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Trades Union Congress, UK

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## **EU consultation on energy and industry policy to 2030: TUC response, June 2013**

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### **`Summary**

The EU's 2020 target to generate a fifth of Europe's energy from renewable sources by 2020 is widely credited with driving huge employment growth across the renewables sector, accounting for over 100,000 jobs in the UK alone.

The European Commission is now seeking views on setting new targets for 2030, updating this and other energy and industry policies in a new consultation paper, *A 2030 Framework for Energy and Climate policies*. This TUC response argues that an ambitious EU energy policy framework is essential to meet Europe's contribution to global efforts to tackle climate change, bring forward UK manufacturing investment and provide a green stimulus to economic recovery.

The paper notes that the Government has again sent mixed messages to the EU, its response to the consultation apparently supporting carbon targets but opposing further EU ambitions on renewable energy. Uncertainty over the coalition's support for renewable energy specifically, and more broadly its drift away from the green economy, have caused major UK manufacturers to defer infrastructure investment.

The TUC therefore calls on the EU to:

- Adopt a new 2030 target to cut CO2 emissions by at least 40% as a further milestone towards the EU's 2050 Low carbon Economy Roadmap.

- Adopt a new renewable energy target for 2030 to provide clarity and certainty for investment in jobs and skills.
- Match its support for ambitious climate targets with increased support for our energy intensive industries, faced with the long term risk of carbon leakage and job exports, to facilitate the kind of support package the UK government is now developing.
- Fund “greenworkplace” training programmes that recognise the workplace as a focus for joint union-management energy saving initiatives.

## **EU consultation on energy and industry policy to 2030: TUC response**

### **Introduction**

On 27 March 2013 the European Commission launched a three-month public Consultation and Green Paper on *A 2030 Framework for Energy and Climate policies*<sup>1</sup>, setting out a longer term direction for industry and energy policy across the EU. Together with communications on renewable energy and carbon capture and storage technology, these policy reviews combine to form a long term framework to drive investments in green jobs and skills across the EU, providing a coherent and sustainable response to the growth and recovery challenges it faces.

In the UK, the TUC is concerned that uncertainty over the Government’s support for renewable energy specifically, and more broadly its drift away from the green economy, has caused major manufacturers to hold back investment in manufacturing plant, such as the proposed Siemens factory on Hull docks. With many thousands of large-scale offshore wind turbines due to be installed in the UK, the industry body Renewable UK has argued that the government should send the right signals to major investors deciding where to build major wind turbine factories. Targets on emissions and renewables for 2030 are key to providing a long term framework for investment.

This TUC response focuses on four of the EU’s 22 consultation questions most relevant to the energy and industrial interests of the TUC and its affiliates.

## **1. Setting binding EU targets for 2030**

**Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?**

The EU is seeking views on revising two of its key climate change objectives for 2020 with new targets for 2030, including:

- The EU's current high level a 20% reduction in carbon dioxide and other greenhouse gas emissions by 2020.
- The 2020 renewable energy target, in which 20% of the EU's energy consumption is based on renewable energy supplies (wind, solar, hydro, etc).

In order to keep climate change below 2°C, the European Council's *Roadmap for moving to a competitive low carbon economy in 2050*<sup>2</sup> (2011) confirmed the EU objective of reducing greenhouse gas emissions by 80-95% by 2050 (compared to 1990 levels). These emission reductions by developed countries were deemed as essential by the Intergovernmental Panel on Climate Change.

### **A binding CO2 target for 2030**

**The TUC would support the analysis of the EU's 2050 Low Carbon Economy Roadmap of a 40% minimum reduction in EU average emissions by 2030 compared to 1990, with a higher level of ambition if the UN supports a global climate change treaty in 2015.**

The TUC welcomes the initiative of the UK's Energy Secretary, in the government's preliminary view on 25 May 2013<sup>3</sup>, arguing that, "The EU should set a target to cut CO2 emissions by at least 40% by 2030, rising to 50% if an ambitious global climate deal is struck in 2015."

The TUC welcomes this position, which is consistent with the UK's long term carbon budgets, established under powers provided by the Climate Change Act 2008. With all-Party support, the Act set the UK on a path of legally binding domestic cuts in carbon emissions, with the government subsequently adopting markers of a 34% cut in carbon dioxide (CO2) emissions by 2020, rising to 60% by 2030.

Within the EU there also appears to be a broad consensus that new 2030 interim targets for CO2 and other greenhouse

gas emission (GHG) reductions will be necessary to reach the aspiration of an 80-95% reduction by 2050.

The key EU policy to reach this goal is the EU Emissions Trading System (EU ETS). The EU ETS caps carbon emissions across the EU, creates a carbon market and delivers a single carbon price for large industrial installations, the power and aviation sectors. The cap-and-trade scheme covers more than 10,000 industrial and power installations across the EU, including 1,000 power stations and industrial plant in the UK, controlling nearly 50% of all EU greenhouse gas emissions.

But the market-based ETS, devised in a period of strong economic growth, has suffered from surpluses during the economic crisis. Falling industrial output has created large excesses of tradeable carbon allowances. The carbon price is currently about 3.5 euros per tonne of CO<sub>2</sub> (April 2013), or about one-tenth of the value needed to drive investment in low carbon alternatives. A weak carbon price also devalues EU funds from set aside allowances to support investment in carbon capture and storage technology.

So although the emissions trading scheme may achieve its aims of a 21% cut in emissions under its control by 2020 (carbon emissions had fallen by 16% by 2011), its future is much less certain without the underpinning of a new, ambitious 2030 target.

Continuing high level ambitions in the EU may also encourage the Government to align efforts to tackle climate change with a jobs and growth strategy. A case in point is current Treasury-led resistance to a 2030 "decarbonisation target" in the government's Energy Bill, despite BIS evidence that the low carbon sectors of the economy are growing at a faster pace than the economy as a whole. Reforms in the Energy Bill are intended to drive £110bn of new clean energy investment by 2020. If successful, this will bring a massive jobs and skills premium.

The TUC would support the analysis of the EU's 2050 Low Carbon Economy Roadmap of a 40% minimum reduction in EU average emissions by 2030 compared to 1990, with a higher level of ambition if the UN supports a global climate change treaty in 2015. This target should be legally binding at Member State level, subject to appropriate effort sharing across the EU.

## **A binding renewable energy target for 2030**

**The TUC calls on the EU to adopt an ambitious 2030 renewable energy target to sustain investment in new low carbon technologies.**

The EU looks set to meet the 2020 target of 20% of energy consumption from renewable energy sources. The UK's contribution is to meet 15% of all its energy needs from renewables, which in effect means 30% of electricity supply from renewable resources. In 2010, the renewables share of total energy supply in the EU was 12.7%, compared to 8.5% in 2005. In the UK, renewables' share of electricity generation was a record 11.3% in 2012, an increase of 2.0 percentage points on the previous year<sup>4</sup>.

Annual growth in renewable energy stepped up sharply since the EU introduced indicative targets, from a growth rate of 1.9% per annum (1995-2000) to 4.5% (2001-2010). It does not augur well that the EU ETS has failed to date to deliver long-term carbon price signals. It's fair to say that the mandatory renewable energy targets for 2020 has addressed this market failure by accelerating the deployment of renewable energy across the EU. We need to maintain that momentum by continuing this targeted approach to 2030.

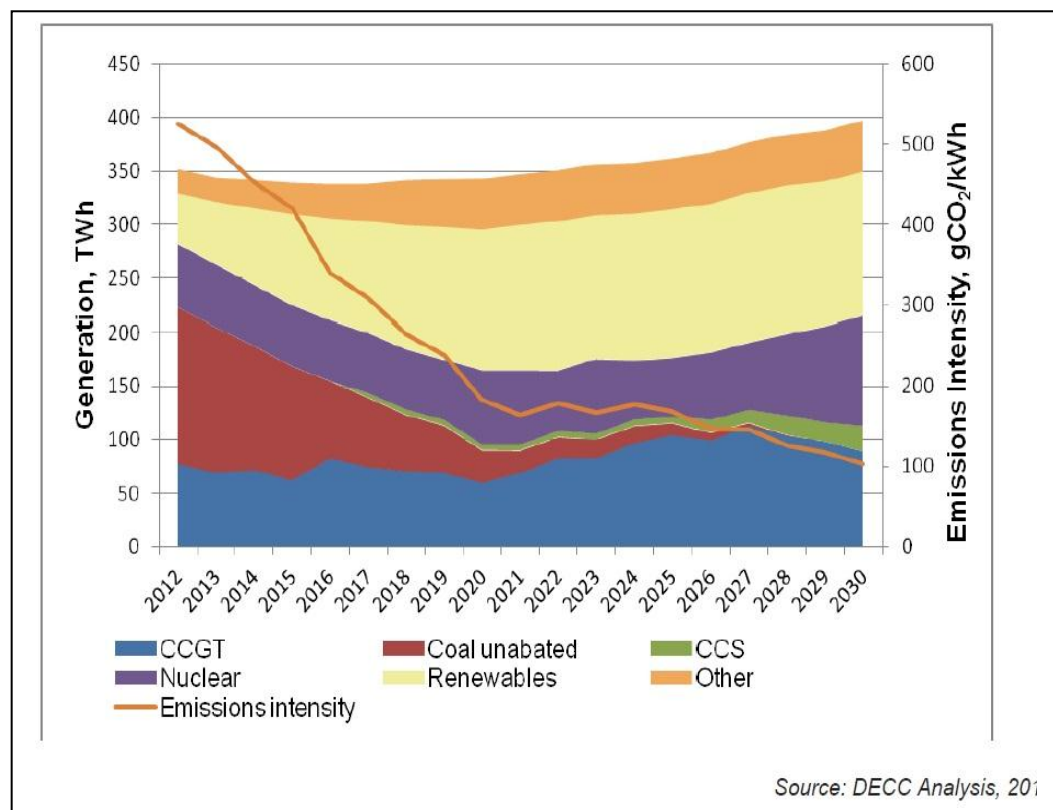
Despite conflicts in policy direction that have marked the coalition's approach to renewables, the UK is roughly on track to meet its 2020 renewables target, according to the Renewable Energy Association<sup>5</sup>. Most other EU27 countries are ahead of their interim targets. The rest of the EU realises the broader benefits of renewables and is powering ahead. The UK must catch up. The prize is 400,000 green jobs in the UK in an industry worth an estimated £12.5 billion in 2020<sup>6</sup>.

Yet, on the question of a 2030 renewables target, the Government argues<sup>7</sup> that its "approach is technology neutral, and our reforms will rely on the market and competition to determine the low carbon electricity mix. We will therefore oppose a Renewable Energy target at an EU level as inflexible and unnecessary."

Despite the government's pretence of technology neutrality, for which read an aversion to "picking winners", public policy is obviously guiding investment decisions in new technology and manufacture - or holding them back. A week before Budget 2013, six global power manufacturers wrote to the UK Chancellor to set a long term, 2030 reduction target

in the Energy Bill. It appears that political uncertainty has stayed Siemens plans for a new 700-job turbine factory on Hull docks, in a city where 14 claimants are chasing every vacancy.

#### UK energy generation mix: 2012-2030



**Source: DECC gas generation strategy, 2013.**

Investors such as these are facing an investment cliff from 2020. The graph shows a rapid annual expansion of renewables in the energy mix to 2020 (the renewables band, second from the top, widens every year). But the renewables' target expires in 2020, when expansion grinds to a halt. This investment buffer explains why Alstom UK, Gamesa, Doosan, Areva, Vestas and Mitsubishi Power Systems

Investors are shy of investing in multi-billion, multi-year projects. It also explains why they support a new, 2030 carbon reduction target in the Energy Bill.

**The TUC calls on the EU to adopt an ambitious 2030 renewable energy target to sustain investment in new low carbon technologies.**

## **2. Competitiveness issues**

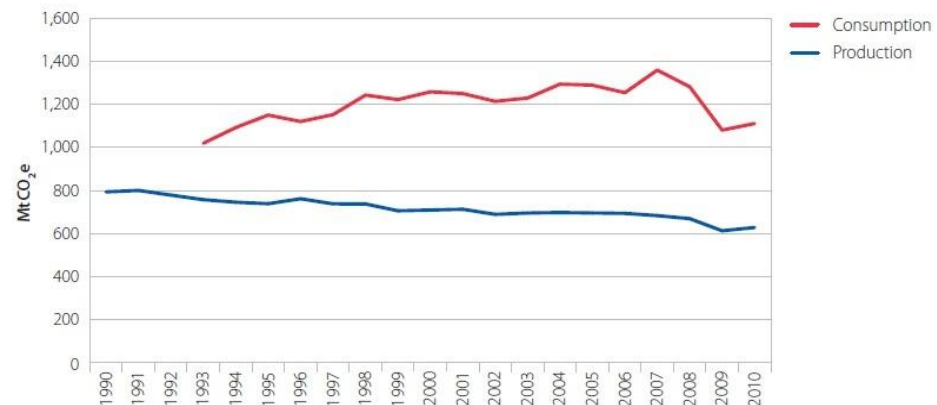
**Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness? What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?**

**The TUC believes that the EU should encourage social partners to establish joint industrial policy bodies at national and EU level to address the challenges and opportunities of retaining and growing industries that make products for a low carbon economy in the EU itself.**

Across the EU, energy intensive industries – sometimes, as in the UK, working with trade union support – have argued for measures to offset the risk of risk of carbon and jobs leakage to non-EU competitors. Some protection from EU carbon costs is provided through certain EU ETS measures like free carbon allowances. These measures will continue until 2020. State aid rules related to the ETS allow Member States (from 2013) to provide compensation for increased electricity costs due to pricing carbon in the EU ETS and the UK's unique carbon price floor. Those passed through *indirect costs* bear heavily on the most electricity intensive sectors. Furthermore, environmental state aid rules currently allow targeted exemptions for industry from energy related taxes. The 2030 framework will need to review whether and how this approach should be continued.

In the UK, having exported manufacturing jobs over decades, we now import more carbon than we produce<sup>8</sup>, due to the energy embedded in imports for consumption of everything from food and smart phones to wind turbines. It has boosted the UK's net carbon footprint by 10% since 1993, as UK manufacturing "hollowed out".

**Figure 1.2: Greenhouse gas emissions associated with UK production and consumption (1990-2010)**



**Source: Committee on Climate Change, 2013.**

The TUC has welcomed the government's £250m support package for energy-intensive industries like steel, chemicals and, to some extent, ceramics, which helps to underpin their UK operations. The Committee on Climate Change's (CCC) examined the competitiveness risks facing our heavy industry in the transition to a low carbon economy. The committee examined whether energy intensive industries were overburdened with green taxes. It estimates that UK carbon taxes make a £400m hit on their profits. This, it suggests, is roughly balanced by the government's complex compensation package now under discussion with industry and trade unions through a Task Group of the Green Economy Council. We are not so sure. Just £250m of the package is on the table, providing short term assistance to 2015, with no costings or commitment beyond that date. Whole industries are excluded, and certain elements require complex state aid negotiations with the EU. Finally, the compensation scheme does not compare well with provisions among our competitors, such as the £6.8bn of exemptions provided by the German government for industry. In addition, UK base electricity prices are higher than our competitors.

In principle, therefore, the TUC urges the EU to recognise the significant and long term risk of carbon leakage to our energy intensive industries. The EU should develop measures to positively encourage and facilitate a level playing field across the EU, to help enhance the kind of support package the UK government is now developing, albeit on a smaller scale than the TUC would like to see. Without comprehensive, long term support industry faces continuing



risks of significant jobs losses, leading to even more imported, carbon consumption emissions.

Key to the progress made in addressing the future of the energy intensive industries in the UK has been the joint industry-trade union effort developed through shared, evidence-based research.

**The EU should therefore encourage social partners to establish joint industrial policy bodies at national and EU level to address the challenges and opportunities of retaining and growing industries that make products for a low carbon economy in the EU itself.**

### **3. Industrial energy efficiency: greening the workplace**

**Which measures could be envisaged to make further energy savings most cost effectively?**

**The TUC urges the EU to develop new measures and funded training programmes that explicitly recognise the workplace as a focus for joint union-management initiatives.**

Energy efficiency is the EU's third 2020 goal. It aims to save 20% of the EU's energy consumption by 2020 (compared to projections made in 2007). It's not legally binding for Member States, but significant progress has nevertheless been made. After years of growing energy use, EU primary energy consumption peaked in 2005/2006. With the adoption of the Energy Efficiency Directive (EED) in 2012 there is now a comprehensive legislative framework at EU level. This Directive includes specific support for "behaviour change" initiatives in the workplace, on worker participation and training, which the ETUC lobbied for.

However, the UK government has yet transposed the provisions on employee participation and training in the workplace. Instead, the government is addressing its obligations under the Directive with an Energy Efficiency Strategy (November 2012) a DECC-led initiative focusing on creating new markets for energy saving products, the Green Deal, product labelling, etc.

TUC and employer evidence shows how little support there is at work for environmental training. Green unions at work 2012, the TUC national survey of 1,200 union representatives engaged in environmental activities at work, found that just one in seven reps (14%) had received training on environmental issues and climate change as part

of union training or from their employer. This reflects findings from the UK's Carbon Trust (2009) that the vast majority of employees want to reduce workplace greenhouse gas emissions but only one fifth has access to training. A new study by the employers' body the EEF<sup>9</sup>, showed that a third of employers view "employee buy-in" as a major barrier to reducing energy use.

**The TUC would therefore encourage the EU to develop new measures and funded training programmes that explicitly recognise the workplace as a focus for joint union-management initiatives. The ETUC's report, GreenWorkplaces: A guide for union representatives<sup>10</sup> (2013) provides evidence and guidance from across the EU of effective joint initiatives to save energy through a combination of behaviour change and awareness issues and joint consultations on process and technology developments.**

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<sup>1</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0169:FIN:EN:PDF>

<sup>2</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0112:FIN:EN:PDF>

<sup>3</sup> <https://www.gov.uk/government/news/uk-urges-europe-on-50-ambition-on-emissions-reductions>

<sup>4</sup> <https://www.gov.uk/government/publications/energy-trends-march-2013>

<sup>5</sup> <http://www.r-e-a.net/news/rea-recommends-extension-of-successful-renewable-energy-targets>

<sup>6</sup> REA: Renewable Energy, Made in Britain, 23rd April 2012. Press release available at: <http://www.r-e-a.net/news/report-on-employment-and-skills-in-the-uk-renewable-energy-sector-to-be-launched-with-greg-barker>

<sup>7</sup> <https://www.gov.uk/government/news/uk-urges-europe-on-50-ambition-on-emissions-reductions>

<sup>8</sup> Reducing the UK's carbon footprint and managing competitiveness risks, Committee on Climate Change, 2013

<sup>9</sup> Tech for growth, EEF, 2013 - <http://www.eef.org.uk/>

<sup>10</sup> [http://www.tuc.org.uk/tucfiles/544/ETUC\\_greenworkplaces\\_guide\\_union\\_reps.pdf](http://www.tuc.org.uk/tucfiles/544/ETUC_greenworkplaces_guide_union_reps.pdf)