Green Paper: A 2030 framework for climate and energy policies

Consultation response
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The Change Partnership was established as an *association sans but lucrative (ASBL)* in 2013 to provide independent thought and organisation of political solutions to advance sustainable development and avert dangerous climate change.

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Summary

Change Partnership welcomes the opportunity to contribute to the consultation on the Commissions Green Paper on 'A 2030 framework for climate and energy policies'. The period to 2030 is the most critical if we are to avert dangerous climate change. The International Energy Agency (IEA) in its special report 'Redrawing the Energy-Climate map (2013)' concludes that current climate and energy policies will lead to between 3.6°C to 5.3°C. Europe must make significant domestic abatement coupled with significant diplomatic efforts to secure an adequate international treaty. Decarbonisation by 2050 is the new North Star guiding the purpose of European Union because climate change is the most pressing threat to its security, prosperity and peace.

Agreeing a climate and energy legislative framework by 2014 is essential to restoring economic prosperity and maintaining a sustainable and inclusive society in Europe. It is also critical in building momentum for international negotiations. A weak climate target, such as the 40% GHG muted by the Commission, together with the lack of predictable financial flows to support developing countries will not build momentum internationally. Domestically, a weak climate and energy targets for clean renewables and energy savings will significantly undermine the long-term competitiveness of the EU economy to the detriment of all society. This is the time for the right action not any action.

The new framework should be founded on:

i) Targets based on science: The UN Intergovernmental Panel on Climate Change 4th Assessment Report (2007) indicates that 450ppm gives humanity about a 50% chance of keeping global average temperature increases below 2°C. EU GHG targets need to be set at the correct level to ensure full decarbonisation by 2050;

ii) Application of the 'Polluter pays principle': At present, the EU ETS provides a significant windfall subsidy to energy intensive companies as well as subsidising the costs of their electricity consumption;

iii) Five investment heavy binding targets and policies: This will ensure modernisation, reduce the risks of costly fossil fuel energy imports, improve the cost competitiveness of key clean technologies and allow for competitive

iv) A 'Just Transition' support package: This is required to aid local communities, workers and companies that require additional support during the transformation to a clean, healthy, inclusive, prosperous, competitive and integrated economy and society.

Successful features

- Binding target for renewable energies - The binding target for the renewable energies has provided important confidence for investors and allowed governments to diversify their energy supplies thereby improving their energy security as well as reducing the risk to costly fossil fuel imports.
- Innovative financing – Use of ETS allowances to finance innovative renewables and carbon capture and storage has been a successful means of stimulating commercial-scale technology demonstration and made an important contribution towards future competitiveness in clean technologies.
- Centalising EU ETS architecture – A single reduction target, harmonised distribution of allowances and international offsets have greatly improved the functioning of the ETS.
- CO_2 in cars Directive – The Emission Portfolio Standard has driven innovation and spurred employment in this important sector. Emission Portfolio Standards should be applied to the power generation and industrial sectors to encourage investment in

Unsuccessful attributes

- Gambling with GHG targets - This was not a successful negotiation tool during the Copenhagen discussions. It undermined the credibility of the EU and has contributed to the lack of aggressive, employment rich clean-carbon investments in Europe to help stimulate economic growth.
- Excessive international offsets undermined EU ETS - This is the one of the main reasons behind the scale of the surplus and acerbated the impact of the recession.
- Lack of binding energy savings - Energy savings is the key means of reducing the risk of costly energy imports and improving the overall competitiveness of the EU economy. Furthermore, it is a chief means of reducing high levels of unemployment caused by the recession. It is the only target that is not on track for successful deliver which indicates the failure of non-binding targets.
- Lack of coherence between targets – Over the seven years of operation the EU ETS has delivered the least volume of investment in clean-carbon technology whilst subsidising polluters. Therefore, a flexibility mechanism needs to be introduced to allow it to maintain robust decarbonisation signals whilst ensuring that employment rich investments in energy savings and renewables are prioritised.

The 2030 climate and energy framework should be based on a five targets:

- Greenhouse gas target: There should continue to be a split between ETS and non-ETS sectors. The ETS annual linear reduction factor should be amended to deliver full decarbonisation by 2050.
- Renewable energies target – This should be applied to maintain investor confidence and develop technologies that have yet to reach market maturity. Support schemes should be flexible enough to allow for timely adjustments to reflect changes in market conditions and technology maturity while creating a stable and predictable framework for investments in renewable energy. Importantly, support should be restricted to clean renewables only and bio-energy's zero GHG status, a political decision, should be removed.
- Energy savings target – this should be binding at EU level but allow Member States complete flexibility on how savings are achieved. Savings should be measured in improved energy security and GHG reduction equivalence.
- Emission portfolio standard – Emission Portfolio Standards should be applied to all industrial and power generation installations to encourage innovation and investment similar to the experience of the CO_2 in Vehicles Directive. It provides a level playing field among technology whilst providing certainty that the standard will be met. Importantly, it should apply to existing capacity as well as new build.
- International Emission Reduction Target – An additional target should be placed on the sections of the economy to finance change in developing countries through the purchase of emission reduction credits or through technology cooperation and/or capacity building.

Coherence - This must be introduced through a flexibility mechanism in the EU ETS. A regulatory standard gives greater certainty to investors and drives innovation. The CO_2 in Cars Directive is a good example of this. Uncertainty over the ETS price is an essential means of adding risk and uncertainty on CO_2 intensive capacity which is the main purpose of the EU ETS. The inflexibility to adjust the EU ETS has meant that it was been largely redundant for nearly all of its seven years of operation. This way the investment signal will remain and take account of renewable, energy savings and other low carbon actions by constantly adjusting to ensure scarcity in the market.

Energy markets – Energy markets just be reformed to further incentivise investment in clean carbon solutions. Frequent pricing and the ability to sell energy savings into the market require regulation at EU level.

Other measurements – Aside from targets clear assessments of the cost of climate change impacts, health impacts of fossil fuels and anti-trust behaviour of industrial sectors should be regularly monitored alongside the costs of decarbonisation.

Competitiveness and security of supply

The failure to trigger significant clean investments and facilitate innovation is the key competitiveness concerns for the EU. In 2011 the EU spent a staggering €573 billon on imported energy costs according to the 2012 EU Competitiveness Report (2012). The IEA World Energy Outlook 2013 forecasts the EU becoming considerably less economically competitive and at significant risk of excessive costs by 2030 if it does not drastically reduce its reliance on energy imports. The EU needs to upgrade and modernise much of its energy, transport and industrial infrastructure. This provides the perfect opportunity to encourage clean growth in the short and long term.

The following changes are required:

- The true cost of fossil fuels and their economic impact must be used in an assessment of competitiveness. For example, 'The unpaid health bill: How coal plants make us sick' a report produced by the Health & Environment Alliance (2013) estimated that coal in the EU energy system costs EU citizens and the economy €48.2 billion per year in cardiovascular and respiratory health problems.
- The concept of 'carbon leakage' needs to be revised. 80% of the sectors defined as 'carbon leakage' exposed obtain this classification by an artificial trade intensity criteria (Article 10a of the EU ETS Directive - 2009/29/EC). Very few sectors are exposed to significant impacts from a carbon price of €30. Importantly, a recent study by CE Delft 'Carbon leakage and the future of the EU ETS' (2013) estimated that only 10% of emissions classified as 'carbon leakage' would qualify if a €12 ETS price is used. The current price is less than €5.
- To date there is no material evidence that any industrial sector or installation has closed only because of the EU ETS.
- There are very few countries that have not implemented actual or trial climate legislation as the IEA and the International Emissions Trading Association (IETA) highlight the rapid growth of carbon markets in Australia, China, South Korea, Quebec, Mexico, Chile, California, Eastern seaboard states in the US, Brazil, New Zealand and Switzerland. Globe International's 3rd Climate Legislation Report (2013) indicates that 32 of 33 major economies have climate legislation or are in the process of legislating climate measures. Significantly, much of this legislative activity is taking place in emerging economies.

- Even with an international treaty, there will still be fears of 'carbon leakage' as prices are not the only means of competitiveness for many products. Therefore, a new approach needs to be taken based on the concept of the 'Just Transition' originally developed by Trade Unions. Additional support will be required to aid local communities and workers skill, re-skill and adapt to new economic activities. McKinsey Global Institutes' 2012 report entitled 'The world at work' warns of the impending crisis between the volume of required skilled workers for the 21st century and those will inadequate skills and concludes that '..their consequences will require an unprecedented commitment to education and training.' This is more of a competitiveness challenge that the cost of GHG.