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WHAT NEW CLIMATE AND ENERGY PACKAGE FOR THE EU?

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As the European Council meeting in March 2014 gets set to address the next stage in the energy transition process and the decarbonisation of our economies, it is worthwhile putting into proper perspective the primary challenges associated with the renewal of the European framework for energy and climate policies ahead of 2030.

1. What certainties are there in a rapidly changing energy situation?

The world of energy is the object of rapid change at the global level. China's ongoing growth, the consequences of Fukushima, and the unexpected boom in the development of unconventional gas (and oil) in the United States and its impact on industrial competitiveness, raise as many questions as they offer opportunities. Hydrocarbon prices have been subject to growing fluctuation since 2007, with a major impact on an European Union (EU) that is increasingly dependent for its energy supply. Global competition for access to resources has also become stronger, and the EU has to cope once again with major tensions in its neighbourhood, particularly to the east with the crisis between Ukraine and Russia. At the same time, over the past few years, the EU has made real progress in the diversification of its energy sources and in the security of its gas supplies, making it possible to guarantee the kind of effective mutual assistance and solidarity that is especially needed in the current situation.

The EU has also committed to a transition towards a low-carbon economy with the aim of cutting its greenhouse gas emissions by 80% (or even by 95%) between now and 2050. It had already begun to pursue a comprehensive transition process with the adoption of the First Climate and Energy Package in 2008 providing for a 20% cut in CO_2 emissions, 20% renewable energy, and a 20% increase in energy efficiency by 2020.

The EU is on the right track to achieve the first two binding targets but is lagging behind the third, non-binding target. The production of electricity from renewable sources has increased considerably (rising from 15% to 23% between 2005 and 2012), making it possible to cut the Union's hydrocarbon bill. This increase, however, is primarily the result of costly, non-market based, national subsidies that are not always supported by adequate infrastructure thus preventing an efficient integration of renewables into the network. Electricity prices on retail markets are rising while wholesale prices are either stable or dropping. The European Emissions Trading Scheme (ETS), with its low prices for carbon, is not working as planned. Exports of cheap coal from the United States towards the EU are increasing. And a growing number of gas-fired power stations, which are no longer profitable in this situation, are shutting down.

These developments are a source of tensions and are jeopardising the energy transition in Europe in the medium-to-longer term – tensions between the three goals of sustainable development, competitiveness, and security of supply; and tensions between unilateral national policies that are destabilising the European energy system as a whole, sometimes prompting superfluous investment which comes at considerable cost to the taxpayer, and threatening the security of the electricity system. The crucial issue, at this stage, is to determine to what extent the new 2030 Climate and Energy Package will address these various challenges and provides appropriate answers to them.

2. What answers does the new 2030 Climate and Energy Package contain?

The new package sets itself three objectives: the fight against climate change; guaranteeing predictability to investments in low-carbon technologies; and providing answers to existing problems such as loss of competitiveness in the European economy and in the energy sector. The key elements proposed in the package are as follows:

- *New goals for 2030:* a binding target of a 40% cut in CO_2 emissions; a "binding target at the European level but not at the national level", of 27% in renewable energy, with member states

allowed a degree of flexibility in setting both their national targets and the means to achieve those targets; but no energy efficiency target, the debate on that issue having been postponed to an assessment of the current Directive in mid-2014.

- This increased flexibility allowed to member states is accompanied by a *strengthened European governance instrument* organised by the Commission through national energy plans and designed to guarantee the coordination of national policies and the consistency of the system.
- *A policy to accompany the development of renewable energy sources*, which is supposed to be broadly dictated by the market and accompanied by strong measures to increase storage capacities and border inter-linkage, and the development of smart and interactive networks to allow for improved management both of the system and of demand.
- *Economic and financial instruments:* The Union will for the first time have major financial resources available to it to support the development of an energy policy with approximately €35 billion in the 2014-2020 financial framework to support research, energy savings, renewable energy sources, and transport and storage infrastructures.
- *Other sectoral measures:* an improvement of existing biomass and biofuels policies; a review of the ETS with the implementation of a market stability reserve from 2021; the development of a set of key energy indicators allowing for the assessment of progress made; and so forth.

3. Are we heading towards strengthened governance of Europe's energy policy?

This new approach, which is rather prudent and consensus-based, rests primarily on technological neutrality and on flexibility. The objectives listed above are at the lower end of the range of ambitions, leaving little room for manoeuvre and might entail an increased effort after 2030. The package takes note of the global context yet does not foresee any conditions linked to future international climate negotiations.

The Commission considers the costs of the transition process to be substantially similar to the costs incurred by the need to renew an ageing energy system, and from the increase in the price of fossil fuels. The Commission counts on a shift of spending from fossil fuels towards high added-value equipment which is expected to boost investment and create jobs, without the premises for such a change being sufficiently clearly established in its analysis.

Certain structural problems are still without an answer, most notably issues related to the lack of completion of the internal market and the need to review the European electricity system in order to resolve the problems raised by the implementation of the first 2020 Climate and Energy Package.

As far as governance is concerned, given that the approach adopted is based on trust in member states, which remain, quite legitimately, free to choose their energy mix and the use of their own resources, it is necessary to ensure that this approach is accompanied by sufficient discipline to guarantee the common interest in an economically effective manner, and to avoid getting bogged down in a bureaucratic exercise with no added value.

The next European legislative term will have its work cut out adopting and implementing the binding instruments reflecting the new realities and needs of the energy policy of the EU and its member states, and paving the way for an increasingly necessary "European energy community". In view of this, energy should be one of the primary issues in the upcoming European parliamentary elections, as part of a positive agenda on which the EU should base its action.

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