

WORLD ENERGY COUNCIL RECOMMENDATIONS TO THE EU-FRAMEWORK FOR CLIMATE & ENERGY POLICIES 2030

The European Member Countries of World Energy Council (WEC) would like to contribute to the public debate on the next EU-Climate and Energy Policies Package 2030 by highlighting a few crucial issues.

For this purpose, WEC decided to set up a Task Force representing the European member states to convey its views regarding the EU-Framework 2030. The suggestions formulated by the Task Force are based on the written contributions from 23-European WEC-Member Committees, as well on the major findings of current WEC studies widely approved by 7,500 participants to the 22nd World Energy Congress, held in South Korea, in October 2013.

The WEC **KEY MESSAGES** we are conveying to EU-Framework 2030 are:

- ***Set up a unique overall CO₂ reduction target for Europe, beyond 2020;***
- ***Cost effectiveness, technological neutrality and global climate commitment are of paramount prerequisite;***
- ***There is a new order of priorities with competitiveness at the top.***

The Context

The outcome of current European energy policy based on the Energy and Climate Package (20-20-20) has been effective with measurable results. However, although being 'effective', it was not always very 'efficient'. Since 2008, the economic situation and energy landscape have dramatically changed. Some lessons can now be drawn from the multi-target setting approach, namely:

1. According to a recent survey carried out by the WEC European Member Countries (July 2013), an absolute majority considers the three-target-system as over-burdened and would prefer a system with one or at most two targets. The majority is in favour of a single CO₂-target. Energy efficiency is considered as a possible second target. Mandatory renewable targets were least preferred. The lessons learnt from the current 3-target system are that interaction and overlapping between more than one target should be avoided as well as their unexpected side-effects (such as mothballing efficient CCGTs, security of the system operation, etc);
2. The findings of the WEC World Energy Trilemma report presented and discussed at the World Energy Congress in Korea, in October 2013, have confirmed that one of the most important challenges is to manage the balance of energy trilemma amongst energy security, environmental sustainability and energy equity;
3. In addition it has been highlighted that the main concerns for the European Energy Leaders are the absence of a global climate framework together with sharp energy price increases in Europe;

The global energy landscape is now changing. With the increasing US-energy autonomy and steady rise of Chinese impact on the global economic scene, energy geopolitics have definitively changed also. Europe needs to identify new diversified geopolitics approaches including access to energy supply sources from other regions of the world.

Europe has to really think about the most efficient contribution to fight climate change when its emissions are only 11% today of world emissions. What is the best use of one euro when the impact of an emitted ton of CO₂ is the same, in Europe or elsewhere, but the abatement costs are quite

different? Europe really needs to question the reality of its leadership in matters of climate change as well its exemplarity and the rational of its stringent approach.

The Challenges

First, the Task Force had to adapt the World Energy Trilemma to European needs and conditions, namely:

- to enhance **security of energy supply**, both on domestic and external sides, including system adequacy;
- to fight effectively against **climate change**, one of the the most important environmental challenges;
- to lower **energy prices**, thus to reduce fuel poverty and increase the EU's competitiveness, economic growth, employment and social welfare.

These are not new challenges for Europe; but there is a new order of priorities, even in the political agenda: competitiveness having being neglected in the past is now at the very top. In December 2013, WEC requested its European Member Countries, to proceed with a more detailed assessment on how successfully the EU energy policies have been implemented, at national level including expected improvements of the critical energy trilemma issues, namely environmental sustainability, energy security trends and awareness about energy price increases.

The WEC European Member Countries have identified some difficulties in the implementation of EU energy policies, namely the unsuccessful renewables integration, lack of new investment and, the distortions in energy market. More generally, there are serious concerns about the over-targeting and too many – sometime even contradictory - political targets and policies, which do not fit well with national realities. A critical issue to be addressed is the cost of these policies. Energy policies have a negative impact on the consumer prices, deteriorate the competitiveness of the European industries and aggravate fuel poverty.

As mentionned before, since 2008, the international energy landscape has changed, among others due to the shale gas and oil development. Energy prices have remained low in other regions of the world whilst continuing to increase in Europe. The new situation and economic crisis have challenged the European economies' competitiveness and raised awareness about the impacts of an ambitious European climate policy on the consumers' energy bill or on public debt.

EU-Member States have differing views and potentials on how to reach targets in an efficient and flexible manner: "one-size-fits" policies are thus very costly and inadequate and, in some cases, could lead to detrimental results.

We suggest

To reduce the number of binding targets to a unique overall CO₂ target for Europe, beyond 2020.

Together with the structural reform of the EU Emission Trading System (ETS), there is need for strong signal with a view to returning to robust prices for CO₂. Thus, it would provide the right incentives to invest in energy efficiency and low carbon technologies. However, without reaching a global agreement, it will certainly be difficult to recover the competitiveness of European economy.

It should be up to the Member States to decide and deploy appropriate measures, to achieve this target, provided that these measures are compatible with the internal market rules, by looking for the correct balance between subsidiarity and EU competences. As such, the EU ETS should fulfill an important role and remain the major tool for EU climate policy implementation. In the non-ETS sectors, the potential for decarbonisation and energy efficiency improvements is enormous, here, more policy and market solutions should be deployed, especially in transport and building sectors.

Conditions

To implement a successful EU Energy and Climate policy, WEC Europe Members also insist on some *sine qua non* conditions.

- **More focus on efficiency.** On the demand side, we need more investments, innovation, incentives and stronger technical standards, to improve energy efficiency. On the supply side, a technology neutral approach should be pursued in identifying the best solutions in each Member state that contributes to lower CO₂ emissions in the energy sector and economy.
- **Investments.** A long term predictable, stable and favorable climate for investments has to be set up: this includes targeted regulations, political stability, and avoidance of retroactive measures which negatively affect previous investments. There is also a crucial need to adapt risk and return allocation between investors, consumers and other stakeholders, to the new power market context. New rules and approaches are needed where public acceptance is required, in particular for the development of strategic energy infrastructure projects.
- **Finance.** Access to financing and capital at fair costs remain crucial for investments. Some new finance mechanisms have to be explored in particular for financing building renovation programs and infrastructure. As an example we may indicate the use of some European funds, the development of new finance mechanisms or some “breakthrough” ways of thinking about financing (for example, a direct refinancing of cost efficient measures by the European Central Bank, in view to facilitate energy efficiency investment, and that at very low interest rate).
- **Research, Development and Deployment.** New technologies to improve energy efficiency and reduce CO₂ emissions will result from dynamic R&D investments and financial support to R&D. The entire portfolio of options should be explored (private funding, public support, public-private partnerships, etc.). Smart solutions may include synergies between the sectors with the highest potential for low carbon technologies (energy, transport, buildings, etc.). More attention should focus on the overall system-integration studies.

* *All the EU Member States are also members of the World Energy Council, except Malta*