



# BULLETIN

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## New Climate and Energy Package for 2030

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*The much-heralded climate and energy package for 2030 has just been put forward by the European Commission. On greenhouse gases, the Commission proposes a 40% reduction. On renewable energy there is a 27% EU-wide target with no national-specific goals. This, however, is only the first step towards a new framework for 2030. Detailed proposals will follow, subject to the support of all Member States. Although it is a carefully crafted compromise, the EU is divided over energy and climate policy. For Poland, it will be very difficult to find allies on even less ambitious climate goals.*

Although the energy and climate policy of the European Union is set for 2020, with three main targets (“3x20”) and a firm triangle of assumptions (competitiveness, sustainability and security of supply), the current debate anything but straightforward. With the publication of a “Green Paper on a 2030 framework for climate and energy policies,” in March 2013, the European Commission commenced a discussion on climate and energy policy beyond 2020. The debate was primarily about setting the one and only target, a reduction in greenhouse gas emissions, or preserving the current trio of goals. The final submission has just been published.

**Package of Proposals.** On 22 January the Commission revealed its proposal for policy goals for the post-2020 period. The Commission put forward a target of a 40% reduction in greenhouse gas emissions and a 27% share for renewable energy sources, but binding only at EU level (with no national targets). For the time being, establishing any indicator for energy efficiency was abandoned. The 40% reduction in greenhouse gas emissions is a minimum share envisaged for 2030 in the Energy Roadmap 2050. The document was not formally adopted, but appears to lay the path towards decreasing CO<sub>2</sub> emissions. The target for renewables is in line with “business as usual” trends, i.e., without introducing new energy policy instruments. This will not initially be mandatory, but the renewables directive will be reviewed to give the EU and Member States the means to meet the 2030 target, which implies putting forward some legislative proposal at a later stage. The omission of an energy efficiency indicator arose because, even now, the goal is not binding, and because reaching a compromise on an energy efficiency directive was very difficult in 2012. Nevertheless, it has been underlined that efficiency improvements will return to the agenda in 2014, with a review of the law. According to the Commission, the main target for greenhouse gas emissions represents the least costly pathway to a low carbon economy. To win the support of Member States, national plans for competitive, secure and sustainable energy are proposed. They will serve as a tool for a more flexible, bottom-up approach.

Equally important, other accompanying documents were released, including a study on energy prices and costs, a legislative proposal for reform of the European Emission Trading System (“ETS”), non-binding guidelines for shale gas and, last but not least, a Commission communication for an “industrial renaissance” in Europe. Together, these documents create a new backdrop for discussion on mid-term energy and climate targets, which is noticeably different from 2007–2008, when the first energy and climate package was discussed. First of all, economic crisis redirected the discussion more towards cost-benefit analysis of ambitious policy, and under such circumstances the climate change paradigm lost, at least in some countries, its unconditional lure. Second, the rise of North American unconventional gas (and oil) production, which brought energy costs down in the United States, put Europe at a competitive disadvantage. Hence, it is meaningful that the package was presented alongside a new industrial policy for Europe (the 2007 package was accompanied by a document on climate change). As European industrial production is falling, the EU has embarked on actions towards re-industrialisation, with the aim of increasing industry’s share in GDP from the current 16% to 20% in 2020. Against this backdrop, the Commission’s proposal not to introduce far-reaching energy and climate targets, and not to interfere with existing rules on hydrocarbon exploration, might seem an indicator of

the prevalence of a pragmatic approach. Acknowledging that there might appear a widening gap in energy prices across the Atlantic, the Commission blamed national policies too. The study on energy prices reveals that taxes and levies are primarily responsible for driving up European electricity prices. Yet the Commission states that, due to increased energy efficiency, there has been little impact on the EU's relative competitiveness that can be directly attributed to higher energy and carbon prices.

As for the ETS, the Commission leaves no room for dispute about its role as a flagship EU instrument to reduce CO<sub>2</sub> emissions beyond 2020. To address structural flaws in the ETS (oversupply of allowances stemming from its inability to adapt to the economic situation), the Commission has just put forward a long-term fix—a legislative proposal for an automated “stability reserve” of allowances. The instrument, set to begin operating in 2021, will be another bone of contention among Member States, as there is no agreement if ETS is really fit for purpose.

**Awaiting a Final Outcome.** There are no foregone conclusions, as the final political decision will be taken by the European Council. Member States are, at this stage, already preparing national strategies to be presented during upcoming negotiations. The first opportunity for heads of states or governments to present their views will occur in March, when the European Council meeting is scheduled. Decisions, however, are not expected to be taken, and in all likelihood the meeting will reveal various interests, which the Commission should not override when drafting legislative proposal. The next meeting will be held in June, but taking into account the European Parliament elections, and the subsequent formation of the new Commission, the core negotiations will be postponed until 2015. Provided that countries reach a political deal, and the Commission brings forward legislation, the European Parliament and the Council will still have to make their formal decisions. The EP's role, though growing in the energy and environment field, is often overlooked. Nevertheless, it will certainly add some complications to the legislative process. And the EP has already voted in favour of three binding goals—a 40% cut in CO<sub>2</sub> emissions, a 30% target for renewable, and a 40% target for energy efficiency. The final outcome, however, will depend mostly on the Member States and their ability to form coalitions (or at least “blocking minorities”) in the Council.

**Conclusions.** In the current state of debate, concentrated on climate action versus competitiveness dilemma, the proposal put forward on 22 January is undoubtedly a carefully crafted compromise. It allows the carbon reduction effort to continue, builds on the 2050 Energy Roadmap, and keeps the renewables option on the table without interfering with national energy mixes. It takes into account the international context and the EU's commitment to the global climate agreement to be reached in Paris in 2015. That implies that the parties, among others the EU, should be ready with their contributions by the first quarter of 2015.

However, this does not guarantee the viability of the package, nor does it mean that all 28 Member States will support it. For countries such as Germany, France, the UK and Italy, the CO<sub>2</sub> reduction target of 40% will be accepted, but others may oppose it. Different views were also expressed within the Commission. Another point of friction will be the target for renewable energy. Germany, France, Ireland, Denmark and Belgium call not only for binding objectives at national level, but also for significantly higher targets, around even 45%. Paradoxically, some of the countries which are against obligatory targets as they may not achieve them by 2020 are pushing for even more ambitious CO<sub>2</sub> reductions in 2030. On this side is a group led by the UK, claiming its right to choose any low-carbon technology, including (as the UK did) nuclear.

Many countries, including Poland, have not yet revealed their official position. The Polish position will depend on detailed analysis on the impact of new aims on the country's energy sector and economy. While, for Poland, a 40% reduction would be contentious, the possibility to form any alliance is limited. Nevertheless, Poland should advocate taking into account different Member States' diverging energy structures or capacity to invest, and make all commitments conditional on detailed impact assessments. Poland should call for more flexibility in greenhouse gas reductions, i.e. choosing the most cost-effective ways, not only in ETS (electricity and industry) but also in non-ETS sectors. Despite its overall, not overly ambitious energy efficiency targets, Poland should continue its effort, as the country's energy intensity is higher than the EU average, and because this is assessed as one of the most efficient ways to curb CO<sub>2</sub> emissions.