Public Consultation

Green paper: A 2030 framework for climate and energy policies (COM (2013) 169 final)

Czech Republic

The Czech Republic welcomes the public consultation on the 2030 framework for climate and energy policies, the objective of which is to find the most effective manner of fulfilling European commitments in the transition to low-carbon energy within the framework of Energy Roadmap 2050. It is in the interest of the Czech Republic for this transition to be carried out in a cost-effective, technologically neutral and sustainable manner. It must not have a negative impact on the economies of the Member States, the compepetiveness of their industries, their employment and must not jeopardize the security of energy supply. The national conditions of the individual Member States must be fully respected and any commitments taken at the EU level must not weaken the sovereign right of the Member States to determine the conditions for exploiting their energy sources and the determination of the energy mix. The Czech Republic highlights the great importance of modernizing European transmission systems, the development of storage capacities and means for the efficient management of networks, as well as the importance of the principle of technological neutrality. These measures must be implemented in a cost effective manner. Therefore, we do not support further binding objectives in the area of renewable sources of energy and energy efficiency. On the contrary, the priority of the Czech Republic is to stabilize carbon prices.

General

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

It turns out that the commitments already adopted are affecting the competitiveness of European industry. Before starting the actual debate on energy and climate policy in the EU until 2030, a rigorous evaluation of the existing framework and the quantification of meeting of the current objectives should first be performed. The evaluation should be performed in a broader context and should include a comprehensive assessment of the influence of the set objectives on the security of electricity supply, the adequacy power generation, the development of a single European electricity market, the competitiveness and economic health

of the EU. Emphasis should be placed on evaluating the cumulative effects of the energy and climate policy along with other regulatory measures (IPPC, REACH, etc.). Further reductions in the emissions of greenhouse gases in the EU member states must be clearly linked with the global context and the degree of commitments taken by the world's largest economies. Without their binding involvement in the efforts to limit greenhouse gas emissions, the EU and European industry is in danger of further weakening its competitiveness and the carbon leakage, economic output as well as jobs outside of the EU. Current and future climate and energy policy should therefore also be consistent with the objective of reindustrialising the EU[1], as declared by the European Commission.

When discussing the 2030 framework in the transition to a low carbon economy, it is also necessary to take account of the economic development in the individual Member States, their economic possibilities as well as their geo-climatic conditions and the availability of natural resources. An important finding from the current 2020 climate and energy framework is that multiple targets or the tools for their attainment have often very contradictory effects vis-a-vis each other. Overall, this leads to weakening the effect of the various tools, an overall reduction in efficiency and the need for frequent changes and corrections, which subsequently leads to weakening of the level of predictability and therefore also in lowering confidence in the regulatory system itself. From practical experience we can describe the discord between the EU ETS and the operational support systems for renewable sources of energy and similarly between the EU ETS and the tools supporting energy efficiency. For example, operational support for the production of electricity from renewable sources of energy leads to market deformations connected with an artificially low market price for electricity and thereby the loss of market signals for investors into new (unsupported) sources as well as well as into energy-saving technologies. In addition, further developments in renewable sources of energy must go hand in hand with the development of the necessary infrastructure (at the transmission as well as distribution level, network management and consumption tools), otherwise there is the danger of a collapse in the power systems.

High energy prices in the EU discriminate against European companies in the international arena and reduce their competitiveness, so before taking any new measures it is necessary to take a thorough look at what real effects they will have on the EU economy and on the competitiveness of industry in individual Member States as well as in the whole EU, what their costs and benefits will be and whether the measures are consistent with other European policies. These basic principles must always be respected.

[1]The share of industrial production is to rise from today's 15 percent of total European GDP to at least 20 percent by 2020.

Although the European energy policy has three strategic objectives (sustainability, security of supply and competitiveness) the existing energy and climate policy only focused on the first of these. The future amendment of the energy policy should reflect all three objectives with the same urgency, especially because they are mutually contradictory in many areas and their reconciliation must be performed already in the energy policy. In the context of this discussion, it is necessary to address the issue of setting objectives or at least the metrics for energy security and competitiveness.

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?*

The Czech Republic does not, also in view of the above, support setting of new objectives beyond 2020 for the share of renewable sources of energy and energy efficiency. The EU's efforts in the transition to a low carbon economy should focus on stabilizing carbon prices, i.e. on finding an optimal and long-term stable mechanism for setting the EU ETS or carbon taxes. Given the contradictions in the system of "20-20-20" objectives, the Czech Republic is only willing to accede to one objective in the discussions on the 2030 political framework (focused on reducing greenhouse gas emissions) and, in the event of its tightening compared to the objectives for 2020, only subject to the reaching of a binding global agreement and commitment by the world's main CO_2 emitters. In view of the Roadmap for moving to a low-carbon economy in 2050, every Member State must have the option of electing its own energy mix, as guaranteed by the TFEU. In this regard, the Czech Republic emphasises the principle of technology neutrality. The development of zero-emission technologies should not be systematically supported by direct (operational) subsidies. The use of state intervention should be permitted in justified cases, for all low-emission sources under the terms of the given Member State. Rather, it is necessary to remove administrative and technical barriers to the development of modern technologies and the transformation to a low-carbon economy. Much more attention should be paid to promoting research and development (R&D).

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

The binding objectives for renewable sources of energy as well as for energy efficiency and biofuel share lead Member States (in many cases) to their non-systematic and non-harmonized support, disruption of liberalization of energy markets – primarily the electricity market, and to a disproportionate rise in electricity prices for the end consumer, directly (costs of the development of renewable sources of energy and of the emission allowances as part of the

electricity prices) as well as indirectly (sharp rise in prices for distribution and service network stability). Wholesale prices of (power) generation do not give sufficient signals and certainty for investors in the development of new or the reconstruction of existing resources. The high degree of regulatory risk leads to a situation where it pays to invest only in those sources which are subsidized by the state. At the same time, low prices displace from the market traditional decarbonized sources, particularly sources with high regulatory potential (gas sources). Thus, mandatory targets and tools for the support of energy savings (on the part of final consumption) and the development of renewable sources of energy de facto crowd out a certain portion of CO_2 production, thereby lowering the demand for allowances and in turn the carbon price and discourage investment in low-carbon technologies. Binding measures aimed at energy efficiency, together with objectives in the promotion of renewable sources of energy, may have a very negative impact in future years on the prices of network services and accelerate the growth of electricity prices for end consumers. Much more attention should be paid to technological and economic aspects of energy policy. One of the possible directions in the development of the EU ETS could be the setting of emission ceilings based on the carbon emission intensity (the benchmark) in the given sector and its gradual reduction.

- *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 CO2 reductions for passenger cars and light commercial vehicles?*

It is essential that all economy sectors are involved in the transformation to low carbon economy, taking into account economy characteristics of individual Member States, energy intensity of individual sectors of national economy and its share on the generation of Gross Value Added (GVA) and in accordance with the cost efficiency. In this context, the Czech Republic prefers the division of sectors and subjects within the regulation on those which are included in EU ETS and those outside ETS. Allowance price should be the primary motivation within ETS. In sectors outside ETS, the establishment of the instrument mix is in the competence of the Member States (leaving aside the ongoing discussion about the implementation of flat carbon tax for these sectors). The Czech Republic does not support the implementation of new targets regarding the obligatory component of renewable energy sources in transport because of the fact that the long-term target for CO_2 reduction in this sector has been already defined. Moreover, the sustainability of biofuels, their impact on the environment and the benefits of EU policy on biofuels are still being discussed and thus are rather questionable. The implementation of binding targets for individual sectors will necessarily lead to different structure of individual national economies, uneven implementation, and indirectly, to potential discrimination against some Member States.

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

The degree of maturity and the viability of individual technologies should be, in particular, additional criteria with a view to cost-effectiveness, overall potential and investor interest. At this moment, we do not support ad hoc interventions into the system of targets regarding changes in the area of available technology. If the main motivation is carbon price, the market itself should find the most cost effective solution for achieving given objective. Unless the objectives for the area of generation adequacy and security of supplies are specified, the Member States must have available the instruments, including financial instruments, to ensure the security of supplies.

- *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?*

Sustainable use of domestic energy sources should be the key determinant of European energy policy. The increasing import dependency of European countries on energy supplies reduces the energy security of the EU which is becoming more vulnerable. European energy policy must be formulated with regard to global development. Other binding targets regarding the development of renewable energy sources and energy efficiency, which are not in line with the development of other industrialized parts of the world, fundamentally threaten the competitiveness of European industry. Decarbonisation has its costs which are higher than the cost scenario "business as usual", however it may be achieved by a gradual transition to a competitive low carbon economy in the context of the Low Carbon Energy Roadmap 2050.

It is necessary to define clear indicators to express and monitor the competitiveness of the EU (e.g. compare final energy prices of the EU industry and of the world's major competitors, compare the share of energy costs in the costs of individual sectors, etc.) and indicators expressing the security of supplies (import dependency, security of electricity supply, reliability standards and their implementation, network bottlenecks, the size of stored energy in proportion to the consumption not only for the oil sector).

Instruments

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

The whole process of transition to a low carbon economy would benefit from the elimination of contradictions of individual sub-targets of European energy and climate policy. Crucial aspect is to maintain the right of the states to determine their own energy mix in accordance with the Lisbon Treaty. Due to ambiguous impact of previous policy instruments on energy sectors of individual Member States, the implementation of other instruments of such type is highly debatable. Should a single environmental target, i.e. the reduction of emissions, be implemented, there must be a possibility to promote and develop national energy mixes based on comparative advantages of the Member States and the principle of technological neutrality in order to overcome the gap between common targets in the area of climate and national energy. State aid rules must temporarily allow for targeted interventions of the Member States, if there is a risk of non-compliance with the targets (in particular, as regards the decarbonisation and the security of supplies) until market functioning and market signals for investors are restored. At the same time, the implementation of a single European energy market must be completed. The liberalization of energy markets of the Member States will be subsequently reflected in the support of climate indicators, since the distribution of low-carbon sources will become more efficient.

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

The EU's priority in the synthesis of climate and energy policy should be to stabilize the carbon price (especially by means of the EU ETS reform or by specifying the carbon tax rate for sectors outside the EU ETS). The Member States would, based on a detailed analysis, choose their own path of development of low-carbon energy mix, in which they would have a comparative advantage. The EU should therefore emphasize the need to finalise the liberalization, the consistency of energy and climate policies or lack of fragmentation tools, as well as support the development of infrastructure and coordinate action in R&D&D area.

- *How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?*

The ideal state would be a creation of single European energy market with clearly defined rules and obligations. It would minimise inconsistently specified direct subsidies and other market distortions (at the level of Member States), remove market barriers and ultimately lead to efficient allocation of resources for the development of low-carbon energy sources. Fragmentation in the sense of the lack of transmission capacity (leading to market decoupling) should be dealt with by market rules taking into account the cost of transmission. It is necessary

to specify location signals and transport costs as an element of market decision making. In this context, the issue of loop flows must be addressed.

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

As the main tool for further savings in the energy sector, it is important to continue to support the EU ETS, the income of which may effectively fund national energy savings programs in many economic sectors. The Czech Republic has a rich experience with these programs and evaluates them positively in terms of their contribution to the domestic economy, the development of small and medium-sized enterprises and the creation of new jobs. Additional resources for this area could be achieved by the implementation of rationally established carbon taxes (primarily outside EU-ETS) which would transparently support effective low-carbon sources. Another important task of the EU is to promote science, applied research and best practices sharing with the focus on increasing efficiency within the entire chain, i.e. higher efficiency in electricity and heat production, loss reduction during the transmission and distribution and promotion of energy efficiency and effectiveness, also of the side of final consumption. Adaptation of budgetary rules may be one of the measures which will allow the use of EPC in the public sector (not counted as part of the public debt).

- *How can EU research and innovation policies best support the achievement of the 2030 framework?*

Research and development should be the priority area of investment of the Member States and its coordination should be carried out at the European level. Thanks to the support of advanced energy technologies (which are supported for example within the SET Plan), there is a possibility of natural evolution towards increasing energy efficiency and lowering environmental impact. Properly established support of economically meaningful R&D projects in the field of energy technology may have a positive impact on the competitiveness of the Member States, as the EU would gain a major competitive advantage also on the markets outside Europe. In addition, this sector has a potential of high multiplier effect.

Competitiveness and security of supplies

- *Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?*

The Czech Republic has long supported the conclusion of new international agreement on climate change in 2015, when all world major economies will have clearly defined targets. Such an agreement should also be the most effective tool for mitigating risks for competitiveness and carbon leakage. A major issue is the transition to a low carbon economy. This transition must be cost-effective, technologically neutral and sustainable, must not have a negative impact on the economies of the Member States, the competitiveness of their industries and social areas, and must not compromise the security of supplies. At the same time, national conditions of the Member States must be fully respected. Also, any commitments adopted on the EU level should not weaken the sovereign right of the Member States to determine the conditions for the utilisation of their energy resources and the determination of the energy mix. The area of R&D&D projects and programs, where high multiplier effect is clearly demonstrable, should be strengthened.

- *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?*

For preventing a carbon leakage, the best solution would be to adopt a new international agreement with goals for all participating states – it is necessary to analyse thoroughly and review the current carbon leakage protection system, including the rules for public support. The system of free allocation of permits for endangered branches should be preserved and set a foreseeable legal and regulatory environment. A "carbon leakage" can be derived from the changes in the structure of GVA formation in national economy and a decreasing ratio of energy intensive sectors, when such companies within the framework of globalized markets move to less regulative markets, possibly using a share of induced/ additional costs of regulation related to total costs and intensity of trade of these sectors with countries outside of the EU. An indicator is also a change in ratio of individual sectors of industry on global market compared with the main global competitors.

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

Effort of the EU to reach many different climate-energy goals is needlessly becoming more expensive by inefficiency of different resources inducing market deformation being used so far and unpredictable investment environment. EU ETS, which was supposed to play a major role in decarbonisation efforts, with the current price level of a permit, does not motivate investment, conversely numerous new modern low-carbon investments are currently not operating, and

respectively their operation would mean bearing losses. The uncertainty regarding the future development of the EU ETS system together with its current inflexible settings, that cause a considerable volatility of prices due to the effects of economic cycle, further deepen this inefficiency. Therefore the main role in regulation have the different arbitrary national subsidy programs for Renewables (especially the feed-in-tariff type), which are in most cases expensive and inefficient with negative influence on individual European market with electricity. Many indirect consequences of Renewables development and support of the energy efficiency are shown by the increase in regulated price components (especially enforced claims on network development, implementation of intelligence network costs and balancing costs and system reserves that together with the development of intermittent sources are rising and are socialized using network tariffs). The outcome is that the regulated price components are rising faster than the commodity price component is decreasing. An important source of increasing prices in the future may be the induced costs for the energy accumulation.

- *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?*

From the point of view of the Czech Republic, it is important to focus on many key sub-sections, which are important for the coordination with EU non-member countries in decreasing the ratio of fossil fuels on the energy mix and to achieve the increasing energy efficiency. First of all, it is the new international agreement under the Framework agreement of the UN until the year 2015. The European strategy for fulfilling goals of the Energy Roadmap for low-carbon energetics until 2050 must take place on the basis of real market principles and economic reality of the European industry and in context of other world emitents's liabilities. The Czech Republic believes that in order to fulfil the goal of lowering greenhouse gas emissions in the EU by 80 to 95 % until 2050 compared to year 1990 in efficient way, an active involvement is necessary from all countries around the world and especially from the biggest world issuers, which are China and USA. EU itself cannot, with its 11 % of share, secure the stabilization and decrease in global emissions of greenhouse gases. The Czech Republic, for a long time, supports a new international agreement to be concluded about climate protection in 2015, where all the most important world economies will have their goals clearly stated. Such an agreement should also be the most effective tool for lowering the risk of competitiveness and carbon leakage threads. At the same time, EU should cooperate with other states on the development of schemes similar to the EU ETS with the possibility of their mutual interconnection in the future. EU should also carefully analyse possible benefits, risks and practical matters of the implementation of the import customs on carbon from states that would not participate in such a new agreement.

- *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)?*

The most basic solution is to limit frequent changes in European energy and climate politicies while taking into account the long term investment cycles in energy and high capital demands. It is necessary to clearly state priorities and visions of movements, which should provide sufficient incentives for investors for investment and to gradually remove current market deformations and subsidies and to stabilize carbon price with setting a certain flexibility for possible acceptance of the international agreement.

- *How can the EU increase the innovative capacities of the manufacturing industry? Is there a role for the revenues from the auctioning of allowances?*

Using revenues from auctions should especially stay in competency of the Member States and such resources should be used for further measures related to the realization of climate protective politics and energy politics. In the Czech Republic, it is given by law that at least half of such resources will be re-invested back into the programs and measures dedicated to energy efficiency, which should, according to the high multiplication effect of these investments, have positive impact on the domestic manufacturing industry.

- *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?*

The first step to efficient usage of domestic energy resources is completion of a single domestic market. It will enable the guarantee of optimum level of costs and energy security. Such sources can also be Renewables, but only if it will withhold in market competition of other low-carbon sources. At the same time, sovereignty of Member States must be kept during the selection of the energy mix (incl. the selection of utilizing the conventional and non-conventional sources) and with regard to the respect of the principle of technological neutrality.

- *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?*

In the first step it is important to complete the process of implementation of the target model for allocation of cross border capacities and fully complete the liberalization of the energy

market. A necessary condition is also the removal of close spaces in infrastructure and international cooperation during the management and planning of the network development. From the point of view of the Czech Republic, the main challenge represents especially the interconnection of middle-west and middle-east Europe. It is also important to take into account the fact that every state optimizes economically the possibilities according to its individual conditions. In the area of external energy politics, it is convenient that the EU will proceed unanimously and apply its economic power during the negotiation about securing the supplies and transport of primary materials (especially oil and gas). Also with respect to the effects and the synergy consequent from the internal market is necessary to secure the minimal rate of production sufficiency on the level of individual transmission systems. The scope of "relying" on supplies from neighbouring systems, must be limited with taking into account the physical properties of a network, without taking into account the development of capacity of connection.

Capacity of distributional efforts

- *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?*

In the mode of a single EU goal, a key of fair division of efforts should consist in historical development and values of monitored indicator, as well as in the component that takes into account the economic development (GDP per capita, structure of HPH formation, etc.), and also take into account to objective potential – geographically-climatic conditions of individual Member States. An important part of this approach is then also stating the right proportion between individual components. Suitable compensatory tools could also be in a form of redistribution of auction share within the EU ETS.

- *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?*

The Czech Republic argues that the most effective mechanism is a suitably stated goal on European level fulfilled through the market mechanism, of course, taking into account the different abilities and potential of individual Member States. We are assuming that trade mechanisms inside and outside the EU ETS should lead to economically effective fulfilment of goals.

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

The basis of a new framework should lie within permits of the EU ETS system, and possibly in a new solution in form of carbon tax outside EU ETS. All of these resources would then together contribute to fulfilling the goal of lowering emissions of CO_2. The Czech Republic clearly prioritizes a gradual restriction of the current direct operating aids with the exceptions in the area of R&D, where other co-financing from the EU resources is also suitable.

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