economic crisis abates, while the Energy Commissioner, Gunter Oettinger, and Climate Commissioner, Connie Hedegaard, are pushing for earlier and stronger action.[34] Certainly, given that climate action has been one of European Commission President, Jose Manuel Barroso's, flagship issues, he will want to leave some sort of climate and energy legacy from his second term of office. The intention is, therefore, to present a Commission communication on 2030 by the end of the 2013. Europe's leaders have indicated that they will return to the climate and energy framework in March 2014, at another thematic summit.[35]

However, the immediate political horizon suggests that a package is unlikely to be agreed until the next Commission/European Parliament mandate, given the evident divisions in the current institutional make-up. There is also a complex electoral landscape in 2013/14, which includes elections across a number of key Member States (including Germany) and European Parliament elections in 2014. Germany has been hesitant to take a leadership role in any discussion on climate in advance of the elections, in marked contrast to its central role in shepherding political agreement on 2020. Whether the current division between the German Environment and Economy Ministries on the ETS will continue to constrain its capacity to lead on European climate policy after the elections remains to be seen.

In any event, no agreement is likely to be reached while the economic situation continues to consume policymakers and until the international climate negotiations yield clearer signals about their likely success.

34 Commission to propose 2030 targets by year end, *European Voice*, 27 March 2013, available at: http://www.europeanvoice.com/article/2013/march/commission-to-propose-new-2030-climate-targets-by-year-end/76835.aspx

35 European Council conclusions, 22 May 2013, available at: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/137197.pdf, p3

## 4. CONCLUSION

The challenges set out above are by no means exhaustive – there are many other issues that EU policymakers will have to grapple with in the design of the 2030 climate and energy regime. They do give a flavour, however, of the sheer complexity and contestation involved in this debate.

The 2020 package, designed in a different time, was perhaps too easily achieved and too neatly packaged. The 2030 package is already proving to be an altogether messier affair. Achieving agreement between the different institutions in the current political environment will prove challenging, but achieving agreement amongst so many Member States, all with competing preferences and different natural resources, will prove even more so.

A possible key to unlock cooperation from all Member States may be the equitable distribution of the emissions reduction burden. This could take into account respective capacity and resources as well as GDP, by contrast to the 2020 emissions target, which bluntly dealt only in GDP. Achieving the fairest and most sensible distribution of the emissions reduction burden may require far more flexibility and trading between Member States than currently exists, however. In addition, funding mechanisms, either directly from MFF streams or through more innovative financing models, could be critical 'sweeteners' for hesitant countries such as Poland.

Unfortunately, there is no simple solution that will deliver what Europe needs, but rather a complex matrix of targets, instruments and objectives. There are many impulses at play in the discussion on climate and energy policy. The EU is not just trying to achieve decarbonisation at least cost. If it were, then a single emissions target underpinned by a robust ETS might be preferable. It is also trying to enhance energy security, achieve the best use of resources across the Union, deliver growth and jobs, and assert technology leadership, whilst staying competitive and respecting Member State control over the energy mix. This is an immensely difficult balancing act. Defining a hierarchy of priorities might go some way towards helping the Union to define its post-2020 regime.


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