

Confrontations Europe – Group Climate & Energy

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PACKAGE CLEAN ENERGY FOR ALL: WHAT GOVERNANCE?

The present note summarises the contributions of the five panellists:

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INTRODUCTION

Within the Package “Clean for all”, the European Commission proposes two binding targets for the EU: an increase of at least 30% in energy efficiency, and a share of renewables up to at least 27%. To ensure that all Member States contribute to the common effort, the Commission has foreseen a very detailed regulation, asking each Member State to establish a national plan for climate & energy over a period of 10 years (2021-2030), and to determine linear trajectories of progress for each of these targets. The plans are submitted to the Commission, which elaborates recommendations when deemed necessary. The commitments required from Member States and the supervisory power given to the Commission actually result in national binding objectives at the level of each Member State.

How relevant are the strategy and the governance method chosen by the Commission to fulfil the different objectives of the Clean Energy Package?

The seminar of the 28th of September 2017 focused on the details of the draft Governance regulation, with a particular attention to the targets and the national climate and energy plans. The discussions have shed light on the impacts of these measures on the existing energy policies, as well as on the different industrial sectors.

THE PERSPECTIVE OF THE EUROPEAN LEGISLATORS: THE COMMISSION AND THE PARLIAMENT IN FAVOUR OF A “STRONG” GOVERNANCE

A solid governance to support the European climate ambitions

The proposal from the European Commission aims at several objectives:

- Simplify and integrate the energy and climate plans as well as reporting and monitoring obligations, and reduce the administrative burden for Member States
- Ensure coherence between the different pieces of legislations of the Clean Energy Package, which includes a set of measures concerning energy efficiency, renewable energies etc.
- Beyond administrative simplification, ensure the collective achievement of the EU’s climate objectives for 2030

This general framework relies on a national plan for energy and climate, cornerstone of the Commission's proposal that each State will have to establish for a 10 year-period (2021-2030). Most Member States already have similar tools. The governance proposal aims at simplify and harmonise them, with the objective of turning these plans into tools to promote and support regional and local initiatives by including the different stakeholders in their elaboration. As the amplex of the Package shows (this is the largest initiative ever undertaken by the Commission regarding energy policy), there is a lot at stake here: in the Commission's view, without a strong governance system, the different elements of the Package will be compromised. At the end, it is the EU vision for energy and climate that might be seriously put in danger. A robust framework is therefore essential to support European climate ambitions. This seems also necessary to bring the transparency and the stability needed by investors. This vision is shared by the European Parliament, which underlines that this governance approach is crucial not only for the energy sector, but for the energy transition in society as a whole, the digital revolution, consumers, and industries' competitiveness. But what is meant exactly by "strong governance"?

A governance framework very (too?) rigid

The approach taken by the Commission seems to be one of a rigid governance based on an individual evaluation of each Member States. The national energy and climate plans, associated to the possibility for the Commission to elaborate recommendations to Member States on the content of these plans, constitute the main governance instruments foreseen by the draft regulation. Even though the Commission stresses that its recommendations are not mandatory, the proposal of regulation does foresee that Member States are required to respect and to apply them (article 28). Thus, these recommendations are *de facto* – rather than *de jure* – binding for Member States. By ricochet, the Commission thus converts European indicators in national binding targets, therefore going against the will expressed by Member States during the European Council of the 23rd and 24th of October 2014, and duly recalled at the Council of Ministers in charge of energy of the 26th of November 2015. The binding nature of the targets is for instance visible in the fact that missing the national objective on renewable sources may lead to financial penalties (article 27, 4th paragraph of the proposal for a regulation on Governance).

If the Commission's approach of trying to avoid any "free-rider" behaviour among Member States is fully laudable, the governance framework drawn by the Commission's proposal seems to be too rigid. Should an efficient governance not allow to fully take into account all the objectives of the Clean Energy Package? The latest are multiple: reducing carbon emissions, improving energy efficiency, security of supply, competitiveness, consumers' protection, reduction of energy poverty etc. The Commission's approach does not allow to integrate these dimensions, nor to take into account external factors impacting the trajectory of developments such as technological progress or economic situation. Furthermore, the possibility to sanction Member States that would not manage to reach their objectives, even though the EU as a whole achieves its global objective, is hardly understandable.

These questions seem even more accurate since the European Parliament also supports a very rigid governance approach. Within the ITRE committee that is in charge of presenting a parliamentary report, a consensus seems to appear on the necessity to apply these explicitly constraining targets at the national level. But the Parliament wishes to go even further, and amendments aiming to establish targets even higher than those offered by the Commission regarding energy efficiency, renewable and interconnections have been tabled. Thus, the draft report presented in June 2017 suggests to include within this text a 45% target for renewables, and a 40% target for energy efficiency. The Commission has however clearly expressed its reluctance to such ambitions, indicating that the governance proposal was not the appropriate text for a discussion on targets, which should only be dealt with within their respective legislative proposals.

THE PERSPECTIVE OF INDUSTRIAL ACTORS (CONSUMERS AND PRODUCERS): UNDERESTIMATED IMPACTS

If they approve the general philosophy of the governance proposal, some representatives of power producers and electricity intensive industries have indicated that the consequences of this proposal seem to have been underestimated by the Commission, and have formulated several recommendations.

Too restrictive and not pragmatic enough

The Commission's proposal has raised some concerns from the electricity intensive industry, which has underlined the following points:

- Whenever possible, a sectorial approach should be adopted all along the elaboration process of the climate & energy national plans. It is preferable not to impose solutions to Member States but to privilege an on-going dialogue with the Commission in case of any insufficiencies within the national plans. While agreeing with the need for a robust governance, more room should be left for flexibility, notably on energy efficiency. On this last point, the proposed target results in setting up a cap for the energy volume that can be consumed for the EU as a whole, which is problematic since it does not allow to take into account the variations of economic activity. Beyond the levels of the targets, this is indeed the method used to establish them that matters.
- The competitiveness dimension is not sufficiently being taken into account within the Commission's proposal. For the chemical sector, guaranteeing the competitiveness of European industries is one of the key factors that will determine the success of the Energy Union, and conversely, ignoring these challenges will only be counter-productive. The issue of competitiveness does not limit itself to the domains of research and innovation, as it is however presented in the Commission's proposal. It is paramount that during the evaluation of the progress achieved within the Energy Union a particular attention is given to the unattended consequences that some measures could have on industry. It is crucial to assess these challenges through the competitiveness angle, without which we would lead the European strategy to failure, and to relocation of production outside Europe.
- The transition towards a low carbon economy represents both an opportunity and a challenge for these industries. An opportunity with the opening of new markets; for instance, the building sector will have enormous needs to improve the energy performance of buildings. A constantly growing share of renewable energies integrating networks also implies growing needs in energy storage, a demand to which an industry such as chemistry could answer to. But this energy transition also represents a substantial challenge for energy intensive industries. In order to significantly reduce its GHG emissions, the chemicals sector will have to be able to access to a cheap and low emitting energy source, including renewables. It is therefore estimated that, in order to become carbon neutral by 2050, this industry could need up to 4 900 TWh of low carbon electricity, which represents 140% of anticipated available volumes in 2050. Energy consumption and GHG emissions are not necessarily correlated, since in order to reduce their emissions, these industries will have to move towards a massive electrification, which is highly energy consuming.

Overlaps between energy and climate policies are neglected

The question of overlapping energy and climate policies is taken very seriously by power producers. The EU has built its energy and climate policy based on markets, which was a good approach because markets mean cost effectiveness. Currently, markets are not sending signals that are meaningful anymore, because prices are artificially built, which prevents companies of the energy sector from investing, and, paradoxically, favours emitting technologies by granting them a competitive advantage. The price of a tonne of CO₂ is 7 euros, whereas a minimum price of roughly 25-30 euros is necessary to initiate an evolution within the power sector. Without a price signal, public policies focus on control-type measures, which are more costly. In Germany, the current climate plan has multiplied energy costs by seven times compared to market prices. This brings us further away from the "polluters pay" principle, and leads to a global increase of decarbonisation costs. Currently, the demand for emissions allowances is completely shrinking because a lot

of reductions are achieved through these overlapping policies. Energy efficiency and renewable policies are not the only one to have a negative impact, national policies aiming at closing down fossil fuels plants for instance are responsible as well.

As a matter of fact, the ETS system is exposed to a double threat that might kill it:

1. The first threat is a short term problem; if we do not change the parameters, we are going to witness prices close to zero, which will inevitably lead to a political death of the ETS.
2. The second threat is on the long term; even when we witness a trend upwards, this increase is not rapid enough to incentivize operations and investments in less emitting technologies. As a consequence, it will lead to higher production costs for part of the industry. To maintain the competitive position of the European industry, it is therefore necessary to guarantee a full compensation of direct costs (by granting free allowances) and indirect costs (which result from a high price of electricity).

While suppressing any type of overlapping is impossible, the impact of the measures proposed in the Clean Energy Package on the ETS market have to be better integrated. The European calendar has not helped taking into account such considerations, as the legislative process linked to the Package, which contains some measures with a direct impact on the ETS, has been published well after the ETS reform and with a retroactive effect. This legislative process is however not finished yet, and an opportunity still remains to make some corrections.