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The 2030 framework on climate and energy - Getting Europe on the right track?

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Climate vs competitiveness?

The European Commission published its proposal on the 2030 climate and energy framework on 22 January. Reflective of the current economic climate, it was accompanied by a report on energy prices and the Commission decided not to propose regulation on shale gas but to issue recommendations on environmental standards. The same day also saw the publication of a communication "For a European Industrial Renaissance". Climate considerations no longer drive the agenda. The enthusiasm of 2007, when the "20/20/20" climate and energy targets were set for 2020, has diminished. The new reality has brought competitiveness to the top of the EU's priority agenda.

However, climate protection and competitiveness need not be contradictory demands. Reducing air pollution can bring enormous health benefits that have direct impact on the economy. Increasing energy efficiency and reducing energy demand bring down energy bills. Low-carbon, energy-efficient solutions benefit consumers, society and the environment. Scaling-up solutions for which there is demand also outside the EU will profit industry and create jobs. It is in the EU's self-interest to pursue these agendas together, in a smart way, to improve both Europe's economic prospects as well as the well-being of its citizens.

This shift in priorities is not necessarily a negative development. The EU is faced with a risk that high energy prices and stringent climate policies push energy- and carbon-intensive industry out of Europe. It needs a framework that recognises the tensions created by international competition, while creating the basis for greening the European economy. Europeans have already seen that self-proclaimed moral leadership in fighting climate change has not convinced other key players to take action. If Europe wants to see mobilisation on a global level, a good start would be to demonstrate and communicate within and beyond the EU borders the economic, social and environmental benefits that come from reducing greenhouse gas emissions and air pollution. Europe needs a narrative that shows the possibilities in reducing global emissions, fighting climate change locally, securing energy supplies, promoting wider socio-economic interests and increasing competitiveness – all at the same time. But, can the new climate and energy framework provide the basis for this narrative?

What would change under the new framework?

The EU's 20/20/20 targets for 2020 include a 20% reduction in greenhouse gas emissions from 1990 levels; raising the share of renewables to 20%; and a 20% improvement in energy efficiency. While criticised for lacking in ambition, the proposed framework for beyond 2020 and until 2030 is clear on its target: the EU must reduce its greenhouse gas emissions by 40% from 1990 levels.

There are no binding national targets for renewables after 2020, but the Commission proposes an EU-target: the share of renewable energy should reach at least 27% of the EU's energy consumption by 2030. The target is expected to be in line with current projections, but it is not yet known how this would be enforced should the countries' contributions not be enough.

There is no target for energy efficiency, binding or non-binding. It is a noted that its role will be considered in a review of the Energy Efficiency Directive, which is expected by the end of 2014. This has been seen as a failure to recognise its importance. However, in principle, the aim to reduce energy costs and emissions should provide a strong driver for energy efficiency measures.

The European Emissions Trading Scheme (ETS) remains as the main tool for reducing industrial emissions. The sectors covered by the ETS would have to reduce their emissions by 43% compared to 2005, and in order to help improve the system the package is accompanied by a legislative proposal for establishing a market stability reserve.

Learning from past mistakes

The climate and energy policies must provide a long-term vision and regulatory certainty to guide investment decisions – this is also the aim of the 2030 proposal. However, industry that has invested in renewables and biofuels in compliance with the 20/20/20 targets may feel betrayed by the new framework. The change in targets will most likely affect investment decisions already before 2020.

Having one main target, however, is a positive development. It provides clarity and can help to overcome some of the contradictions that weakened the 20/20/20 targets. For example, it is important to recognise that an increase in renewables does not reduce emissions, if it leads to burning wood in order to meet the target. Also, the unwanted consequences of first generation biofuels for land-use explain why there is no new target for biofuels that compete with food production: they can only have a limited role in decarbonising the transport sector.

Policies can provide incentives and guide investments, but they do not always translate to smart measures. The national renewable targets for 2020 have led to unsustainable practices such as subsidising wind power and solar panels in sub-optimal places. Over-generous support that does not seek the best return on investment increases prices for consumers and reduces EU's competitiveness. It distorts the whole market, which partly explains the increase in coal consumption in Europe. It is positive that the new framework provides direction but no longer dictates which means must be taken to reduce emissions. This will hopefully lead to more adequate actions across the EU.

Is the 40% target the right objective?

While it is in the EU's interest to reduce emissions, there is a limit to how far it can go without an international framework. It cannot tackle the challenge alone: the EU currently emits around 11% of the global greenhouse gases, and this share is decreasing due to growing emissions elsewhere. If the EU hopes to reduce its global carbon footprint, the 40% target in itself does not automatically do this. It does not take into account possible carbon leakage that rises if European industry moves manufacturing outside the EU, to places with less stringent regulation on emissions. It also fails to take into account the carbon footprint of products produced outside the EU, and thus the role of European consumers in increasing global emissions. But, as countries start to consider what contributions they will table before the International climate change conference in Paris in 2015, the EU's target will indicate its level of commitment, and hopefully show the way for others to follow. While some argue that the 40% target is not sufficient, it is positive that it could be raised, should other countries be more ambitious.

Meeting the target would undoubtedly bring benefits for European society and economy. The Commission estimates that a 40% emission reduction would reduce air pollution and help to avoid €6.6-29.1 billion in annual health costs, depending on the measures taken. It could also be argued that the target is adequate for Europe if it leads to stronger emphasis on greening the economy, reducing consumption of fossil fuels and increasing energy efficiency. However, the target has been criticised for not being based on science, and it is questionable whether it is high enough to get us on track to achieving the 80-95% emission reduction by 2050, as set out in the Energy Roadmap 2050. Also while the target will most likely be acceptable to EU member states and industry, it may be questioned that would it not have been the Commission's task not to please but to prod more ambitious thinking.

Shifting focus from targets to measures

The debate on the main target will continue in the Parliament as well as with the member states, but a discussion is also needed on what constitutes adequate measures. While the 2030 proposal only aims to provide a direction, this does not mean that the EU should not have a role in providing guidance and a framework for action.

The EU needs to encourage a new approach to defining needed measures. Making the right political and investment decisions requires taking into account the true cost of using different energy sources, consumer products and transport modes. This means considering the cost of production, and the cost of lifecycle emissions on environment and health. Decisions on measures should build on comprehensive impact assessments with costs and benefits. For example, better recognition of health savings would undoubtedly increase efforts to reduce emissions from transport and coal-fired power plants.

An area for concrete action is the single market for energy. It would secure energy supply, ensure affordable energy prices and increase European competitiveness. The EU should forget renewable targets and set a timeline for completing the single market also for renewables. Europe needs a market where i) renewables are placed where they are the most efficient, ii) they are integrated to a grid that unites different parts of the EU, and iii) the storage problem is solved so that renewables can become a more reliable part of the European energy mix.

While the proposals fail to make concrete recommendations on energy efficiency, its importance as a key measure in reducing energy demand, emissions and consumers' energy bill must not be forgotten. It is essential that there is a thorough review of the Energy Efficiency Directive. Member states' national energy plans must include energy efficiency measures. EU should use instruments such as standards for buildings and consumer products, including for all road vehicles, to promote greater energy efficiency across the EU. It should be more vocal about the benefits, for example, increasing energy efficiency in existing and new buildings via advanced insulation, better heating and cooling offers great opportunities in terms of new jobs, social justice and increased energy security.

Leading by example

The proposal for 2030 climate and energy framework is taking Europe on the right track: it provides direction without dictating the means. However, this is not enough. Europe needs to build on the framework an attractive narrative that supports both climate and competitiveness. This requires a shared understanding, recognition and communication of the concrete economic, social and environmental benefits that come from reducing emissions and greening the economy. The EU must translate the proposal into adequate legislation and encourage member states, industry and citizens to take actions that bring the greatest benefit for society and economy as a whole.

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