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THE EUROPEAN WIND ENERGY ASSOCIATION

EWEA briefing on the 2030 Climate and Energy package
24 October 2014

On the 23rd and 24th of October EU Heads of State and government agreed a Climate and Energy package for 2030. This political agreement covers a number of critical issues for the wind power sector including the promotion of renewables, an increased greenhouse gas reduction target, infrastructure development and energy security.

The following headline targets were agreed:
- A binding target for greenhouse gas emissions savings of at least 40% as compared to 1990 levels;
- A binding renewable energy target of at least 27%;
- An indicative energy efficiency target of at least 27%;
- A previously agreed non-binding interconnectivity target of 10% was reinforced.

The European Council conclusions will now need to be translated into enforceable measures to be proposed by the European Commission and in principle adopted in co-decision. The European Council will, however, have oversight on certain measures to enforce the package (including on the Emissions Trading System and infrastructure). This means that individual Member States maintain a possibility of vetoing part of the future implementing legislation.

Key points:
- The EU has agreed headline greenhouse gas emission reduction targets in view of the international climate change negotiations in Paris end 2015 (COP21).
- The 2020 renewable energy objectives are still in force.
- Additional clarity will be required on how exactly the renewable energy target is to be met to ensure investor certainty. The new Commissioners - Cañete (Energy) and Šefčovič (Energy Union) – will need to develop the implementing measures for the renewable energy target.
- Progress on interconnectivity targets, in particular on addressing the bottleneck between France and Spain, is a positive signal.
- The measures proposed on greenhouse gas emissions reductions could undermine efforts to create the necessary scarcity in the ETS carbon market.

1. Renewable energy and energy efficiency targets

A binding renewable energy target of at least 27% is set at European level. Unlike the 2009 renewable energy directive, the package explicitly rules out binding national renewable energy targets.

⇨ ***Member States will need to define renewable energy contributions to collectively deliver on the EU-wide objective.***

The respective roles of the Member States and the European Commission in meeting this target are not spelled-out in the conclusions.

Rue d'Arlon 80 | T:+32 2 213 1811
1040 Brussels | F:+32 2 213 1890
Belgium | E: ewea@ewea.org
THE EUROPEAN WIND ENERGY ASSOCIATION asbl/vzw
www.ewea.org

- ***The process whereby Member States will determine their own contributionw and the Commission's ability to intervene if these national contributions do not add-up to the EU-wide objective need to be clarified.***

The conclusions refer to the need for a more connected internal energy market as well as back-up capacity (to be coordinated at regional level) to integrate renewables.

This renewable energy target is paired with a non-binding energy efficiency target of 27% (to be re-visited by 2020).

Importantly, reaching these targets should not intrude on the Member States' freedom to determine their energy mix.

2. <u>Governance</u>

A new governance system will be set up to ensure the EU meets its energy policy goals. The language in the conclusions is clearly the result of a compromise and open to interpretation.

This governance will build on existing tools including national plans for renewable energy.

- ***One of the objectives of this process is to increase transparency and predictability for investors.***

The new governance structure will emphasise regional cooperation; the development of renewable energy cooperation mechanisms could be part of this.

3. <u>Interconnectivity targets</u>

The European Council conclusions stress the necessity of achieving the existing electricity interconnection target of 10% by 2020. This objective was set back in 2002 and meant to be achieved by 2005.

The Commission will make proposals to finance this effort within the EU budget and report on progress towards a 15% interconnectivity target for 2030.

- ***The roll-out of the EU Projects of Common Interest - defined in 2013 as part of the Infrastructure Package – will be used as a more detailed benchmark for the development of interconnections.***

The Member States and Commission will advance the Projects of Common Interest (PCIs) linking energy islands to the Internal Energy Market, such as the Iberian Peninsula and Baltic countries. Additional projects will be included in the PCI list and supported with EU co-financing in the areas where the 10% target might not be met.

- ***The Commission will publish a communication ahead of the March 2015 European Council on this interconnectivity objective.***

4. <u>Greenhouse gas emissions reduction target</u>

A binding EU target to reduce domestic greenhouse gas emissions by 40% is split among ETS and non-ETS sectors (43% for the ETS sectors, 30% for the non-ETS sectors). Accordingly, the annual cap on the maximum permitted emissions will be adjusted from 1.74 to 2.2% from 2021.

The reform of the ETS and in particular the implementation of a Market Stability Reserve should be in line with the Commission proposal.

⇨ ***The Council conclusions could make advancing the start date of the Market Stability Reserve (from 2021 to 2017) more difficult.***

The European Council conclusions address concerns of the Member States on the cost of meeting the GHG target - via the creation of new funds and the redistribution of ETS allowances to less wealthy Member States - as well as the risk of carbon leakage.

- The existing NER 300 will be renewed and extended to low carbon innovation in industrial sectors (the NER 300 only covered Renewables and CCS). The endowment will be increased to 400 million allowances.
- The Member States with a GDP per capita below 60%[1] of the EU average will be allowed to give free allowances to their power sectors up to 2030.
- A new reserve of allowances of 2% will be set aside for these same eight countries to improve energy efficiency and to modernise the energy system.
- 10% of the ETS allowances will be distributed to Member States whose GDP per capita is lower than 90% of the EU average for the purposes of growth, solidarity and interconnections.
- Free allocation to heavy industry will continue after 2020. This comes with the risk of undermining the carbon price.

While some of these funds may be used for the development of renewables and interconnections, the redistribution of allowances may weaken the robustness of the ETS as this could undermine efforts to create scarcity in the carbon market and push up the price of carbon.

There will also be new flexibility instruments for non-ETS sectors to be decided before 2020. This will allow developed Member States to bring down their GHG reduction target in transport and agriculture via a one-off reduction of their ETS allowances.

[1] Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, and Slovakia