



The European Commission 2030 framework for climate and energy policies: a step back?

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Summary

The European Commission has recently presented its new framework for climate and energy policies for the period 2020-30. The proposal comes during a time of increased concerns over the European economic competitiveness. Some of the measures required to reach the 2030 targets give the impression that the European Union is ready to give up its strict environmental policies. We argue that in order to reach these targets, something the European Union certainly fails to do with respect to the catchy 20-20-20 strategy, a substantial revision of the core elements of the 2030 strategy is required.

Introduction

With another UN Climate Summit looming in September 2014, the European Commission presented its framework for climate and energy policies for the period 2020-30 on January 22, 2014¹. In an attempt to regain its pioneering environmental role, despite rising CO₂ emissions in Europe, the Commission was trying to make a point with this new framework. Some of the central objectives raised by the Commission are to drop binding targets for energy efficiency, keep a 27 per cent share of renewables binding only at the EU level and to reduce CO₂ emissions by 40 per cent compared to 1990 levels by the year 2030. Different EU bodies are currently debating the Commission's suggestions and it is expected that a final agreement will be reached in autumn 2014 at the latest. Recent events in Ukraine have given the topic an entirely new urgency which adds a new twist to the decade old game between the Commission and the member states. This game consists of the Commission formulating ambitious targets, the member states, in the form of the European Council, agreeing to them, and the Council watering them down to a level where environmental ambition is hard to find. The Council meeting on March 20/21, 2014 however, seems to confirm the old gaps: some member states are devoted to serious efforts to increase the 'greening' of their energy production by investing billions into sustainability and renewables, while others follow a simple market principle, which today favors coal over gas and renewables. Those who expected the summit to lead to a greater unity in terms of energy supply security have every reason to be disappointed. Instead of focusing on a common program to reduce dependency, increase supply diversity and invest in cross-country infrastructure investment, the member states continue to 'talk united, but march separately'. Together with the economic crisis considerably slowing down energy consumption and the enormous shifts in the global gas market, triggered by the US shale gas revolution, the Commission's framework needs to be interpreted in a new light. How plausible are the Commission's arguments to focus on increasing energy competitiveness and how credible are its climate goals?

¹ European Commission (2014): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee of the Regions. COM(2014) 15 final.



Why change in policies is needed?

The majority of stakeholders agree that current policies are suboptimal in regulating the EU energy market. Whereas industry, for instance Business Europe² or Eurogas³, welcomes the Commission's framework which seems to leave more leeway for the member states and for industry, others suggest that much stricter regulations are needed. The European Parliament calls for a binding target for renewables of 30% and energy efficiency improvements of 40%⁴. A much more radical change for 2030 is proposed in a Greenpeace position paper, which demands a 55% target for CO2 emissions and a 45% target for renewables⁵. Giving up regulations completely, in particular efficiency targets, might make sense in a fully liberalized energy market – which the EU is still far away from achieving – because increased competition would force various energy sectors to develop energy efficient technologies. A premature deregulation though, might result in market failure carrying tremendous costs for consumers. However, the wide discrepancy across the suggested goals makes it necessary to look at each of the goals in more detail.

CO2 emissions target and the ETS reform

The Commission proposes to concentrate on one paramount goal: reducing CO2 emissions by 40% by 2030 and argues that this is the best solution because this policy drives increases in energy savings and shares of renewables⁶. This recommendation is justified by an increased flexibility for industry which allows member states to choose policies that are best suited for their respective energy market. Industry welcomes this simplification with a slight concern that the EU will become a “lone front-runner”⁷ ahead of the climate change negotiations in 2015 and that an agreement should be achieved only after the global negotiations. But instead of having protracted discussions about the exact target – be it 40 or 55% – the introduction of carbon pricing is the name of the game.

In the new 2030 framework, the Commission also calls for a reform of the EU Emission Trading System (ETS). The major problem of this until now ‘polluter-friendly’ system is the current oversupply of allowances – around 2 billion in 2013⁸ – due to a fixed supply system and low economic growth. The Commission thus suggests creating a market stability reserve in 2021⁹ to address the fixed supply of allowances. As soon as the total number of allowances in circulation is outside a certain predefined range (400-833 million of allowances), the reserve can adjust the

² In the position paper from February 24, 2014: <https://www.nho.no/siteassets/nhos-filer-og-bilder/filer-og-dokumenter/internasjonalt/nho-europanytt/businessseurope/20140227-businessseurope-innspill-til-2030-rammeverket-for-energi-og-klima-27.02.2014.pdf> Last access: 17.03.2014.

³ In the position paper from January 22, 2014: http://www.eurogas.org/uploads/media/Eurogas_Press_Release_-_Eurogas_2030_proposals_are_a_step_in_the_right_direction.pdf Last access: 17.03.2014.

⁴ European Parliament 2014: European Parliament resolution of 5 February 2014 on a 2030 framework for climate and energy policies. 2013/2135(INI). Available through: <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2014-0094&language=EN&ring=A7-2014-0047> Last Access: 12.03.2014.

⁵ Position paper from January 20, 2014: http://www.greenpeace.org/eu-unit/Global/eu-unit/reports-briefings/2014/Greenpeace_media_briefing_on_EU_Commission_2030_proposals.pdf Last access: 17.03.2014.

⁶ COM(2014) 15 final (page 4).

⁷ In the position paper from February 24, 2014: <https://www.nho.no/siteassets/nhos-filer-og-bilder/filer-og-dokumenter/internasjonalt/nho-europanytt/businessseurope/20140227-businessseurope-innspill-til-2030-rammeverket-for-energi-og-klima-27.02.2014.pdf> Last access: 17.03.2014.

⁸ According to the European Commission: http://ec.europa.eu/clima/policies/ets/reform/index_en.htm Last access: 17.03.2014.

⁹ COM(2014) 15 final (page 12). For the legislative proposal see COM(2014) 20. Accessible: http://ec.europa.eu/clima/policies/ets/reform/docs/com_2014_20_en.pdf Last access: 10.03.2014.



annual auction volumes by adding or releasing allowances from future auction volumes. The mechanism of this reserve then would come close to a carbon tax.

This reform, which is hardly discussed in the media as opposed to the CO₂ emission target, is actually much more relevant than the CO₂ emission target and will be crucial for the future development of the European climate and energy policies. But instead of a predefined range of allowances, the decision concerning the amount of allowances should be left completely to the discretion of the ETS reserve which should function similarly to an independent central bank, with an objective to prevent an oversupply of allowances. Moreover, this reform should be applied much sooner than 2021 in order to set long-term policies and incentives to reduce CO₂.

How realistic are such recommendations? Except for Poland, who allegedly was already traumatized by the 2020 goals¹⁰, the majority of the EU members seem to support the 40% target. However, there is less clarity about the positions regarding the ETS reform¹¹ and its specifics¹². To a certain degree the problem of oversupply was addressed by postponing the auctioning of 900 million of allowances until 2019-2020¹³ stipulated in the Regulation 176/2014 from February 2014 (the so-called “back-loading”). This measure however, still leaves an oversupply of around one billion allowances during the 2013 to 2019/2020 period. Thus a substantial reform remains necessary and urgent.

Renewables target

Considered by some as the “most visible environmental achievement”¹⁴ the target on renewables is proposed to be kept non-binding at the level of 27%, moreover, subsidies for renewables are suggested to be phased out between 2020 and 2030¹⁵. Some parts of industry welcome this “technology-neutral” approach¹⁶. This approach was lobbied for and preferred by the UK which has one of the lowest shares (in 2012 only 4.2%) of renewables in European comparison (see figure 1). France, Germany, Italy and some other member states are calling for binding renewable targets¹⁷. It is obvious that countries who have invested heavily in renewable energy technology during the last years (and created thousands of jobs thereby) want a binding target to secure future investments to support this sector. On the other hand it is also clear that e.g. UK, Malta and Luxemburg will have to undergo significant structural changes to come close to the 20 percent share by 2020.

¹⁰ According to Katarzyna Reiter – member of the Polish environmental ministry team during the Polish EU Presidency: <http://www.euractiv.com/energy/uk-energy-minister-tells-tory-cl-news-533920> Last access: 17.03.2014.

¹¹ An overview of position papers on the auction time profile for the EU ETS to infer certain positions is available through: http://ec.europa.eu/clima/consultations/articles/0016_en.htm Last access: 17.03.2014.

¹² For a good overview of the process see a briefing by the International Emissions Trading Association: <http://www.ieta.org/assets/3-Minute-Briefings/euets-update6november2013.pdf> Last access: 17.03.2014.

¹³ In the Commission’s regulation 175/2014. Available through: <http://new.eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0176&from=EN> Last access: 17.03.2014.

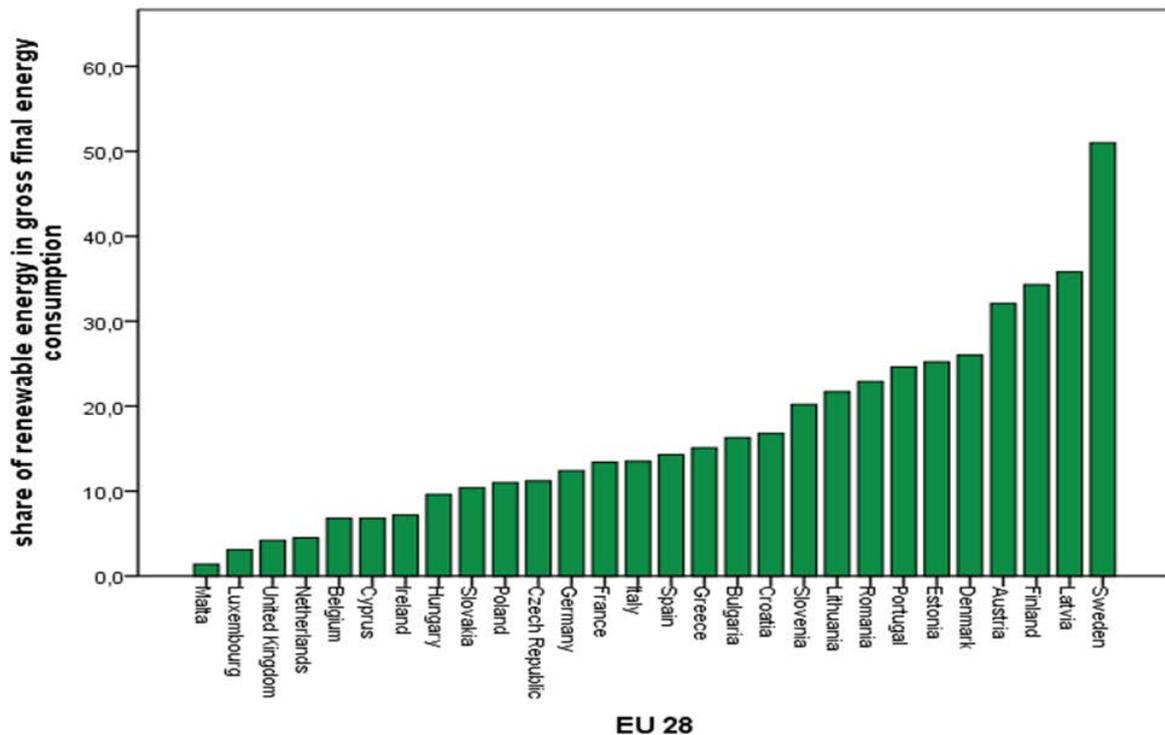
¹⁴ As for example mentioned by Financial Times: <http://www.ft.com/intl/cms/s/0/b7de8ac2-7b98-11e3-a2da-00144feabdc0.html#axzz2wETiuaNo> Last access: 17.03.2014.

¹⁵ COM(2014) 15 final (page 9).

¹⁶ In the position paper from January 22, 2014: http://www.eurogas.org/uploads/media/Eurogas_Press_Release_-_Eurogas_2030_proposals_are_a_step_in_the_right_direction.pdf Last access: 17.03.2014.

¹⁷ According to an article from Euractiv: <http://www.euractiv.com/energy/big-eu-guns-fire-crucial-2030-re-news-532608> Last access: 17.03.2014.

Figure 1 Share of renewables in 2012¹⁸



The major argument against renewables is that they are currently the most expensive way to reduce carbon emissions. Utilizing gas as a transition fuel could mitigate the situation. Given the current geopolitical insecurities surrounding Ukraine's position as an important gas transit country, and the resulting geopolitical shifts between the West and Russia an even higher dependence of Russian gas will be difficult to sell to the European public. However, in the short term there is no alternative to cheap Russian gas flowing through an existing pipeline network and a state driven gas industry willing to invest heavily in new projects such as South Stream.

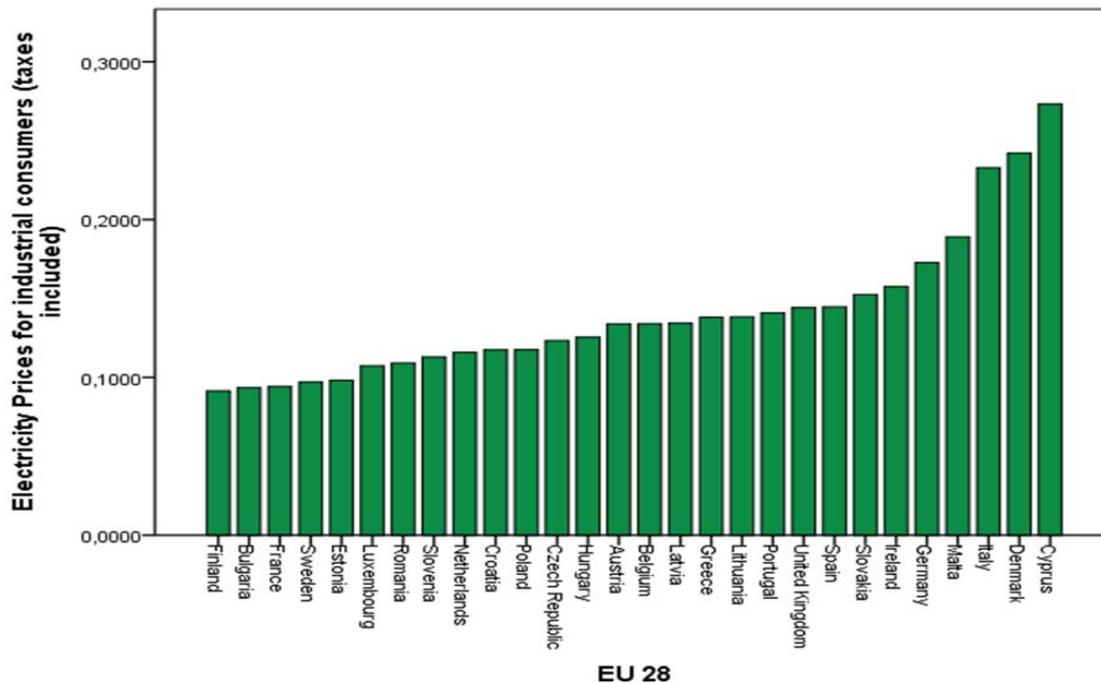
Moreover, the alleged economic inefficiency of renewables needs to be reconsidered too. Figure 1 and Figure 2 show that there is not necessarily any correlation to be seen between the share of renewables in a country and the prices of industrial consumers (however, here we do not adjust for subsidies that might be the cause of price differences). So for instance Sweden has high share of renewables but the lowest prices for industrial consumers; and Denmark has one of the highest shares of renewables but at the same time the highest prices for industrial consumers. The possible causes of this are easy to detect: Denmark (in its renewable energy mix) almost exclusively relies on expensive wind power¹⁹. Sweden almost exclusively relies on cheaper hydropower²⁰. Pursuing renewable targets is thus not necessarily economically inefficient, it depends on the member state's market and geographical conditions.

¹⁸ The data was obtained from Eurostat: <http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database> Last access: March 10, 2014.

¹⁹ Market overview in Denmark according to IRENA: https://www.irena.org/DocumentDownloads/Publications/GWEC_Denmark.pdf Last access: 19.03.2014.

²⁰ Policy overview according to EREC: http://www.erec.org/fileadmin/erec_docs/Proicet_Documents/RES2020/SWEDEN_RES_Policy_Review_Final.pdf Last access: 19.03.2014.

Figure 2 Industrial Consumer Electricity Prices²¹



Binding targets are an important signal for industry and trigger future investments to induce structural changes in the energy market. Without binding targets it will become more difficult to achieve the steady increases in the share of renewables. However, binding targets at the national level are politically not feasible; rather a binding 30% target at the European level should be introduced. This is also more than realistic since currently the EU has a 14.1% share of renewables at the European level²². Assuming a one percent increase every year the EU could reach a 30 per cent share by 2030.

Energy efficiency target

At the current stage the 2030 framework is the least specific about the energy efficiency target because the Commission is waiting for the evaluations of the Energy Efficiency Directive (2012/27/EU)²³ which are scheduled for June 30, 2014²⁴. Nonetheless, the Commission has realized that having an absolute target (to consume 1474 Mtoe in 2020) as it is set out in the current Directive 2012/27/EU does not make much sense given the strong influence of economic fluctuations on energy consumption²⁵. This can be clearly seen in Figure 3 which depicts the EU's primary energy consumption over the last 25 years.

The target could be achieved by chance if there is another economic downturn around 2020 or could be far away from the suggested value due to economic growth. A target which is less

²¹ Band IC: 500 MWh - 2000 MWh, Unit Kilowatt/hour. The data was obtained from Eurostat: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> Last access: March 10, 2014.

²² According to Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nrg_ind_335a&lang=de Last access: 19.03.2014.

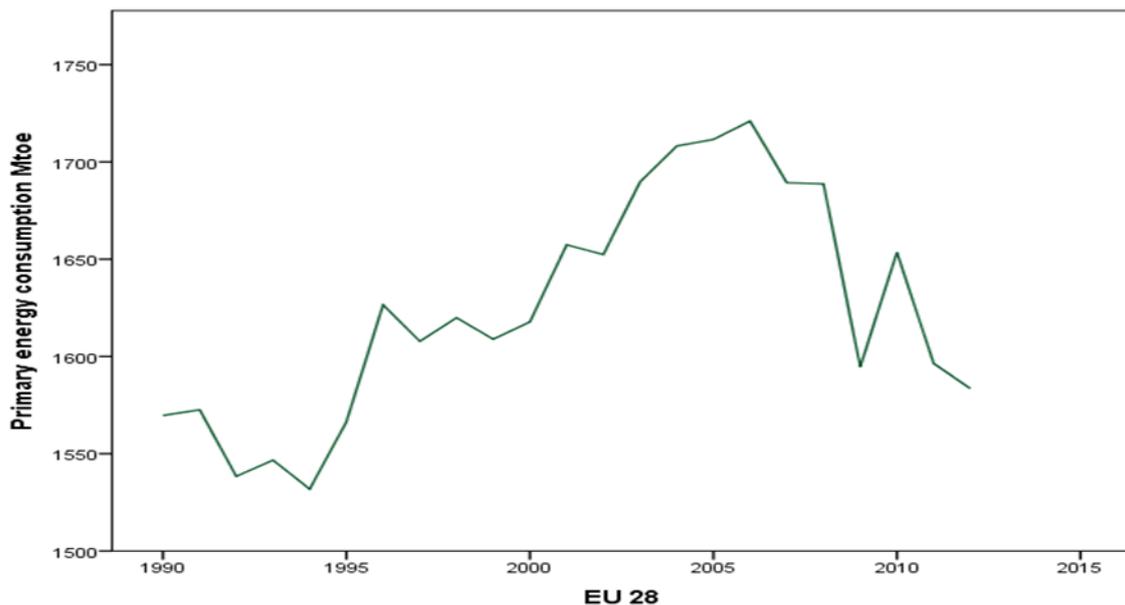
²³ Accessible through: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:315:0001:0056:EN:PDF> Last access: 19.03.2014.

²⁴ 2012/27/EU Article 3.

²⁵ COM(2014) 15 final (page 22).

sensitive to economic cycles would render the energy efficiency policy much more effective. For example, Japan has become the most successful country when it comes to increasing energy efficiency by applying sector specific goals. Formulating sector specific energy efficiency goals may increase the complexity of the policy and make oversight more difficult. However, since the Commission also discusses a new governance approach, overseeing sector specific energy efficiency achievements should become easier.

Figure 3 EU Primary Energy Consumption 1990-2012²⁶



Concluding Remarks

The past and the currently proposed climate and energy policies are casting doubts on their effectiveness. If the European Union does not want to give up a credible environmental policy, it should reconsider the current proposals. The following measures are suggested:

- A well-functioning Emission Trading System (ETS) market should be ensured;
- This would entail a reform of the current ETS sooner than 2021 (back-loading of auctions is not sufficient), moreover, the proposed ETS reserve should be politically independent and should have the discretion over the allowances supply;
- Additionally, the renewable energy target should be binding at the European level and should be raised to 30%;
- The energy efficiency goals should also remain binding until the European energy market is fully liberalized; moreover, energy efficiency targets should be sector specific (not the current absolute energy consumption target).

The Commission's idea that, in the future, member states should report comprehensive national plans²⁷ on renewable energy, energy efficiency and greenhouse gas reduction, and not separate

²⁶ Data obtained through: <http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database> Last access: 10.03.2014.



plans as it is currently the case (new governance structures), might help in implementing and overseeing these goals.

Policy Recommendations

1. In order to pursue environmental sustainability goals without trading off economic competitiveness, the European Commission should amend the currently purposed measures;
2. Most importantly, it should ensure a well-functioning Emission Trading System (ETS). Reform of the current ETS is necessary before 2021. The proposed ETS reserve should be politically independent and have discretion over the supply of allowances;
4. The renewable energy target should be binding at the European level and should be raised to 30 percent;
5. The energy efficiency goals should remain binding until the European energy market is fully liberalized. Energy efficiency targets should be sector specific.

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