

To the  
European Commission  
DG Energy

Düsseldorf, 02 July 2013

## Public Consultation on the Green Paper on a 2030 Framework for Climate and Energy Policies

**Düsseldorf Institute  
for Competition Economics**

### Targets and Measurability:

“The things that get measured are the things that get done” is a simple, but probably true management wisdom. The EU has, in the past, formulated measurable objectives in its 20-20-20 strategy for GHG reductions, energy efficiency and energy savings. There are no measurable objectives for security of supply and affordability. Most likely, these objectives will not be taken seriously, as there is no way to measure whether these two objectives, “security of supply” and “affordability”, have been reached, as long as no measurable objectives are formulated.

Formulating measurable targets would also help addressing the inherent trade-offs between various objectives and making trade-offs more transparent. At the moment, it remains unclear how priorities are set if objectives conflict with each other.

### Targets for Single Sectors:

The EU ETS is the single most important instrument for climate policy. Given that climate change does not depend on where emissions occur (in which sector) but mostly on how many GHG are emitted, the EU ETS should be as encompassing as possible. All efforts should be undertaken to integrate the traffic sectors, agriculture as well as markets for heating and cooling into the EU ETS.

Targets for sub-sectors and regulations on the product label are likely to be counterproductive as they tend to drive up costs and jeopardise climate policies, as public support and acceptance may vanish with increasing costs, especially if the measures undertaken are costly, but not very effective. Efforts to strengthen the EU ETS are likely to lead to low-cost solutions to driven down GHG emissions.

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### Instruments:

As often as possible, price instruments should be used rather than prohibitions and regulations, which jeopardize climate change policies as the unnecessarily drive up costs. Increasing fuel taxes is less intrusive and more efficient than regulating light bulbs and average car fleet emissions.

### Renewable Energies:

The extremely nationalistic approach to subsidizing electricity production (only within member states' own territories) is threatening European integration of electricity markets. Electricity markets tend to become more fragmented again, even though cross-border coupling capacities are expanding and coupling mechanisms become more efficient. Support policies for renewable energies should be harmonized across Europe to ensure that comparative advantages are utilized to the greatest extent. A supra-national (regional) renewable quota system as implemented in Sweden (and Norway) can align market integration objectives and support for renewable energies.

### EU ETS Allocations:

The free allocation of GHG emission certificates does not follow economic principles. The exposure to international trade is a very crude measure to account for the risk of carbon leakage. Most importantly, it would be useful to analyze how a free allocation of GHG emission certificates affects a firm's *marginal* likelihood to relocate. To put it differently, the key question is what difference the (free) allocation of certificates makes. What is the *marginal* effect of allocating another free certificate? This marginal effect should, ideally, be equal across all firms to ensure efficiency.

Sincerely



Professor Dr. Justus Haucap