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Re-designing the European Climate and Energy policies post-2020

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Ensuring the sustainability, security and cost-competitiveness of energy supplies for the EU citizens are the main objectives of the EU climate and energy policy, which remains high on the EU agenda. The next European legislature will have the difficult task to reconcile these different objectives into a comprehensive 2030 framework for climate and energy policies.

Taking into account the changing energy dynamics, this paper analyses thus the state of play of these objectives today in order to better understand how the 2030 framework for climate and energy policies should be designed.

Tackling climate change and building a 'European energy community' are among the most important challenges of the EU in the forthcoming years. As such, they clearly represent an important stake of the EU's new leaders as they take charge following the 2014 elections to the European Parliament.

So far, the EU is the only significant region of the world that has really tried to integrate its energy and climate policies. In 2009, it agreed upon the 2020 Climate and Energy package, which resulted in the so-called 20-20-20 targets on carbon emissions, renewable energy and energy efficiency. Building on the lessons learnt from the 2020 framework, the EU is now thinking about the next package post-2020. On 22 January 2014, the European Commission released the proposal on the 2030 framework for Climate and Energy Policies, which was discussed at the 20-21 March 2014 European Council. Together with the Council of Ministers, it will be the task of the new European Parliament to adopt it.

The EU climate and energy policy area is based on a triangle of three objectives: the sustainability, security, and cost-competitiveness of energy supplies. When the 20-20-20 targets were adopted, climate change was clearly the primary focus of the EU strategy, while the more traditional goals of ensuring the security and affordability of energy supplies came in second line.

However, the past few years have revealed that the objective of sustainability versus the objectives of competitiveness and security of supply can be pushed aside by various factors, such as an economic and/or political crisis, the national development of renewable energy sources, the changing global energy landscape, the depletion of EU energy resources, and the lack of consensus for a global climate agreement. While many Member States are facing budgetary constraints, the energy prices for households and industry alike are on the rise. This is partly due to the increasing costs of energy imports but also to the costs of national measures related to the green transition. Competitiveness and affordability of energy costs are thus of increasing concern and the price-differential with countries such as the U.S. is widening. The new circumstances have thus brought competitiveness and to a lesser extent security of supply to the top of the triangle of the climate and energy policy.

After analysing what has changed since the adoption of the last climate and energy package and the state of play of the three-objectives, this paper will examine whether the proposed 2030 framework provides a good basis to face the challenge of ensuring affordable energy prices and industrial competitiveness, while responding to climate change and the increased energy dependency.

I. MANY FACTORS HAVE CHANGED SINCE THE ADOPTION OF THE LAST 2020 FRAMEWORK

At the European and global levels, many factors have changed since the adoption of the 2020 Climate and Energy Package in 2007-09. These changes are mainly the followings:

- **The economic and financial crisis** has clearly contributed to decreasing carbon emissions through a reduction of industrial production but it has also greatly reduced the

ability of the public and private sectors to invest in low-carbon technologies. A number of Member States are under huge budgetary constraints, particularly those subject to austerity policies.

- The cornerstone of the EU's decarbonising strategy, i.e. **the EU Emissions Trading Scheme**, did not prove efficient at promoting low-carbon investment. Since 2008, more carbon allowances have been issued each year than used, leading to a huge surplus of allowances in circulation. Consequently, carbon prices have collapsed. This surplus is mainly due to the economic recession, but also to an over allocation of offset credits¹ in the EU ETS; other EU climate policies that contributed to increasing the supply of allowances by reducing carbon emissions; and some additional allowances from three exceptional sources² that have emerged on the market in 2012-2013. Overall, this surplus is expected to amount to more than 1.5 billion allowances. It is thus already clear that carbon prices will stay low in the forthcoming years, delaying the necessary low-carbon investment.
- The **development of national policies** in response to the economic crisis, the low carbon prices, and the development of intermittent renewable energy sources, is fragmenting the market. The completion of the internal energy market, and the 'cost-efficient' European solutions it is supposed to bring, could even be threatened.
- **The changing global energy landscape** has important implications in terms of economic competitiveness, security of supply and sustainability. These new energy dynamics include, among others: the development of unconventional oil and gas in the US, the discoveries of new hydrocarbon reserves in Africa, Azerbaijan and elsewhere, the consequences of the Fukushima nuclear disaster, the impact of the

recent Russian actions in Ukraine and the shift towards renewable energy sources, particularly in the EU. In response to these changes, major disparities in energy prices among countries and regions have emerged, sparking a debate about the role of energy in international competitiveness. For instance, gas price in the US is three times less expensive than in the EU and five times lower than in Japan. In terms of security of supply, the International Energy Agency is also warning that international energy demand, spurred by economic growth in emerging countries (particularly China, India and the Middle East), will increase by more than one-third by 2035, thereby increasing competition for energy sources. Globally, fossil fuels will continue to meet a prevailing share of global energy demand, increasing global emissions and delaying the necessary shift towards a sustainable global economy.

- The expectations in terms of **global climate governance** have changed since the Climate and Energy Package has been negotiated in 2007-09. Both a global climate change agreement and a global carbon market were expected to arise, but neither of these has yet materialised. Since the Conference of the UNFCCC Parties held in Copenhagen in 2009, new guidelines for the negotiation of an international agreement have replaced the old international regime. While the Kyoto Protocol adopted in 1997 was based on a “top-down” determination of legally-binding emission reduction objectives for developed countries and a global carbon market, the new system lies upon a “bottom-up” approach whereby all countries can make voluntary pledges, and on institutions in charge of organising an international solidarity in terms of finance, technology transfer and adaptation. It is under this new decentralised governance that a global climate agreement is expected to be reached in 2015 in Paris.

Considering all these changes, it is clear that a new design adapted to the new situation is needed. It is essential for policymakers to be well aware of the dynamics underpinning the energy and climate developments in order to reconcile the three objectives of the climate and energy policy.

II. STATE OF PLAY OF THE THREE OBJECTIVES

The implementation of the 2020 Climate and Energy Package has showed that it is not easy to strike the right balance between competitiveness, security of supply and sustainability, particularly in a period of economic crisis. The different national policies supporting the European climate objectives have created increasing problems related to energy prices and security of supply within energy markets.

Sustainability

The 2020 Package was clearly oriented towards sustainability with its 20-20-20 targets, including a 20% reduction in greenhouse gas emissions from 1990 levels; a raise of the share of renewables to 20%; and a 20% improvement in energy efficiency. However, if climate objectives are European, each country is responsible for its energy mix, its security of supply and its energy transition policies, making the coordination among member States in the achievement of these European objectives difficult.

The EU is on track to meet its objective of 20% reduction in greenhouse gas emissions. However, it was greatly helped by the economic crisis and the resulting decrease in industrial production. Consequently, the huge surplus of allowances mentioned above has prevented the EU ETS to deliver the right price signal for investments in low-carbon technologies. Abatement efforts in the EU are thus expected to remain limited relative to the emissions

reduction resulting from the economic crisis. In 2011-2012, carbon emission have even increased rather than decreased in some Member States. Concerned with the lack of incentive to invest in low-carbon technologies and hence the risk of “carbon lock-in”, several Member States have taken, or are considering taking additional national measures to complement the EU ETS.³ However, these national measures are undermining the cost-effectiveness of the EU ETS across sectors and countries. The weakened ETS could thus encourage the adoption of more national measures, creating a vicious circle that would lead to the fragmentation of the single carbon market and the end of the level playing field it was meant to create. Although we are on the trend to achieve the 20% emissions reduction target, serious progress must thus be made in order to restore the credibility of the EU ETS as an instrument to promote low-carbon technologies in the long-term.

With respect to the renewable target, the EU annual energy consumption of renewable energy sources reached 13% in 2013. It is expected that the 20% target will be met, but access to finance will clearly be difficult. The raise of renewable energy sources in the system requires dealing with two important challenges. Firstly, renewable energy sources are still expensive and should become more cost-efficient over-time. However, although the costs of technologies like on-shore wind and solar are coming down, it is expected that most renewable energy sources will not be cost-competitive before 2025. The share of higher-cost renewable energy sources will thus continue to grow in the national energy mixes, as Member States will have to meet their 2020 national renewable energy targets. Accordingly, governments prefer continuing to promote investment via different national incentive regimes, although they contribute to fragmenting the market and increasing power costs. Secondly, the intermittent nature of wind and solar power cannot strategically deal with

demand peaks. Maintaining a match between supply and demand is thus increasingly complex in the EU electricity markets. This issue of generation adequacy is forcing governments into developing national back-up capacity schemes for renewables. Ultimately, the lack of coordination among Member States with respect to these national support schemes for renewables and back-up capacity is problematic and could endanger the very construction of an EU internal energy market. Moreover, over-generous support schemes, which do not seek the best return on investment, increase prices for consumers and reduce the EU’s competitiveness.

As for the 20% improvement in energy efficiency (compared to 2005 levels), it is very likely that this non-legally binding target will not be met. Before the adoption of the Energy Efficiency Directive in 2012, it was expected to achieve only a 10% saving of the EU’s primary energy consumption. Now, if all measures are correctly implemented by Member States, calculations show that we will probably reach a 17% saving. This comprehensive legislative framework (with indicative national targets but obligations to achieve certain amounts of energy savings) has thus provided a real boost. Nevertheless, there is still an enormous untapped potential in the EU that needs to be developed, particularly in buildings, transport and industry. As often mentioned, the most environment friendly energy unit is the one which is not spent.

Ultimately and ironically, Member States often intervene into the market in order to correct the market failures associated with the costs of climate change policies at a time where public policies and regulations are required to pull back from the market in order to let it work effectively. The problem is that if these interventions are not harmonised between Member States, they risk fragmenting the market

even more, leading to a slide backwards towards renationalisation of the climate and energy policies.

Security of supply

The EU is facing important challenges linked to its security of supply both outside and inside its borders.

Externally, Europe is in a vulnerable position, due to its significant dependency on imported energy. While in 2007, the EU already imported 53% of its energy consumption with natural gas representing 60% of these external needs, its energy import dependency should reach 59% in 2030 with natural gas dependency accounting for 83%.⁴ Moreover, the EU's primary energy supplies are often concentrated among relatively few partners. In 2010, about three quarters of gas imports came from Russia (35%), Norway (27%) and Algeria (14%). Russia also remains the main supplier of crude oil (34.5 % in 2010) and has recently become the principal supplier of hard coal (27.1 % in 2010).⁵ In view of the last developments in Ukraine and the Russian illegal annexation of Crimea, it is clear that the EU cannot continue to rely so much on an energy supplier, which is known to use energy as a political bargain chip. However, although their import volumes remain relatively small, there is some evidence of new partner countries emerging, such as Qatar and Libya for natural gas and Kazakhstan and Azerbaijan for crude oil. Besides, the discoveries of new producers in Africa and Latin America; the development of shale gas; the new supply routes thanks to, among others, the Liquefied Natural Gas (LNG) and the new Southern gas corridor; as well as the technological progress are various new factors that should help the EU to diversify and secure its energy supply.

Internally, the development of renewable energy sources has increased Member States' fear about their long-term security of supply. The major

challenge of renewables is to manage their intermittency. When the sun is not shining or the wind is not blowing, it is very difficult to maintain a match between supply and demand. Back-up generation capacities such as gas or coal power plants are thus necessary to quickly respond to these variations. However, investments in flexible conventional power plants as gas become increasingly risky. As renewables benefit from a priority dispatch and access on the network, some very efficient conventional power plants operate far behind the necessary amount of hours to be profitable and are unable to recover their costs. Many gas power plants have been forced to shut down, making coal the most profitable energy sources in the EU today. Therefore, some countries have decided or are planning to support electricity producers for developing national back-up capacity schemes. The irony of the situation is that consumers end-up paying twice for renewables and back-up conventional power plants in order to ensure sufficient flexibility is available.

When security of supply is at stake, Member States tend to think nationally. However, according to the European Network of Transmission System Operators for Electricity (ENTSO-E), the EU has adequate generation capacity for the next 10 years, even if the flexibility of this generation capacity is not guaranteed. For instance, in Bulgaria, violent protests against high power prices occurred in February 2013. Yet, Bulgaria is able to produce much more than its national demand. This high supply capacity should normally positively affect price level. However, various factors contribute to unsustainable energy prices such as privileges accorded to some State-owned energy utilities, the rapid development of renewables at high feed-in tariffs and the high preferential tariffs paid to "cogeneration" plants. In order to reduce its power prices, Bulgaria could use retained excess capacity to create competition,

including export to its neighbouring countries. However, the neighbouring countries face similar challenge and the Internal Energy Market regulation is not fully in place. This leads to counterproductive allocations of available generation assets as cheap power plants in one country might have to be switched off while more expensive power plants in well-connected neighbouring countries are still running.

The full integration of Europe's electricity networks is thus essential to reducing the intermittency problem of renewable energy sources but also to ensure cost-efficient energy supplies, guarantee energy savings and allow individual foreign supplies to be replaced when possible. However, the development of interconnections is hampered by national political and economic considerations, as well as difficult public acceptance. Therefore, interconnections take time to build. Cross-border transmissions can take up to 10 years to gain planning permission and to get built, while the installation of some renewable can take a matter of months. If the development of interconnection does not meet the growth of renewable energy sources, volatility of electricity prices could increase. An efficient European grid infrastructure transporting wind power from the North and sun power from the South would greatly reduce the costs of renewable integration.

If the integration of the European networks is not significantly upgraded in the near future, the national development of renewable energy will not bring many benefits, as Member States will have no other choice than to develop national back-up fossil fuel capacity in order to deal with the intermittency of renewables. This would not only increase the energy bills of consumers but also prevent the energy transition towards a low-carbon economy with all the opportunities that the latter could bring in terms of growth. If not well-designed and coordinated at the EU level,

these short-term national measures could thus spoil the whole long-term EU project.

Competitiveness – energy prices

The last main objective of the EU energy and climate policy is to ensure that it does not undermine the competitiveness of the EU economy. However, concerns over high-energy prices have increasingly taken over climate concerns. Many Member States and industrial actors fear that a strong energy and climate policy will have a bad impact on their economies.

In order not to distort EU competitiveness, energy prices must not only be internationally competitive but also be affordable for final consumers. Yet, energy prices for households and industry have increased significantly in Europe these last couple of years. Between 2005 and 2011, average electricity prices for households and industries have increased by 29% in the EU, while they have grown by only 5% in the USA and by 1% in Japan. Moreover, the EU's industrial electricity price is currently twice higher than in the US – which benefits from its shale gas boom – and 20% higher than in China – and these price-differentials are widening. However, these are average figures that hide a very diverse picture across the EU, as energy prices in different Member States can vary by a factor of about 3-4.

According to the “energy prices and costs report” released by the Commission in January 2014, while retail energy prices have increased significantly during the period 2008-2012, wholesale electricity prices have decreased by between 35% and 45% and wholesale gas prices have stayed the same despite some fluctuations. This is mainly due to the increased competition between electricity and/or gas companies, the development of liquid and transparent wholesale markets, the growth of renewables with low operating costs, and the fall in consumers'

energy demand in many Member States due to the financial and economic crisis.

However, retail energy prices have risen and are expected to continue to rise in the forthcoming years for the following reasons:

- The taxes motivated by general fiscal considerations and levies justified by energy and climate policies have increased significantly these last years. This is particularly due to national support schemes for renewables. In 2011, the net support for the electricity produced with renewables in the EU reached about €37 billion and is expected to increase to about €50 billion by 2020.⁶ However, these figures hide significant national differences in the relative shares and in absolute values of the tax and levy component of energy prices. For instance, Germany and Denmark currently have the highest electricity retail prices due to the important proportion of taxes and levies dedicated to the promotion of renewable energy sources.
- Then, network costs have also largely contributed to the costs increase. Strategic interconnections, intelligent networks and smart grids are key elements to connecting a growing share of intermittent renewable energy sources to the electricity network and to ensuring the security and diversification of supply. According to the Commission's Energy 2020 strategy, €210 billion are needed to upgrade Europe's gas and electricity grids between 2010 and 2020, with very little funds coming from the EU budget.
- The regulated energy prices in some member states are also preventing the markets from working properly, creating high market concentration.
- The cost of investments to replace and modernise the EU's ageing power generation infrastructure to consumers.
- The rise of energy imports within the EU combined with the high prices of basic energy commodities, particularly gas. Our dependence on fossil fuels costs us about €400 billion/year and creates price uncertainty.
- Electricity and gas regulations is becoming increasingly stringent, imposing, among others things, new safety requirements, the use of emissions-reducing technologies and/or the closure of high-emission power plants.

Competitiveness is also about preventing “carbon leakage”, i.e. the delocalisation of industry to regions with less carbon constraints. By making the EU industry pay for its carbon emissions via the EU ETS, the EU must be careful that the imbalance in carbon constraints between the EU and third countries does not become a source of carbon leakage. So far, the carbon prices have been too low to really impact on the competitiveness of the EU industry. However, for a small number of energy intensive sectors, the risk of carbon leakage could become very real in the future. For these European energy intensive companies, competing globally could represent a significant challenge, as carbon prices are expected to rise in the EU, the cap on the EU ETS allowances will become more stringent, industries at risk should receive less free allowances, while the economy is likely to recover. This risk is even more actual that the main EU competitor – the US – is benefitting from comparatively low energy prices for its industry.

To conclude, the competitiveness of the EU economy will remain an important issue in the upcoming years. While one can witness that the financing of climate policies is becoming less reliant on public support, the use of private funds from households or businesses to finance the energy transition poses a dilemma related to competitiveness. If households pay via taxes and

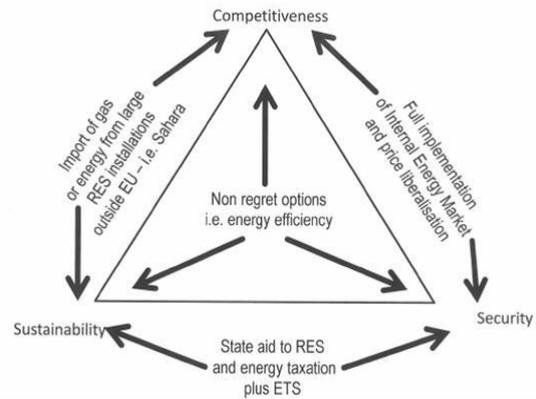
subsidies, retail energy prices will increase, stressing the issue of energy poverty which already concerns between 50 and 125 million people in Europe (mainly in Eastern and Southern Europe).⁷ If businesses pay through higher carbon prices, as expected by most market analysts, this will also increase the carbon costs on the electricity prices, and hence increase the risk of carbon leakage.

III. HOW TO REBALANCE THE THREE OBJECTIVES IN THE NEW 2030 FRAMEWORK?

On 22 January 2014, the European Commission released its proposal on the 2030 climate and energy framework. This proposal was accompanied by a report on energy prices and costs and a communication for a European Industrial Renaissance, showing the significance of industrial competitiveness on the EU's agenda. Rebalancing energy and climate policies to ensure affordable energy prices, industrial competitiveness, security of supply and achievement of our climate and environmental objectives was thus one of the main issues discussed at the summit of the European Council on 20-21 March 2014.

The most important lesson learned from the 2020 package is that if we want an energy and climate policy in the EU, it has to be comprehensive, not simply linked to sustainability. The achievement of economic sustainability in terms of competitiveness and security of supply must also be taken into account. It has been witnessed that there are interactions between the instruments to meet the three objectives triangle (see graph here-under). However, these interactions can be counter-productive and negatively affect the achievement of an objective. For instance, the overlapping scope with the ETS of the EU targets for energy efficiency and renewables has undermined the efficiency of the ETS. The

challenge for the 2030 framework is therefore to design instruments and policies that will not be contradictory but at best mutually reinforcing with the achievement of the climate and energy objectives.



This section will explain the current proposal on the 2030 framework and investigate whether it allows a mutual reconciliation of the three energy and climate objectives through the analysis of each of these objectives.

Sustainability

In terms of targets, the proposed 2030 framework differs from the previous 2020 package, as it gives the primacy to the emissions reduction target. By 2030, the EU must reduce its greenhouse gas emissions by 40% below the 1990 level. This target would be met through binding national targets. Considering that commissioner Oettinger had pragmatically recommended a 35% reduction in order to preserve EU competitiveness, this target can be considered as a relatively prudent compromise. However, many environmentalists have criticised it for not being based on science, as it would give us a 50/50 chance of exceeding 2°C of global warming. We can thus wonder if it should not have been the role of the Commission to propose higher ambitions, rather than proposing directly an acceptable target for Member States. It is not even sure that Member States will accept this level of emissions

reduction, as this objective did not figure in the conclusions of the last European Council Summit in March. Taking into account the timeline for the conclusion of a global climate agreement at the UN Conference of Parties in Paris in 2015, the European Council conclusions have nevertheless confirmed that the EU will agree on its climate contribution at the latest by October 2014.

The EU ETS will remain the cornerstone for reducing industrial emissions. Without a sustained carbon price, there will be no long-term investment signal. In order to address the surplus of emission allowances and improve the scheme's resilience to major shocks the Commission proposes to create a market stability reserve that would automatically adjust the supply of allowances to be auctioned.

The proposed framework also suggests an EU-wide binding renewable energy target of at least 27%. The big difference with the 2020 framework is that Member States have no more binding national targets. The objective is to leave flexibility for Member States to transform their energy system in a way that is adapted to national preferences and circumstances. However, it is not yet known how this EU-wide target would be enforced should the national contributions not be enough.

Despite the importance of energy efficiency, no target has been set so far. Its role in the future framework should be defined in a review of the Energy Efficiency Directive due to be concluded by mid-2014. If the review shows that the non-binding energy savings target for 2020 did not bring sufficient progress, a mandatory approach to set the 2030 target might be considered. As a no-regret option for Europe, energy efficiency measures must be incentivised, even if it could affect the efficiency of the EU ETS. If, on the contrary, the 2020 non-binding target supported by the Energy Efficiency Directive shows sufficient progress,

the flexible solution of a non-binding target should be preferred. It is already expected that a carbon emissions reduction target of 40% should lead to increase energy savings by at least 25% by 2030. On the basis of the review, the best energy efficiency measures with respect to buildings, transport, industry, and product standards should also be selected.

Although, the absence of national targets for renewables might affect investment decisions in this sector, one main emissions reduction target is a rather positive element of the proposal. It should incentivise investments in low-carbon and energy-efficient technologies, while helping to avoid the counter-productive mutual influence between the different targets and their instruments. It has been explained that in order to meet their national renewable targets by 2020, Member States have developed different unsustainable national support schemes, distorting the whole market and hampering the EU ETS' efficiency. It is thus positive that the 2030 framework provides flexibility for member states in how they deliver their commitments. This will hopefully result in more adequate instruments and policies across the EU.

In the meanwhile, the European Commission should adopt new Guidelines on Environmental and Energy State Aid for the period 2014-2020 before mid-2014. These guidelines include rules which could significantly limit EU Member States' freedom to adopt and maintain national support schemes, while proposing common principles and specific compatibility requirements. Accordingly, national support schemes for renewables should be gradually adapted to the increasing penetration and decreasing costs of renewable technologies in the market.

The flexibility of the new framework takes place in a new governance system based on national plans for competitive, secure and sustainable energy, which will be organised and assessed by

the Commission. The objective of these plans elaborated under a common approach is to ensure stronger investor certainty and enhance coherence at the EU level. Equity mechanisms to ensure a fair effort sharing between Member States will thus have to be developed. The challenge of this new governance will be to trust Member States, which will remain rightfully sovereign in their choice of energy mix and capacities, while imposing rules that guarantee that the 2030 targets are met in a cost-efficient and coordinated manner.

Security of supply

It has been explained that the challenge of ensuring EU security of supply is increasingly influenced by changing energy dynamics in the EU and worldwide. In order to respond to these changes, the EU must thus prepare itself both externally and internally.

Externally, the EU should continue to diversify its energy supply sources by concluding various binding international agreements and energy partnerships with key producer and transit countries, while avoiding relationships that focus exclusively on supply. In this global new context, the EU and its Member States will only make themselves heard if they speak with a single voice abroad. Consequently, the EU should be in a position to question commercial deals at the national level when they do not align with Europe's security of supply as a whole. Moreover, the EU needs to make a more systematic, structured and coherent use of the set of foreign policy instruments that contribute to the development and strengthening of the Union's external relations in the field of energy (i.e. CFSP, trade agreements, development policy association treaties, European Neighbourhood policy, strategic partnership, etc.).

Internally, the best way to improve the EU security of supply is to achieve the transition

towards a low-carbon economy in the longer term and to complete the creation of an internal energy market in the short-medium term. Ultimately, the aim of the EU is to replace its significant reliance on external supply with energy savings and new indigenous energy sources, such as renewables, but also shale gas or nuclear. As long as environmental and safety considerations remain the first priority, new nuclear and shale gas resources should be considered by Member States. With respect to shale gas, it is unlikely that the indigenous resources in Europe will become a game changer like in the US. Nevertheless, a clear regulatory framework for its European development should be defined, all the more so as the EU is under pressure to become an example of shale gas exploitation elsewhere. Before that, the priority is to complete the internal energy market so that Member States can benefit from the most efficient use of production capacities. This requires managing the development of renewables through a flexible electricity system based on market principles and accompanied by European measures to develop large investments in strategic interconnections, storage facilities and smart grids that would allow better demand-side management.

In this context, the issue of generation adequacy is one of the major challenges. The new Guidelines on Environmental and Energy State Aid for the period 2014-2020 that should be implemented before mid-2014 include rules on state aid to secure generation adequacy. Accordingly, back-up capacities for renewable energy would be supported only if additional energy infrastructure or alternative measures – such as a more responsive demand side or electricity storage – cannot address concerns about a sufficient flexible generation capacity. Moreover, such aid should not unduly favour national generation or particular technologies, in order to limit the risks of strong distortions of

competition and environmental harm. Ultimately, the best way to fix the issue of generation adequacy would be to fully integrate Europe's energy networks with smart infrastructure in transmission and distribution. The upcoming guidelines should thus also include rules for assessing infrastructure support, particularly on projects improving cross-border energy flows and promoting infrastructure in less developed regions.

Competitiveness

Rebalancing energy and climate policies to tackle competitiveness is central in the new 2030 framework. The climate and energy policies need to be designed pragmatically in the aim of not harming countries' economic growth. According to the Commission, the climate and competitiveness challenges "are not contradictory, but mutually reinforcing". The costs of the energy transition should be compensated by the benefits of the green economic growth, including new jobs, the reduction of the high import dependency costs, improved energy efficiency, the development and deployment of new technologies, as well as social and health benefits. However, this will require making the right political and investment decisions. All these decisions should be based on comprehensive examinations of the true costs and benefits of different energy sources, consumer products and transport modes all along the value chain.

In the proposal of the Commission on the 2030 framework, a set of key energy indicators for competitive, affordable and secure energy has been proposed to assess progress over time and to provide a factual basis for policy action as needed. For instance, these indicators should relate to energy price-differentials with major trading partners, supply diversification, reliance on indigenous energy sources, and interconnection capacity between member

states. This will make it possible to assess if the three objectives are well balanced.

In the meanwhile, the completion of the internal energy market remains the priority. The full implementation of the internal market legislation in order to develop and use more efficiently energy infrastructure as well as to increase competition in the market is crucial to keeping prices in check.

As it is expected that energy prices will continue to rise in the forthcoming years, sustained efforts in mitigating these prices supported by the consumers are required. The European Council Summit of March 2014 recognises the necessity of these efforts, in particular through: the implementation of energy support schemes in line with the State aid guidelines and best practice guidance provided by the Commission; the fuller use of the electricity generation capacity available on the internal market rather than relying on national capacities alone; sustained investment in energy efficiency and demand-side management; the promotion of domestic resources rather than an expensive reliance on external supply; as well as increased competition on gas supply markets and renegotiation of gas contracts. With respect to this last aspect, the EU should supervise the renegotiation of long-term contracts for gas with foreign suppliers (especially Russia) in its aim of applying the same range of gas prices everywhere within the EU.

Considering that carbon prices are expected to increase in the future, the EU ETS post-2020 should continue to support energy intensive industrial sectors at risk of carbon leakage by evidence-based measures so as to ensure a global playing field.

For the first time, the European energy and climate policy will benefit from an important financing of about €35 billion from the EU budget 2014-2020 in order to support research

and development, energy efficiency, renewables, as well as infrastructure for transport and storage.

CONCLUSION

The proposal of the Commission on the 2030 energy and climate framework is a good start. Taking into account the new energy landscape, it tries to redesign climate and energy policies to turn them into true industrial growth drivers. It thus reconciles climate objectives with cost-competitiveness, while keeping an important focus on security of supply. However, if the proposal provides direction, it does not provide the means yet. The next European term will thus have to translate this proposal into concrete measures to be implemented by Member States with the support of the industry and individual consumers. The challenge will be to design adequate measures that will not be contradictory but at best mutually reinforcing with the achievement of the climate and energy objectives.

As all the difficulties related to the energy objectives triangle will not be overcome at once, the first priority of the EU's new leaders will be to complete the internal energy market. This will require that the EU and its Member States

improve their coordination in identifying and implementing clear priorities. Otherwise, the very construction of an EU internal energy market could be compromised by the fragmentation of countries' energy sectors from each other.

Finally, the EU should make all necessary efforts to conclude a global climate agreement at the 21st UN Conference of Parties in Paris in 2015 if it wants to succeed in showing that sustainability and competitiveness are mutually complementary and not contradictory.

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This Policy Brief is part of the publication series “The Citizen and the European Elections”. The project intends to bring the debate on the European elections closer to the citizens, by focusing on those EU issues that are of particular importance to them.

ENDNOTES

¹ Additional credits from emission reductions that took place outside the EU.

² These three sources are: 1) Unused allowances from the national new entrants reserves of the 2nd phase (2007-2012) ; 2) A fixed amount of allowances from the 3rd phase (2012-2020) new entrant reserves is sold to fund projects related to new green technologies; 3) A number of 3rd phase allowances have been auctioned in order to avoid the scarcity that was feared at the time the climate package was negotiated.

³ For instance, a tax for carbon intensive fuels in ETS sectors or a national carbon floor price that is supposed to exceed the ETS carbon price.

⁴ Eurostat, *Energy production and imports*, August 2012, available on http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports#Further_Eurostat_information

⁵ *Ibidem*

⁶ BusinessEurope, *A competitive EU Energy and Climate Policy – BusinessEurope recommendations for a 2030 Framework for Energy and Climate policies*, June 2013, p.7.

⁷ D. Chérel, *Study of Fuel Poverty in Europe*, EPEE, April 2009, p. 1, available on: http://www.fuel-poverty.org/files/WP7_D26-1_en.pdf



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