



European Energy and Climate Policy - Long-Term Objectives and Medium-term Means

A Vision Paper for the European Dialogue on Climate and Energy

November 2007

The European Dialogue on the Climate and Energy Challenge brings together key industry, NGO, and national government leaders with the European commission for a productive dialogue on European climate and energy policies. Its goal is to produce both a coherent long term vision for such policies and specific shorter term policy recommendations. It seeks to integrate the intra-Europe strategies with the propositions that Europe puts forward in the context of international negotiations on long-term international climate policy.

As part of the Dialogue, participants have expressed the need for a statement on a shared vision of the climate and energy future for Europe, and of the drivers for change in this future. This paper provides that vision statement, as well as specific recommendations for the policy package to be released by the European Commission in January 2008.

Dialogue members participated as individuals, and the summary and Vision Statement reflect the collective outcome of discussions held in the Dialogue. It is not intended to imply endorsement of the specific recommendations by the dialogue member's organizations.

BACKGROUND

- The EU has endorsed a long-term goal to avoid a temperature increase below 2°C above pre-industrial levels, which requires stabilization at a concentration level of no more than 450 ppmv-CO₂e.
- Global emissions of greenhouse gases must peak by 2025 and be reduced to very low levels (at least 50%) by the middle of the twenty-first century in order to stabilize their concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.
- This will require transitioning towards a low carbon economy in Europe by the mid-century, and a significant contribution to decarbonisation outside Europe. The goal is to build a carbon-free society beyond 2050.
- The EU has outlined its proposals for Bali and beyond in its Council conclusions on the targets to be reached by 2020: the EU is committed to increase its greenhouse gas emissions target up to -30% emission reductions in 2020, if comparable efforts are made by other developed nations and significant voluntary contributions are made by advanced developing countries. Independently, the EU is committed to several Europe-wide targets: -20% emission reductions, 20% gains in energy efficiency, 20% share of renewable energy and 10% share of biofuels in transport fuel use.

KEY MESSAGES OF THE EUROPEAN DIALOGUE ON CLIMATE AND ENERGY

DEVELOPMENT OF A COHERENT AND INTEGRATED EUROPEAN CLIMATE AND ENERGY POLICY

- Meeting these mid-term goals (i.e., 20 to 30% below 1990 levels in 2020) is a prerequisite to keep in play the potential to reasonably achieve the 2050 reduction targets, and the longer-term goal of keeping within 2°C of pre-industrial levels.
- This remains to date the sole concrete proposal for a target in the post-2012 timeframe, and marks the foundation of EU international leadership on climate change for the post-2012 period.
- An important part of the EU's foreign policy in the future will focus on its relations with its energy suppliers. If domestic energy is not made more competitive, in the next 20 to 30 years around 70 % of the Union's energy requirements will need to be met by imported products – partly from regions threatened by insecurity.

- EU climate policy must work to reinforce energy security and diversity of supply, while providing additional finance to provide for more sustainable use of imported energy.
- In industrial policy, the goal must be for the EU to maintain its lead in key technologies for the future, both for competitiveness reasons and because ensuring that advanced technologies such as carbon capture and storage (CCS) get to market is imperative to decarbonise the global economy and meet the 2°C target.
- Achieving the -30% target requires the use of emissions reductions generated abroad through JI/CDM credits and other market-based instruments that will be developed for the post 2012 period.

SPECIFIC POLICY RECOMMENDATIONS

POLICIES FOR NON-TRADING SECTOR

- The EU package should make clear the level of reductions to be achieved EU-wide through the EU ETS.
- Clarity on the level of reductions to be achieved through policies and measures by member states in sectors not included in the EU ETS is needed. Defining a specific national target for the non-trading sectors in each member state will help to insure that the -20% and -30% goals can be met by 2020.
- The expected contribution toward the EU reduction goal to be made by the renewables program and the energy efficiency target should be clear.
- The energy efficiency goal is critical to achieving the renewable energy goal: without real improvements in energy efficiency, reaching the desired levels of penetration of renewable energy in the supply mix will become much more difficult and expensive. More common and coordinated policies and measures are needed to achieve the energy efficiency goal. The existing level of effort at Member States and EU level will not achieve its proclaimed targets. The Commission must complement its package with stronger measures on the energy efficiency side.
- Meeting the energy efficiency goals in the trading sectors would greatly increase the competitiveness of internationally competitive industries.
- Meeting the 20% renewable energy goal will be challenging – encouraging cost effective approaches such as trading can make this goal more easily attainable.

THE EU ETS: DRIVING REDUCTIONS WITHIN THE EU AND GLOBALLY

- EU ETS should remain central to Europe's strategy. The EU ETS reductions must be separate. If the ETS is to remain central to Europe's strategy, reductions must indeed be ambitious and must take into consideration achievement of the renewable and energy efficiency policy targets.
- Linking the EU ETS to other emission trading schemes is desirable, but only insofar as other emission trading schemes have proved to deliver comparable efforts, most likely after they have operated for a few years. Linking requires robust caps based on clear principles: the EU ETS should not be linked to schemes operating with price caps or based on intensity targets.
- Auctioning should increasingly be the norm in allocating EU allowances, with a steadily increasing percentage of allowances auctioned and a declining amount grandfathered for industrial sectors.
- To correct the distortions to competition that occurred during the pilot phase, allocations of allowances to industrial sector, should be based on benchmarks as the needed transition to full auctioning is made.
- No grandfathering to new entrants should be allowed in any sectors, as this would undermine intra-industry competitiveness with current facilities, not provide necessary incentives for innovation and technology development in the long-run and fail to ensure full internalization of carbon costs.

MOBILIZING CRITICAL ADVANCED TECHNOLOGIES: CARBON CAPTURE AND STORAGE

- Carbon Capture and Storage is a key transition technology. In the absence of significant progress on deployment of CCS by 2020, achieving both the EU and global decarbonization goals for the mid-century would require massive penetration of renewable energy or major changes to economic structure.
- The EU goal of building 10-12 demonstration plants by 2015 requires an added sense of urgency in getting a financial strategy in place by 2009.
- Regardless of which financing path is followed, whether through direct public funding at EU or Member State level, or through using allowance value as the basis for finance, the deployment schedule must be assured – speed of deployment is therefore an important criterion for selecting financing method.
- If deployment of these demonstration plants is not on track, the European Commission should reconsider in 2015 a possible compulsory mandate of carbon capture-readiness for

any new coal plants built after 2020. A mandatory review clause on the need for such a mandate, could be inserted in the forthcoming Commission proposal on CCS.

- A CCS deployment strategy must rely on several key drivers: an enabling regulatory framework through a Directive on CCS, the inclusion of CCS in the EU ETS, and a clear CCS mandate, tough EU ETS caps that send a sufficient price signal to incentivise CCS, and a financing policy package, including state aid clearance, that covers the incremental costs of “early CCS movers”..
- Major focus should be put on innovative financing options for “early movers” given the scale and importance of investments needed. Two viable financing options have been identified: use of allowances/auction revenues, or financing by a “coalition of the willing” approach of interested member states within the EU structure. Borrowing against the allowance revenue stream to create grants for deployment is an attractive cost and time-saving option. In either case, it is critical that a sufficient financing structure be developed immediately to ensure that the 10-12 CCS plants are built as committed.
- In all cases, financing and other CCS incentivization tools should be tailored to the particular application/ industry of CCS– rather than a “one size fits all” approach. For example, some oil refining or cement applications of CCS may need smaller financial incentives than post combustion electricity applications.
- A full range of demonstrations in various sectors and within and outside the EU should be encouraged.
- The program should be designed to insure benefits are shared broadly among member states.

Annex

The European Dialogue on the Climate and Energy Challenge brings together key industry, NGO, and national government leaders with the European commission for a productive dialogue on European climate and energy policies. Dialogue members participated as individuals, and the findings reflect the collective outcome of discussions held in the Dialogue. It is not intended to imply endorsement of the specific recommendations by the dialogue members organizations. Since March 2007, three meetings of the European Dialogue have been held in Madrid, Spain (March), Venice, Italy (June), and Lisbon, Portugal (October). The following individuals participated in these Dialogue sessions.

Principle Participants¹

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