

POLICY BRIEF

Building EU Climate Ambition in the International Climate Negotiations – The EU 2030 Climate and Energy Proposals and Competitiveness¹

1. Reflections on 2030 proposals and investment security

The 2030 climate and energy framework should build the pillars that will help the EU to achieve a low-carbon economy in the most cost-effective way. A strong and binding set of targets and policies on emission reductions, renewable energy and energy efficiency should be adopted to provide investment security. Low-carbon technology development is currently happening faster in China than in the EU. These signs of “low-carbon leakage” indicate that the current 2030 proposals don’t send a clear enough signal to business for investing into renewables or energy efficiency.

The Commission’s 2030 proposals are criticized for too low ambition. They should set the speed of the transition to a low-carbon economy and good timing is crucial for success. Businesses need policy certainty in view of investment cycles and delaying action is likely to increase the costs of decarbonisation of the European economy. The EU needs a clear decision on the 2030 framework this year to have its offer ready for the Paris

Climate Summit in 2015. That means that there must be an agreement on the targets at the March Council, or at the latest before the Ban Ki-moon Summit in September 2014.

2. Misguided “competitiveness” and “cost-effectiveness” discussions in Brussels

The focus on competitiveness has skewed the 2030 discussions, especially in Brussels. The number of companies really exposed to carbon leakage is relatively small but these businesses have dominated the debate.

Rather than a conversation just on competitiveness, it should be about the transition over the next 10 to 20 years, and the industrial structure that the EU wants for tomorrow. If some industries move, there should be the strategy to deal with the people (and skills) left over. There is the need for a more focused set of industrial policies that focus on the transition of the industrial base in the EU rather than on specific industrial sectors such as cement and steel. To support this, strategic decisions will have to be made on research and innovation.

¹ The policy brief is based on a roundtable discussion that was held under Chatham House Rule on 17 February 2014 as part of the Brussels Dialogue Series “From Warsaw to Paris – The 2015 Momentum”. The opinions expressed do not necessarily represent the opinions of the Heinrich-Böll-Stiftung and E3G.

As part of competitiveness discussions there are often calls for a more cost-effective, market-based approach to climate and energy policies. However, leaving everything to the market ignores the fact that there is currently not a level playing field for renewable and conventional energy sources. Due to open and hidden subsidies, externalities as well as the current market design, the energy market is still far from being a competitive market. If the EU fails to commit to a common, ambitious and coherent climate and energy policy framework post-2020, there is furthermore a risk of re-nationalisation of energy policies and further fragmentation of the EU energy market. Better governance structures are needed to counteract this trend.

Another part of the conversation that needs to happen is a better understanding of the different investment patterns and drivers. Energy prices, for example, have always been higher in Europe than in the US. With the exception of major producer states, such as the US and countries in the Middle East, we are living in a world of high energy prices. It's not climate legislation that is suddenly changing everything – it's a variety of factors. Much of it has to do with the fundamentals of the EU economy rather than purely climate and energy policies. The Commission's energy prices and costs report also points to the fact that it is taxes and levies rather than renewables support schemes that are the reason for high energy prices in Europe. This contradicts with the common Brussels narrative that renewables support destroys European competitiveness. There has also been a substantial rise in oil prices since the 2020 package was adopted but this hasn't been fully integrated into the approach to 2030.

3. The way forward: Innovation for a competitive and low-carbon economy in Europe

The strength of the European economy stems from high-end products. Innovation is at the core of Europe's competitiveness. A global perspective is important to

understand challenges and opportunities of a low-carbon transition. In order to stay competitive, Europe should close the growing R&D expenditure gap compared to the US and focus on its R&D capabilities. Cross-border cooperation could pave the way to liberalize the R&D market in Europe.

In a world of high energy prices and growing energy demand from regions such as South East Asia, there will be huge global markets for innovative eco-products. A significant share of the world's population and GDP will be exposed to the same forces as Europe, driving eco-innovation and eco-demand in these markets. A robust carbon price is needed to drive such innovation. The surplus of allowances in the Emissions Trading Scheme (ETS) should be permanently removed and the market stability reserve should be initiated earlier than 2021 in order to stimulate innovation as of now. ETS revenues could be used to drive innovation in various industry sectors.

There should be much more focus on the demand side in order to bring down the costs. Incentives for energy efficiency measures, including energy savings in transport and housing need to rank much higher on policy-makers' agendas. Studies also highlight that energy efficiency has allowed Europe to remain competitive compared to the US.

Finally, the competitiveness discussions on the climate and energy framework should also consider the cost of inaction, business as usual scenarios and stranded investments. In the long run, the transition to a low-carbon economy will provide a competitive advantage to Europe and reduce the EU's dependency on fossil fuel imports.

