Global Counsel

# Europe’s 2030 climate targets: feeling the squeeze

**27 January 2014**


**Summary**

Last week saw the European Commission announce its proposals for new energy and climate change targets. The headlines were a 40% reduction in greenhouse gas emissions from 1990 levels, and for 27% of European energy consumption to come from renewable sources by 2030. The targets were at the higher end of what was politically possible – a reflection of member states’ lowered sights, rather than Commission ambition. The proposal also saw the Commission respond to diverging policy ambitions among member states by adopting an approach which is significantly more flexible and pragmatic than its current strategy. Ultimately, the proposals were the product of a world in which economic downturn has made energy cost and competitiveness critical political issues. It has taken the squeeze five years to work its way to the frontline of European climate policy, but it has arrived.


Last week, the European Commission announced its proposals for new energy and climate change targets to succeed the current 20/20/20 by 2020 targets for cutting greenhouse gas emissions, increasing renewable energy consumption and increasing energy efficiency. The Commission’s headline proposals were a 40% reduction in greenhouse gas emissions from 1990 levels, and a target of 27% of all European energy consumption to come from renewable sources by 2030. The greenhouse gas target will be broken down into binding national targets, but the renewables target will be binding only at the EU-wide level. There was no proposal on energy efficiency, although one may follow the review of the current Energy Efficiency Directive later this year. The Commission also put forward proposals for post-2020 reform of the EU Emissions Trading Scheme, which met with approval among those advocating a higher EU carbon price, but caution over its likely limited impact.

The mechanics of the announcement itself underlined just how contentious European energy policy has become. The press conference began over half an hour late, with the college of Commissioners remaining locked in debate until the very last moment, reportedly over the size of the greenhouse gas emissions target. The press release was issued and then swiftly retracted, before an amended version was later reissued.

The final decision for a 40% target has been interpreted as a victory for Climate Commissioner Connie Hedegaard, and a defeat for Energy Commissioner Günther Oettinger, who had advocated a 35% target. Their relative demeanour at the announcement certainly gave weight to this interpretation. Given the stated support of Germany, UK, France, Italy, Spain and the Netherlands for the 40% target before the proposal, this was always the more likely outcome.

At the centre of the Commission package is a proposed new governance framework for energy policy which would see member states submit annual plans to the Commission for review. The details are yet to be set out, but it is argued that these plans would increase transparency for investors, enhance energy policy coordination across the EU, and provide oversight on the EU-wide 27% renewable energy consumption target.

### Lesson learned?

What does the Commission’s proposal tell us about the direction of European energy policy over the next decade? Overall, the proposal was at the more ambitious end of what was politically possible.

Global Counsel

Environmental NGOs were publicly critical, but privately probably think it could have been worse.

That in itself indicates the lowered ambitions for European action on climate change. The 40% target was the higher option on the table – and is still ambitious in global terms - but it is worth noting that Europe would achieve a 32% reduction in greenhouse gas emissions anyway under a business-as-usual scenario in which energy intensive production continues to contract or be outsourced beyond the EU. Similarly the EU-wide renewables target of 27% is a modest increase from a business-as-usual figure of 24%.

This lowered ambition was the crystallisation of a growing unease among member states and parts of the Commission about the cost of the EU's global leadership on tackling climate change – in particular meeting the costs of installing renewable energy. Commission President Barroso's comment that "renewables are not an end in themselves" echoed a growing pragmatism in national capitals on how Europe reduces its greenhouse gas emissions.

Europe's beleaguered gas sector will take some comfort from this and welcome the Commission's decision to offer only a set of recommended minimum standards for shale gas extraction, rather than EU-wide rules and regulation. What will continue to worry the sector is that it is not clear how far this package will cut back coal consumption in the 2020s, and that it does little to counter the Commission's increasing hostility to capacity payments for backup generation for renewables.

The renewables target itself was always the most contentious part of the package, with critics arguing that a separate target would effectively mandate a higher cost route to greenhouse gas emissions reduction. In the end it was something of a fudge. The 'binding' part of the target was reportedly included at the last minute at the insistence of Germany and other countries that had pushed hard for an ambitious renewables target. Ultimately, however, this looks like a win for member states who have been arguing for greater control over how they achieve their greenhouse gas emissions reductions – think nuclear in the UK, and carbon capture and storage in Poland. The proposal has set a binding 27% target for renewable energy consumption at the EU level, but with no binding targets for individual member states. This led one UK MEP to decry it as "unenforceable". Certainly it has left the mechanisms for ensuring the EU target is met – and the consequences if it is not – unclear.

The decision to allow member states greater flexibility was labelled by the Commission as a "lesson learned" from the current 2020 targets. The decision does, however, raise serious questions about the ability of the Commission to manage and coordinate member states' energy policy. This will be highly dependent on the details of the new governance framework, and the details will be closely scrutinised. The governance framework as it stands has few teeth.

Analogous arrangements where an EU-wide target has not been accompanied by specific member state targets do not bode well. The EU's Lisbon Agenda - the set of targets adopted in 2000 by the European Council to make the EU 'the most competitive market in the world by 2010' – were widely considered to have been undermined by European governance mechanisms that failed to drive reform at the national level.

The Commission's proposals will now face scrutiny in the European Parliament and will need to secure assent from the Council when it meets on the 20 and 21 March. The Parliament is likely to give the Commission proposals a rough ride. On balance, the chamber is markedly more favourable towards action on climate change and is likely to vent its frustration at the Commission's proposal being made before the parliament's own report – which proposes a 40% emission reduction, a 30% renewables target and a 40% energy efficiency target – had been voted on in the Plenary.

Gaining assent from the Council is also unlikely to be straightforward. The Poles will be highly resistant to both the 40% greenhouse gas emissions reduction target and the 27% renewable energy target, even without specific member state targets. There is little guarantee that the proposal will come through the Council unscathed.

## Political climate changed

The Commission's proposals reflected rising concern over the cost of energy, fears about falling European competitiveness, and negative feedback resulting from the failure to achieve a global agreement on reducing greenhouse gases. But they were also a product of the Commission's increasing difficulty in accommodating its 28 member states. Five years of economic downturn in Europe has meant that decisions over energy policy – and, in particular, the cost of those decisions - have become increasingly acute. As a result, member state policy priorities have begun to diverge to an extent that the Commission is struggling to contain under a unified strategy.

When the first round of EU targets were set in 2009, the differences between member states were essentially questions of how far to cut emissions and how fast to build out renewables. These differences were accommodated relatively easily within the Commission's proposals. The set of differences which confronted the Commission this time around were of a different order. They were not only about speed, but also about the direction of travel.

The removal of national targets for renewable energy looks like an admission by the Commission that it has not been able to bridge these differences. It may also be the decision of a Commission which is coming to the end of its life and was willing to compromise to secure an agreement. As the Commission winds down, more issues may follow where thoughts of the Commission's legacy focusses minds and encourages flexibility.

In the press conference after the announcement, Hedegaard said that the Commission had aimed to define the "doable" in a European political economy in which affordable energy is increasingly salient and increasingly positioned at the heart of competitiveness and the EU recovery. This went to the heart of the issue. The scope of the "politically doable" between the 28 member states has been circumscribed by economic downturn and the consequent divergence of policy priorities. It has taken the squeeze five years to work its way to the frontline of European climate policy, but it has arrived.

*To contact the author of this Global Counsel Insight email Matthew Duhan (**m.duhan@global-counsel.co.uk**). The views stated in this paper can be attributed to the named author only.*

info@global-counsel.co.uk
+44 (0)207 656 7600