Green Paper 2030 Consultation

Answer submitted by: SHV Energy

4.1. General

• Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The 2020 framework, with its 20-20-20 targets and its common focus, did capture people's imagination. It is now important to build on the momentum generated by the 2020 framework. The concept of targets setting the dynamics of emissions reductions across Europe should not be lost. In 2011, GHG emissions were 16% below 1990 levels. The target clearly has a role in driving down emissions. For this reason, SHV Energy would support an umbrella target for emissions reductions in 2030 (see question below).

However, the EU now needs to take stock of lessons learned since the 20-20-20 targets were agreed. One area where the EU needs to be particularly vigilant is the area of bioenergies, which have failed to fully reassure on their 'green' credentials. Safeguards need to be put in place before going any further in their wide promotion in the EU.

One very important parameter has changed since the 2020 framework was agreed: the economic and financial crisis. It is therefore crucial for the EU to ensure a better balance between the need to restore European competitiveness while safeguarding jobs and preserve our environment.

Europe's leadership on climate policy should remain unquestioned. However, as pointed out by the European Commission on its website, only 11% of the greenhouse gases emitted worldwide each year come from within the European Union. Reducing emissions in Europe is an honourable and much needed effort, but should not be detrimental to our industrial competitiveness when other regions of the world continue to produce – and pollute…

Finally, SHV Energy would like to point out important regional differences that have so far received little attention: the differences in energy use between cities and rural areas. There is an obvious lack of understanding in energy usage beyond the utility grids. The issues faced by rural dwellers (more polluting fuels used, poor energy efficiency of the building stock, acute energy poverty issues…) should be addressed in the 2030 framework, particularly through focused efforts on improving energy efficiency in rural areas.

4.2. Targets

• 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?

SHV Energy supports an overall emissions reduction target for 2030. As experience has proved that tangible results are better achieved with binding targets, SHV Energy would support a 40% emissions reduction target by 2040 for the EU-27. This overall emissions target should translate into varying national emissions reduction targets adapted to the possibilities of each Member State.

Such an overall emissions reduction target should set the overall *framework* going forward and the European Union should leave flexibility in the *means* chosen by Member States to reach these targets. The European Commission shall provide recommendations and possible solutions but should leave Member States in control of the measures they adopt to reach the desired target.

All energy analysts anticipate fossil fuels to continue to play a crucial role in Europe's energy supply. 2030 plans cannot simply write them off as a whole and focus only on renewables. On the contrary, the 2030 framework will need to integrate them by 1) ensuring they are used in the most energy-efficient conditions, 2) encouraging the phase-out of most polluting fuel types and uses, such as heating oil and solid fuels used for heating purposes. Whilst Carbon Capture and Storage offers opportunities for large scale use of these fuels, it is impractical for smaller scale domestic and commercial applications. Not all fossil fuels are the same and gaseous fuels such as Natural Gas and LPG have demonstrated their potential to reduce emissions. The US experience has proven that emissions have declined thanks to the increasing use of Natural Gas (much of which deriving from unconventional sources) versus more CO_2-intensive fuels such as coal. On a different note, we really see gaseous fuels as the ideal partners for renewables. Gas will not displace renewables, as some fear, since they are made to work together. Solar panels in particular need a great amount of flexibility and, in areas not connected to the natural gas grid, LPG can play an important back-up role for these technologies.

In its upcoming 2030 Energy and Climate Change Package, the European Commission needs to take stock of the economic and financial crisis that has hit Europe since the 20-20-20 targets were agreed in 2008. Policies aiming at carbon reduction should be rigorously appraised for their effect on affordability. The level of subsidies – directly or indirectly paid by consumers – should therefore be kept under a certain threshold. SHV Energy would for example recommend carrying an analysis of total subsidy versus cost of carbon abated. A principle should be applied whereby technologies which cost more than the carbon they save should not be supported.

In effect, the Commission should ensure that the most cost-effective solutions are applied to reach the desired emissions reductions without resorting to over-pragmatism which could dilute the stated environmental aims.

Concretely this means that:

- <u>Priority should be given to energy efficiency measures</u>. The recently adopted Energy Efficiency Directive has set the right path but the European Commission should not stop short of already setting ambitious energy efficiency targets for 2030. SHV Energy has long committed to encouraging the most efficient uses of LPG, especially in the building sector with the wider use of state-of-the-art heating and cooling appliances, such as Micro-CHP and gas heat pumps.

- Priority should be given to the building sector, as buildings account for 40 % of Europe's energy use and a third of its greenhouse gas emissions. To encourage energy savings in buildings, the European Commission should consider the setting of a binding target for building renovation and also targeted measures for areas with the greatest potential. For example, it is proved that rural buildings are significantly lagging behind. For example, a recent survey conducted in Scotland found that "68% of dwellings in urban areas have a 'good' NHER [National Home Energy Rating] rating compared with 29% of those in rural areas. In France, the National Statistics Office INSEE also noted that "Urban inhabitants have been the first to benefit from better building insulation and energy efficient heating systems and vehicles."
- Technical measures, such as Ecodesign requirements for energy-using products and feed-in tariffs, should continue to be updated over time. They make an essential contribution to energy savings. They should however not discriminate against the use of gaseous fuels over other types of energies (renewable energies in particular).
- Support for renewables should stop when they approach grid parity. Renewable energies are mature technologies and they have become mainstream in many Member States. Germany has now hit 32.6 GW of cumulated PV capacity. Government support is said to continue until capacity reaches 52 GW, with Feed-in-Tariffs decreasing over time. SHV Energy supports this approach and believes additional binding targets for renewables are no longer necessary, since their development is now well engaged. More generally, SHV Energy would also support time-limited subsidies to avoid permanent dependence on public funding for certain technologies.

• Have there been inconsistences in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

The 2020 targets had unintended consequences, which required policy corrections half-way through their implementation. The European Union should therefore integrate the lessons learned from the process, especially in the following areas:

- **Sustainability of Biofuels:** The 2030 targets should leave out biofuels before there is more clarity on the ILUC effect of biofuels production. SHV Energy has been looking for ways to develop biopropane, as a by-product of biodiesel production. However, before making significant investments, more clarity is needed on the full life-cycle emissions of this family of fuels and their associated ILUC factor (if any).
- **Sustainability of Biomass:** Just like biofuels, the development of biomass comes with certain questions, such as the link with deforestation in some areas. Biomass combustion is also a major contributor to air pollution, especially with regards to PM emissions. This is a case where trade-offs may exist between climate change policy and air quality and where coherence between both policies needs to be strengthened. As biomass is one of the most widely-used renewable energy for heating, it is crucial that the EU undertakes a thorough evaluation of this technology with a robust evidence base before biomass is encouraged more widely. The same approach should apply to other technologies whose sustainability and low-carbon credentials have not yet been fully demonstrated.

- **Renewables incentives**: The European Commission has already identified renewables' support schemes as an area where guidance is needed at EU level. Support schemes have sometimes led to very high costs for Member States (for example, €9bn in Italy in 2012), which were partly passed on to energy consumers through higher electricity prices. At a time when high energy prices and energy poverty are becoming major issues, the indirect effects of renewables' subsidies need to be taken into consideration if we want the EU energy system to remain competitive.

• Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO_2 reductions for passenger cars and light commercial vehicles?

Targets for sub-sectors should only be considered when existing measures have not produced sufficient results, to avoid duplication of measures and additional regulatory burdens.

As a consequence, SHV Energy would not support specific targets for industry and transport. Industry is already covered by the Industrial Emissions Directive, whereby industrial sectors need to reduce emissions in light of the best available technologies. They are also, for a large part, covered by the Emissions Trading Scheme. When it comes to smaller businesses and industry, Member States should be encouraged to put in place national incentive schemes to stimulate action to reduce emissions in these very important and hard-pressed sectors. This type of instruments should be favoured over EU regulation, to avoid a major regulatory burden on these small actors.

With regards to transport, SHV Energy would not support a new target for renewables in transport before there is clarity over the indirect emissions caused by biofuel production. ILUC science has already demonstrated that biofuel emissions are higher than originally thought when the Renewable Energy Directive was adopted in 2008. Other measures exist to achieve significant emissions reductions in the field of transport, such as CO_2 standards for cars and vans and the newly proposed Alternative Fuels Strategy.

More generally, SHV Energy would like to point out that the focus should not just be on the use of biofuels and electric vehicles to reduce transport emissions but that emissions reductions can also be achieved through the wider use of inherently cleaner burning gaseous fuels, such as CNG and LPG. The advantages of LPG are significant in terms of CO_2 emissions (about 15% less emissions) and, more importantly, in terms of air quality, with 96% less NOx than diesel and 68% less than petrol. LPG also emits little to no particulates (PM). With the European Commission willing to build synergies between climate change policy and air quality legislation, air pollution should be factored into future climate and energy policy.

SHV Energy therefore believes the Alternative Fuels proposal missed an opportunity to encourage the uptake of LPG (also referred to as Autogas), which has a recognised existing infrastructure and could have an immediate positive impact on air quality. Independent analysis has revealed that, should the Autogas fleet increase from 3% of the market (its current state) to 10%, 350 million tonnes of CO_2 emissions would be avoided. It would also result in over €20 billion savings on external costs associated

with damage to human health and the natural environment (sources available here: http://www.aegpl.eu/media/16300/autogas%20roadmap.pdf). LPG is not a fuel of the past. After major infrastructure investments (largely borne by the industry), the infrastructure is now in place but vehicle manufacturers need to receive strong signals from EU policymakers if we want LPG vehicles to be available to customers.

• How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

It is important to let the market 'take over' as and when renewable energies become more mature. A mechanism needs to be put in place to ensure a gradual phase-out of incentives when economies of scale have led to price reductions for new technologies. As pointed out above, time-limited subsidies should also be considered to avoid permanent dependence on public funding.

The principle should also apply to all technologies. Modern LPG technologies such as Micro-CHP and gas heat pumps have the capability of halving CO_2 emissions when they replace existing solid and liquid fuels. In the period up to 2030, they should also be incentivised, as they are not yet delivering economies of scale as a function of volume. For example, Micro-CHP has not yet reached mass-market in the EU, unlike Japan, which has seen a rapid increase in units installed – and a parallel decrease in retail prices. When prices come down, subsidies should gradually be phased out.

• How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

Diversification of energy supplies is a very important objective in Europe, which should be continuously assessed by the EU. It is a crucial competitiveness factor and the EU should have a stronger monitoring and steering role in ensuring greater coherence and complementarity between the various energy supplies secured across Europe, be it through pipeline deals, new LNG terminals or unconventional exploration projects.

4.3. Instruments

• Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

SHV Energy is in favour of a strong and well-functioning ETS which should aim to be as transparent and equitable as possible. This would lead to a carbon price which would be high enough to incentivize lower-carbon fuels and technologies.

To complement the ETS, SHV Energy supports the revision of the Energy Taxation Directive and the integration of CO_2 as part of the calculation method of taxation rates. In addition to carbon emissions, the ETD should also recognize other external impact factors and especially air pollution – which has an immediate and dramatically negative effect on health.

• How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

• How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment? *(no answer)*

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

As mentioned in the first section, SHV Energy would encourage the Commission to cooperate with local authorities and to establish synergies with rural development programmes to encourage energy efficiency in rural buildings, which are significantly lagging behind.

The current rate of buildings renovation is 1.2% a year and SHV Energy believes a 3% rate (for all buildings and not just for certain public buildings, as stated in the Energy Efficiency Directive) could trigger the necessary changes in the rural building stock. In addition to this, building renovation would come with health benefits (better indoor climate) and increased economic activity. A study developed in 2012 by Copenhagen Economics for the Renovate Europe campaign demonstrates that with €40bn investments by 2020, 760,000 jobs would be created across the EU.

• How can EU research and innovation policies best support the achievement of the 2030 framework? *(no answer)*

4.4. Competitiveness and security of supply

• 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? *(no answer)*

• What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

SHV Energy sees little role for the EU in influencing energy prices, which follow global market trends and are already regulated at national level by Member States.

However, the EU would have a role in tackling energy poverty issues through encouraging energy efficiency improvements in the building stock. SHV Energy fully supports the conclusions reached by John Hills in its analysis developed for the UK Government (*Getting the measure of fuel poverty - Final Report of the Fuel Poverty Review, April 2012)*: "The analysis suggests that policies to improve the thermal efficiency of the housing stock that are targeted on those with low incomes and have energy-inefficient homes would be the most effective at reducing the level of fuel poverty ".

• How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account? *(no answer)*

• How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)? *(no answer)*

• How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances? *(no answer)*

• How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

SHV Energy supports shale gas exploration in Europe in a sustainable manner and after having applied all environmental safeguards. Rather than dismissing outright unconventional gas in Europe (like it has been done in some Member States), Europe should at least determine existing resources through exploration activities. It is unlikely that European shale gas will lead to an energy revolution like in the United States, but it could help diversify gas supply sources, just like new gas pipelines and LNG imports. This would also help Europe reduce its dependency on external gas suppliers.

• How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes? *(no answer)*

4.5. Capacity and distributional aspects

• How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

• What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

• Are new financing instruments or arrangements required to support the new 2030 framework?

About the respondent

SHV Energy is the largest dedicated global LPG distributor. As a lower carbon, low polluting fossil fuel, LPG can make a substantial contribution towards improved indoor and outdoor air quality and reduced greenhouse gas emissions. LPG is widely available and is becoming more so due to the increase in natural gas fields around the world. LPG can be used for hundreds of commercial and domestic applications.

SHV Energy is proud to lead the way in developing existing and new markets for LPG around the world through effective innovation, education and promotion strategies. SHV Energy operates in 27 countries. Globally, SHV Energy employs 15,000 people, has a turnover of over €5 billion and provides LPG to tens of millions of customers. As part of SHV Holdings N.V., SHV Energy belongs to a family owned Dutch

organisation that has supplied energy to businesses and consumers for over 100 years. Well-known brand names include Primagaz, Calor Gas, Liquigas, Gaspol and Ipragaz.

For further information on SHV Energy and LPG please visit http://www.shvenergy.com/ and www.whylpg.com.