STATEMENT

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To
EU Commission

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From
Nordic Council's Environment and Natural Resources Committee

Subject
Green Paper on a 2030 framework for climate and energy policies

27 June 2013
13-00089-8

The Environment and Natural Resources Committees input into the EU Commissions consultation on a 2030 framework for climate and energy policies

Introduction

The magnitude and impact of climate change is alarming. A global temperature increase of two degrees Celsius is considered the limit of what societies can tolerate without major adverse consequences. So far, international climate negotiations have not reached agreement on how this can be avoided. Urgent action is needed, before it is too late. In order to reshape the world's economies into a more sustainable form, new initiatives are needed – not least, investments in new energy sources and energy efficiency. In a global context, the EU has been a driving force in climate policy. It is important that the EU continues to strengthen its role at the forefront of global climate work, and finds a joint platform that facilitates this.

Climate policy cannot be assessed in isolation. It is directly linked with a range of policy areas, such as energy, transport, research and innovation, agriculture and development aid. The heads of state therefore have a central role in drawing up future climate policy.

Below are the Nordic Council Environment and Natural Resources Committee's views on some of the questions raised in Chapter 4 of the Green Paper "A 2030 framework for climate and energy policies".

Experiences of the targets for 2020

EU 20/20[1] has been an important signpost in European climate policy and has helped create the predictability needed for long-term investments. Sharing the burden on the basis of national circumstances has been a necessary precondition for being able to achieve these goals.

Greater energy efficiency is the best and most inexpensive way of achieving the climate targets. Both the economic and technical prerequisites for improved energy efficiency exist. Nevertheless, it has proven difficult to draw up a policy that helps to realise this potential. It is expected that the new EU

[1] A 20% reduction in emissions of greenhouse gases compared to 1990, a 20% share of renewable energy and a 20% improvement in energy efficiency are to be achieved by 2020. Other targets include 10% renewable energy in the transport sector and reducing carbon in transport fuel (6%).

Directive on energy efficiency will help put this right[2]. One problem is the lack of methods and points of reference for measuring the development of energy efficiency.

In 2013, the EU has made considerable progress towards the targets for greenhouse-gas emissions, which indicates that it should be possible to raise the level of ambition[3]. This will have a positive global impact and also strengthen the EU's role as a global driving force in the on-going negotiations aimed at realising the ambitions for 2020. The Nordic Council's Environment and Natural Resources Committee is of the opinion that the EU should strive for this. However, this would also require implementing policies that prevent increased carbon leakage and the loss of value generation and workplaces it causes in Europe.

Target 2030

In the absence of global solutions, a group of countries can and should agree to make a concerted effort against climate emissions in order to realise the idea of a low-carbon society. This will showcase the potential for solutions on a large and hopefully global scale. In other words, it will inspire other countries. The EU is a sufficiently major player that ambitious goals would create a huge market for new technologies, as well as new opportunities for business and industry.

At the same time, we must be aware that the climate challenge affects everybody and requires a global solution. The EU accounts for only 11% of global emissions of greenhouse gases – and that proportion is falling. At the same time, industries in the EU are exposed to competition from countries that are not currently subject to the same emissions requirements. The most important goal for EU´s policy should be, to get the rest of the world on board a global agreement, which will halt the dangerous changes in Earth's climate.

However, global climate negotiations are making very slow progress. The international community has decided that a new climate agreement, covering both industrialised and developing countries, should be ready by 2015 for implementation in 2020. The target for emissions of greenhouse gases in the EU in 2030 should be ambitious in order to promote the necessary development. At the same time, it must also be realistic and, to a certain extent, determined by the results achieved in the wider global negotiations. It should also be a clear step towards the EU's long-term vision of reducing emissions of climate gases by 80–95% by 2050. The EU Commission's own analyses indicate that by 2030 it will be possible to achieve cost-effective reductions in greenhouse-gas emissions of 40% compared to 1990. Provided a global agreement is reached in 2015 that paves the way for ambitious targets,a 40% goal should be the minimum target, with expectations of a higher level of ambition on a par with the globally agreed target of limiting global warming to two degrees Celsius.

Initiatives to achieve the targets

The most realistic solutions to climate challenges lie in new technology with low emissions, greater energy efficiency, the expansion of renewable energy and the efficient distribution of energy across national borders. However, the technological developments are not as rapid as might be wished. There are several reasons for this, and so several initiatives will be needed.

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[2] In December 2012, the EU adopted a new energy-efficiency directive. The directive encompasses several vital initiatives in the member states. It is recommended that the countries report on the national targets for energy efficiency in 2015.

[3] The policy was to raise the level of ambition to 30% if a binding global agreement could be reached that also covered major economies such as China and the United States.

Appropriate carbon prices
The Committee is of the opinion that economic instruments can be very effective tools in climate policies. Prices for carbon emissions will promote technological development. Regrettably, the market for carbon quotas has not led to the price of carbon being at a level that provides sufficient financial incentive to promote technological development. This can be attributed to a lower level of activity in the economy, the generous awarding of emission quotas and easy access to foreign quotas via the Kyoto Protocol's flexibility mechanisms.

Market intervention is not recommended under normal circumstances. However, experience shows that it can sometimes be necessary. This is the case with the ETS. The market is largely dependent on the demand for quotas determined by the EU, and the market price is far lower than it was when the EU quotas were set. If this market imbalance is not corrected, the ETS system risks losing its legitimacy.

It is therefore important that the EU finds a way of affecting the supply of quotas inside the ETS system or establishing a minimum price for quotas. Tighter rules for the transfer of emissions quotas[4] from countries not subject to emissions reductions should also be taken into consideration.

Emphasis should be placed on a retaining a European system for quota trading that stipulates a price for emissions quotas that applies across the whole area. The ETS system, a cornerstone of climate policy, has this function. However, it has not lived up to expectations. If it does not improve, there is a risk of fragmentation and of the individual countries going their own ways. This would undermine the ETS' role, which would be a very unfortunate development and should be avoided. Improvements in the functioning of the ETS system are needed. New and ambitions targets for emissions in 2030 could improve the ETS system as an instrument in the climate policies.

Stability and predictability
It takes a long time to develop new technology and take it into use. When there is great uncertainty about the development of the market, private players can be reluctant to fund technological development. Emphasis should therefore be placed on creating the greatest possible security around the long-term framework conditions for industry, transport and energy production. One important precondition for this is the price of fossil fuel and emissions quotas. Taxes and duties can contribute to more stable prices for fossil fuel. All direct and indirect subsidies on fossil fuels should be avoided. A minimum price for CO_2 is a necessary precondition for stability.

Strategic public funds to encourage private investment
The availability of venture capital for innovation in new technologies plays a major role. There is a very great need for investment, which will to a significant degree come from private sources. Experience shows that public funds can be used strategically to attract capital from other sources, including from private investors and philanthropic organisations.

Renewable and sustainable energy
The production and supply of sustainable energy at reasonable prices is one of today's biggest political challenges. The tasks involved are also integrated into the work to reduce emissions of climate gases. The Nordic experience of developing and using renewable energy is broad and positive: hydro-electricity in Sweden and Norway; Denmark's leading role in the development of wind power; Finland's comprehensive use of bioenergy; and Iceland's

[4] The quotas in question here are mainly those from the Clean Development Mechanism (CDM).

specialisation in geothermal power. Overall, the Nordic countries derive 35% of their energy from renewable sources[5]. This is not just a result of favourable natural circumstances. It is largely due to strategic policy decisions. Other countries can benefit from the Nordic Region's experience of developing renewable energy.

Several countries are planning major expansions of renewable energy, including offshore wind farms. If all of the plans are realised, the supply of renewable energy in the region could increase very rapidly. The EU should support this development. It will also be necessary to continue a policy that facilitates the use of solar energy and its integration into the energy systems. The harmonisation of funding schemes for renewable energy is a precondition for a well-functioning joint European energy market. However, in the long term, technological developments are expected to make it unnecessary to subsidise production of renewable energy.

Technical regulations
Joint technical regulations and voluntary agreements are also necessary tools in climate policy. The EU has positive experience with joint technical standards, which create a larger market and make it easier for businesses to achieve economics of scale. In the construction and housing sector, there is significant room for manoeuvre with regard to energy efficiency, which can best be achieved by developing standards that apply across national borders.

Initiatives to combat carbon leakage
Globally speaking, it does not really matter where emissions of climate gases come from – whether, for example, they originate from Europe or Asia. It is a matter of grave concern that quite a few big countries with powerful industries do not exhibit the same commitment to combating climate change. This means that industries in Europe will still experience carbon leakage, if they are subject to requirements that do not apply to their competitors elsewhere in the world. As a result, production will relocate to areas that are not subject to the same restrictions, which may even lead to an increase in emissions. As far as the Nordic Region is concerned, a report by the Nordic Council of Ministers[6] indicates that the industries most at risk of carbon leakage are paper and pulp, iron and steel, aluminium, fish-processing and chemical production. Fortunately, the ETS measures include restricting the negative effects of competitiveness. It is important to remember this post-2020. It will also be possible to use income from quota sales to promote technical improvements in vulnerable sectors, and this should be exploited fully[7]. In theory, import duties could be imposed to counteract carbon leakage. An import duty imposed on goods from countries that are not pursuing an ambitious climate policy would even out the competition. A CO_2 toll on selected goods and repayment of quota costs on exports of these goods should be included in the considerations of how to address the problem of carbon leakage.

Green public procurement
Official bodies at all levels use public procurement to source goods and services. Public procurement constitutes a significant proportion of GDP. For the EU as a whole, it accounts for around 16% of GDP. Demands can therefore be placed on suppliers of goods and services in order to affect the development of new technologies in the country concerned. This also applies

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[5] 51% of the energy supply is CO2-free. Source: Nordic Energy Research

[6] Carbon leakage from a Nordic perspective, TemaNord 2012:502.

[7] The NOx Fund in Norway is a good example of an effective means of preserving compensation while tightening environmental requirements. See the report: Control mechanisms for Nordic ship emissions, TemaNord 2013:518 and the NOx Fund website www.nho.no

to the development of cleaner technologies *(clean-tech),* including technologies for greater energy efficiency.

Public procurement is regulated by an EU directive, which is currently under revision. The revision should ultimately make it easier to use public procurement for more than just purely short-term economic purposes. It should be possible to use public procurement to pursue other social goals – for example, cutting emissions of greenhouse gases. Further, the EU should work for joint guidelines and criteria for green public procurement of cleaner technologies based on life-cycle analyses. This would help create a major European market for cleaner technologies.

Competitiveness and guaranteed supplies
Increased use of renewable energy sources such as solar and wind will make Europe less dependent on energy imports. In the longer term, it will also help guarantee supplies. A precondition for this is closer co-operation, in which the different grids support one another. The Nordic Region has long and positive experience of interconnecting its electricity grids, and connections with other countries, including Germany and Estonia, are under development. Plans for offshore wind farms in the North Sea are also under development, and will help create the prerequisites for a further expansion of transmission lines between the states in the region. However, new sea links will not be enough. The infrastructure on land must also be reinforced in order to exploit the sea links across the whole of Europe. There is a very great need for investment. But there is also the potential for new jobs and sustainable energy supplies – energy, climate and industrial policies are all interlinked.

An interconnected electricity grid will create opportunities to develop a more efficient market. It will also facilitate the introduction of renewable energy and therefore help to reduce emissions of climate gases. Further, a well-functioning pan-European system is expected to contribute to greater stability of energy supply, and therefore reduce the frequency of major fluctuations. This in itself will strengthen the competitiveness of European industry.

Carbon leakage is a serious problem. The long-term solution is to subject all sectors to the same global restrictions on emissions of greenhouse gases. However, agreement on this will not be reached in the short or medium term. Therefore, the EU must take this into account in highly competitive industries that are subject to the ETS system. ETS measures to restrict the negative effects on competitiveness should be maintained post-2020.

Short-lived climate gases/CCS
In addition to the above views, which refer to the questions raised in the Green Paper, the Nordic Council would like to highlight the issues of short-lived greenhouse gases and CCS technology.

Short-lived greenhouse gases
The IPCC (the UN climate panel) said in its 2007 report that black carbon may have a significant warming effect, particularly in the Alps and the Arctic. A 2008 report by the Arctic Council (specifically, the Arctic Council's AMAP group, in conjunction MR-M's working groups), found that reductions in emissions of *short-lived climate forcers (SLCFs),* e.g. black carbon, will be the best way of counteracting the rapid warming and melting of ice in the Arctic region. Cutting these emissions buys time in which to reduce other greenhouse gases. The Arctic Council declaration of 12 May 2011 calls on the Arctic states to implement relevant initiatives to reduce emissions of black

carbon.[8] The Nordic Council followed up on this by adopting a recommendation in 2011[9]. The matter was also addressed in the Arctic Council's Kiruna Declaration of May 2013. In addition, the Nordic Council of Ministers also issued a declaration at its meeting on Svalbard in 2012.[10]

Under the auspices of the UNEP,[11] the comprehensive *Integrated assessment of black carbon and ozone tropospheric* was conducted. Calculations included in the analysis show that existing and proven technologies can be used to significantly reduce emissions, and thereby restrict temperature increases in the Arctic. At the same time, 0.7 to 4.6 million premature deaths p.a. would be avoided, as well as crop losses totalling 50 million tonnes of maize, rice, soya and wheat, compared to the base reference scenario. However, in order to implement these initiatives rapidly, it would be necessary to provide economic and other forms of aid to developing countries.

The Nordic Council Environment and Natural Resources Committee believes that a scientific basis exists on which to develop tangible measures to cut emissions of carbon and methane.[12] The Committee therefore believes that it would be advantageous to add the work done on short-lived climate gases to the framework for the EU climate and energy policy up to 2030 and to the framework for development aid policy.

CCS

There is a great deal of evidence to suggest that gas and oil will continue to be significant energy sources in Europe this century. *Carbon capture and storage (CCS)* is a prerequisite for using these energy sources without causing serious climate changes. Therefore, CCS must necessarily be an important component of climate policy in order to achieve the EU target of reducing emissions by 80–95% by 2050.

However, the development of CCS is not progressing as fast as expected. Further public-sector input is needed, as well as financial incentives for business to push developments and make the technology usable on a large scale. The current low prices on emission quotas mean that business lacks an incentive to promote this development. The EU should do more in this area.

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[8] The Nuuk Declaration states: "…*encourage Arctic states to implement, as appropriate in their national circumstances, relevant recommendations for reducing emissions of black carbon*…" Note that this is not legally binding.

[9] A1536/environment Nordic policy in the work on the climate challenge.

[10] The Nordic Council of Ministers, Ministers of the Environment, Svalbard Declaration, March 2012: http://www.norden.org/en/nordic-council-of-ministers/council-of-ministers/nordic-council-of-ministers-for-the-environment-mr-m/declarations-and-statements/svalbard-declaration-on-shortlived-climate-forcers

[11] The UN environment agency *(United Nations Environment Programme).*

[12] The most important sources of emissions from humans include diesel engines, domestic heating, forest and field fires, industry, mines, gas and oil production, and waste.