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Subject: Communication from the Commission on "A policy framework for climate and
energy in the period from 2020 to 2030"
- Policy debate
= Delegations' replies

Delegations will find in the Annex the replies received from BE, DE, PT and SE to the Presidency questions, contained in document 6422/14, for the policy debate on the abovementioned communication, during the Council (Environment) on 3 March 2014.

BELGIUM**1. Overall context**

- a) Belgium is in favor of a multilaterally negotiated equitable and rules based regime capable of keeping the 2°C target, whilst keeping under review the possibility of 1,5°C, with the EU in a leading and bridge building role. 2014 is the year of ambition : ministerial dialogues and Ban Ki Moon Summit in September 2014. The EU needs to show leadership, make its ‘Warsaw homework’ and communicate its contribution well in advance of COP 21 (first quarter 2015 for parties ready to do so). It is thus urgent to agree on an ambitious GHG target for the EU **as soon as possible and by June 2014 at the latest** in order to be ready to present it to the Ban Ki Moon Summit in September 2014.
- b) Moreover, **clarity must be provided as quickly as possible to all investors and decision makers** in order to avoid lock-in effects which would increase the cost of the transition towards a low carbon and resource efficient economy. Any delay in providing such clarity reduces the considerable advantages of a transition towards a low carbon society, such as increased competitiveness, job creation, energy security in a context of rising volatility of energy prices and co-benefits such as air quality improvements.
- c) Our shared objective is to promote in a long term perspective a **strong, diversified and competitive industrial base in Europe** offering growth and quality jobs while grasping the **industrial opportunities of becoming less carbon and resource intensive**. This should be the path to reindustrialization of EU, as outlined in the Belgian Concept Paper on EU Industrial Policy. Competitiveness, climate and energy goals should be put on an equal footing as they are not mutually exclusive, but complementary.
- d) The 2030 framework should contribute to the realization of the three objectives of energy policy: **energy security, competitiveness and affordable energy prices and sustainability**. An increased and appropriate share of renewable and indigenous energy sources and ambitious energy efficiency policies can contribute to the diversification of energy sources and security of supply. Furthermore, a reduced import of fossil fuels stimulates the economy through increased investments and improves air quality and health conditions.

2. GHG target in 2030

- a) Belgium supports the adoption of a GHG target which is on the **cost-effective trajectory** towards our long term climate goals.
- b) This requires effective domestic EU GHG emission reductions (the EU target) of at least 40% in 2030 with respect to 1990.
- c) The target must leave open the possibility to reach domestic reductions above 80% in 2050.
- d) The **surpluses from the period prior to 2020** in the ETS or in the non-ETS sectors must be addressed adequately, to prevent the domestic reduction target from being weakened.
- e) The EU must agree first on the unilateral domestic GHG target in order to send as early as possible the right signal to domestic investors. The adoption of any **reinforcement of the target beyond 40% following the developments** on the road to COP21 in Paris could be considered in the context of an international agreement.

- f) In the case of a fulfilment by international credits of an additional offer proposed in the context of an international agreement, this fulfilment must rest on **“high quality” credits only** (credits that are real, permanent, additional, measurable, verified and monitored, while contributing to a sustainable development in the host country). The EU should define strict quality criteria in this regard, and has the right to exclude certain types of credits. Credits should come from the New Market Mechanism or from the reformed CDM if they meet the criteria listed above.

3. EU ETS

- a) The EU ETS is a policy instrument that must provide certainty and incentive to market participants to engage in long term low carbon investments in order to put our economies on a cost efficient trajectory towards a low carbon society in 2050. It is therefore essential that the EU ETS creates a stable and predictable framework for companies under the EU ETS and that **carbon prices are sufficiently robust** to provide these investment incentives and support innovation and technological development enabling to grasp the associated competitive advantages. Belgium has always advocated **structural measures** to that respect. The carbon market reforms, including the structural measures, also need to ensure that **risks of carbon leakage for industries exposed to international competition are adequately addressed**.
- b) Belgium therefore expresses its **support for tightening of the cap** in line with an increased ETS target for 2030 reflecting the cost-efficient share of the overall EU target and different potential structural measures (e.g. the permanent cancellation of allowances and/or a significant lower cap as of 2021).
- c) Belgium welcomes the commission proposal for the market stability reserve. However it **wonders if the proposed mechanism will sufficiently and timely raise carbon prices**, even in combination with a revised linear reduction factor.
- d) It therefore **pleads for additional measures that tackle the existing surplus** more effectively and rapidly. Examples of such structural measures are: (i) the permanent removal of an amount on 2013-2020 allowances that were backloaded, as a fall-back these allowances could also be directly absorbed by the market stability reserve, (ii) significantly lowering the amount of allowances in the 21-30 cap as of 2021, and (iii) a more significant and rapid absorption of the surplus by the market stability reserve for example by increasing the 12% absorption rate.
- e) In the transition to a low carbon society the **industry has an important role to play**, both in implementing the low carbon technologies that are necessary to lower the carbon footprint of the society, and in developing technological breakthroughs. It is therefore paramount to incentivize the industries to implement the necessary innovations.

- f) The way such potential carbon leakage risks will be addressed is not yet clarified in the 2030 framework as proposed by the Commission. The overall level of ambition for the ETS in the context of the 2030 EU-wide reduction target should be decided by June 2014 at the latest. This decision should be accompanied by a decision to develop a post 2020 carbon leakage framework.
- g) This new carbon leakage framework should ensure that:
- There is sufficient regulatory certainty for operators during the 2021-2030 period concerning the protection against carbon leakage.
 - Free allocation is aligned as much as possible with the actual activity of the concerned installations taking into account reported activity data,
 - Benchmarks are ambitious but feasible and adapted to technology development.
 - The level of support is gradually correlated with the exposure to carbon leakage.
- Are in particular to be taken into consideration: avoiding an unfeasible allocation level through additional correction factors, and preventing distortion of the level playing field through state aid guidelines for indirect carbon leakage compensations.
- The appropriate schemes in order to achieve these objectives are to be further examined.

4. Non-ETS

- a) The split of the efforts between the ETS and the non-ETS sectors must be based on cost-efficiency.
- b) The architecture of the current Effort Sharing Decision, based upon binding annual national targets for the non-ETS sectors, must be preserved to ensure continuity and stability in these sectors.
- c) The burden sharing of the non-ETS target should take into account the principles of “polluter pays”, fairness and solidarity. It will be important to account for cost-effectiveness in sharing the EU non-ETS target across Member States. Any future new distributional factors should not be based merely upon GDP/capita but should also consider the inherent and specific characteristics of the Member States and cost-effectiveness¹.
- d) A transparent intra-EU flexibility must be maintained in the period between 2021 and 2030 as it could increase cost-effectiveness on a European scale.
- e) Policies at EU level are also required, especially in the field of energy efficiency, innovation and R&D, in order to promote changing production and consumption patterns. Such policies must contribute to create a level playing field where the situation of SMEs deserve particular attention. On the same line, EU policies should contribute to further harmonize fiscal measures.

¹ Cfr Table 32 of the European Commission Impact Assessment dd Jan. 22d 2014, as a starting point

5. LULUCF/land sector

- a) Belgium is not in favor of option 2 and is still reflecting on options 1 and 3.
- b) Under scrutiny reservation, Belgium would favor option 1 for the time being, as it better reflects the specificities of carbon stocks in the land sector.
- c) Option 3 might be explored but its added value should be confirmed. Considering their differences in terms of timing and policies, the effective synergy between policies regarding carbon stocks and non-CO₂ gases should be further assessed.
- d) In the impact assessment regarding options 1 and 3, it is unclear whether emissions allowances from both sides (as with AAUs and RMUs under the KP) would be fungible or not. Belgium welcomes clarification and discussion on this point.

6. RES

- a) The 2030 framework has to ensure the continuation of a dynamic development of renewable energy after 2020 in a longer term perspective of the transition to a low-carbon energy system.
- b) The various impacts of the development of RES in terms of employment, energy security of supply, reduced fossil fuel import expenses, economic growth, air quality, energy systems costs, energy prices and competitiveness must be taken into account.
- c) **Belgium welcomes the Commission's proposal of a European binding target. Considering the impact assessment, Belgium is of the opinion that a European RES target of at least 27% should be set.**
- d) The instruments announced in the 2030 package seem to be too weak to realize the European 'binding' RES target. Indeed, the proposed instruments, consisting mainly of a carbon price resulting from a reformed ETS system, and which may not be high and stable enough, and of bottom-up national energy plans, could create a lack of investors' confidence and this could jeopardize the further development of electricity from RES and could even endanger the realization of the 2020 renewable energy targets.
- e) Therefore, Belgium proposes a robust and strengthened governance framework.
- f) Consistent with a cost-efficient European and coordinated approach in the internal energy market the proposed instruments for the further development for renewable energy have to be adapted or further instruments have to be added. In this respect the European Commission should further analyze the feasibility and merits of alternative instruments.
- g) Support schemes for all energy technologies should be effective, limited in time, updated on a regular basis, cost-efficient and they should drive innovation while guaranteeing a level playing field for investing in mature energy technologies. More attention should be paid to the phasing out of environmentally harmful subsidies.
- h) The proposed 2030 framework contains no incentives for greening transport fuels e.g. a target for renewable energy in the transport sector. The Fuel Quality Directive should therefore be prolonged after 2020. A technology-neutral approach integrating both energy and transport policies is needed ensuring the continuation of the greening of transport fuels and the innovation and development of advanced and more sustainable bio- and other transport fuels, taking account all relevant sustainability aspects including the emissions related to the indirect impact of land use change.

- i) At the European level measures have to be agreed upon in order to create a level playing field regarding exonerations and exemptions specific sectors with respect to contributions to the financing of support systems, network fees and other charges.
- j) More attention should be paid to the development of infrastructure (e.g. interconnections, smart grids...) and R&D in the 2030 framework.
- k) The proposed approach of monitoring an appropriate set of key indicators can be supported. The proposal should to be further elaborated by the European Commission in close cooperation with the Member States.

7. Energy efficiency

- a) Considering the crucial role of EE in the transition towards a low carbon economy, we regret the lack of ambition put forward by the Commission in this proposal. The Impact Assessment clearly shows the significant co-benefits of the addition of ambitious energy targets and/or policies to a 2030 GHG reduction target. The benefits are related to economic growth, employment, trade balance, ... Therefore, an appropriate ambition level or a binding 2030 EU target for energy efficiency should be defined, be it at sectorial level, taking into accounts these co-benefits.
- b) At the European level the energy efficiency policies (eco-design, energy performance of buildings, energy efficiency directive) that have been developed and have proven to have an impact on the energy consumption should be prolonged and strengthened.

8. National Plans and indicators and objectives for competitive, secure and sustainable energy

- a) Belgium has questions and remarks on the proposed new governance mechanism.
- b) The new governance mechanism does not seem to be a strong and convincing instrument to drive the development of renewable energy and realize the 'binding' target. In order to be effective , the proposed process based on national integrated plans should be driven by a clear and defined framework and ambition level.
- c) Belgium welcomes the role of the national energy plans for the coordination with neighboring countries of policies having an impact on the electricity market and system.
- d) The administrative impact of the new governance should be in line with the added value it can provide, while respecting the principle of subsidiarity.
- e) A national coordination process integrating and coordinating the various involved domains including non-ETS sector, renewable energy and energy efficiency is indeed essential for the coherence of measures and policies.

- f) Belgium is in favour of the proposed approach consisting of the monitoring of “relevant indicators”, which should be further elaborated by the Commission in close collaboration with the Member States.

9. Environmental impacts of shale gas

- a) Belgium appreciates the efforts made by the EC to screen the **current EU legislation** for gaps related to exploitation of UFF’s. This exercise revealed the current weakness in guaranteeing an environmentally safe operation. Belgium therefore asked for a clear and binding, legislative initiative.
- b) Belgium considers the “Recommendation” option as a weak instrument compared to the set objectives and to bring clarity and certainty while addressing the public concern and respecting the prevention principle. We wonder what the **commissions motive** was for deciding to deviate from the conclusions drawn from the Impact Assessment which clearly indicated an optimal score for “Option D” : a specific directive covering all aspects.
- c) Belgium welcomes the synthesis with points of particular interest given by the Recommendation but is willing to discuss the scope and **technical content** of the recommendations as well as the timing for implementation.

10. Conclusion / Main message

- a) The European Council must agree as soon as possible and no later than in June 2014 on the main elements of the policy framework for climate and energy in the period from 2020 to 2030, including on the EU targets, in order to promote the transition towards a low carbon and resource efficient economy while enhancing energy security and turning competitiveness concerns into industrial and economic opportunities.

GERMANY

- 1) *Do you consider that the overall approach of the 2030 framework for climate and energy policies provides the appropriate balance between ambition, in terms of reducing greenhouse gas emissions in line with the long-term climate objective, and flexibility for Member States to define the most appropriate ways to transition to a low-carbon economy taking into account their preferences, specific circumstances and capacities?*
- 2) *What do you see as the next steps in the discussion on climate and energy policies until 2030, taking into account the need to provide certainty for investors in the longer term and prepare for the international climate negotiations, and which aspects of the proposed framework would as a priority need to be further discussed and defined, for example in relation to efforts at EU and Member State level and in different sectors?*

In Germany's view the Commission proposals are essentially pointing in the right direction.

The proposals provide a good basis for the European Council to decide on key points regarding the 2030 EU climate and energy package at its meeting on 20 and 21 March. This is important in order to send a clear and positive signal to the international community. Germany advocates that the EU should enter international negotiations with ambitious targets, and to this end establish its position at an early stage regarding the 2030 targets.

In this regard, Germany feels that it is essential to adopt three headline targets, comprising a domestic greenhouse gas reduction within the EU of at least 40 percent by 2030, as well as targets for expanding renewable energies and increasing efficiency. With regard to the climate target, we should keep the door open for raising the level of ambition – including a contribution through international mitigation certificates - in the context of an international climate agreement.

Achieving ambitious European climate targets must not lead to disadvantages for energy-intensive, internationally competing industries, and it must avoid carbon leakage.

An intelligent framework for climate and energy policy up to 2030, which triggers investment in energy efficiency and renewable energy but still maintains a sense of proportion and avoids placing excessive burdens on industry or consumers, strengthens the European Union's competitiveness and innovative strength.

With regard to the renewables' target, reliability and predictability are vital. Germany therefore welcomes the Commission's proposal of a binding EU-wide target for 2030.

However, to prevent us falling behind on our current level of ambition, we need an EU-wide target of 30 percent of gross final energy consumption.

With regard to the proposed governance structure, Germany feels that the following points are important:

- that the specified renewable energy target is actually achieved;
- that each Member State makes a fair and reliable contribution towards achieving the target;
- that the EU framework supports Member States which focus more on renewables for their energy mix, and allows them scope to develop corresponding national measures.

Germany continues to feel that an independent energy efficiency target is necessary. Increasing energy efficiency is a key prerequisite for achieving the EU's environmental and political goals. At the same time, it is capable of reducing the burden of energy costs and dependence on energy imports as well as of improving the competitiveness of European industry as a whole.

With regard to the Emissions Trading System the Commission is proposing a Stability Reserve, which would take effect from 2021. Under this reserve, fewer allowances would be auctioned when there are surpluses on the carbon market, and more would be auctioned in the case of shortages. These proposals are also to be welcomed in principle. Germany is of the opinion that a sustained strengthening of the ETS is needed.

PORTUGAL

1. *Do you consider that the overall approach of the 2030 framework for climate and energy policies provides the **appropriate balance between ambition**, in terms of reducing greenhouse gas emissions in line with the long-term climate objective, **and flexibility for Member States** to define the most appropriate ways to transition to a low-carbon economy taking into account their preferences, specific circumstances and capacities?*
2. *What do you see as the **next steps** in the discussion on climate and energy policies until 2030, taking into account the need to provide certainty for investors in the longer term and prepare for the international climate negotiations, and **which aspects of the proposed framework would as a priority need to be further discussed and defined**, for example in relation to efforts at EU and Member State level and in different sectors?*

In what concerns the **first question**, Portugal believes that only a combination of different binding goals will ensure progress towards the goals and the paths to an emissions reduction of 80-95 % by 2050, as presented in the European Low Carbon Roadmap and with the view to held global warming bellow 2°C.

In this context, Portugal supports the establishment at EU level of a binding target of at least 40% greenhouse gas (GHG) reductions in domestic emissions by 2030 compared to 1990 emissions. Furthermore, Portugal believes that a comprehensive policy approach is needed, with complementary targets on renewable energy, energy efficiency and electricity interconnection. A diverse set of complementary policies and measures will be essential to mobilize investments and to realize a low-carbon economy. Europe needs targeted policies to address market failures such as the lack of information, unavailability of upfront financing or split incentives between those making investments and those paying energy bills. Thus we advocate a 4-target climate and energy package:

- At least 40% greenhouse gas (GHG) reductions in domestic emissions compared to 1990 emissions (including a structural reform of the EU ETS and the extension of the scope of the non ETS sectors to land use and forestry sector –LULUCF);
- 40% of total energy consumption to be provided by renewable energy;
- 30% in energy efficiency;
- at least 25%, for all Member States, of electricity interconnection capacity for the total production capacity (setting a target of 12% by 2020 and 10% for all Member States in the very short term).

Setting these four binding targets at the EU level does not hinder flexibility for Members States to define, within each target, the most appropriate and cost-effective manner to achieve them. In fact, it allows for tapping into a more diverse set of solutions. Portugal believes that flexibility for Member States in achieving these set of targets should translate in cost-effective policies, taking into account the price of energy, competitiveness, job creation and reaping the benefits of a fully effective European internal energy market.

To this effect, the new European climate policy framework should continue to seek a greater degree of coordination between policies and in particular, energy, climate, transport, agriculture and forestry. In addition, the path to the consolidation of the internal energy market must surpass the current restrictions, specifically with regard to European interconnections networks. Interconnections play an important role in creating flexibility for MS, since they enhance the diversification of energy sources, increase energy security and contribute to overall competitiveness. This must continue to be a priority issue on the agenda

Portugal considers that these four targets are necessary building blocks of an ambitious and comprehensive EU Climate and Energy package for 2030 consistent with the EU's 2050 goals and of a strong political signal from the EU to our partners in the context of the international negotiations with a view to adopting a 2015 Agreement.

Referring to the **second question**, Portugal supports the need to achieve an early agreement at the EU level, that is clear and ambitious with regard to its targets in order to a stable low carbon policy framework to investors which could also provide additional relief with regards the current imbalances between supply and demand that are undermining the carbon market and the ETS. Additionally, agreeing on the targets sooner rather than later would send an important political signal to the international community ahead of 2015 and preferably in the UN Secretary-General event in September this year. We believe this may also encourage third parties to act soon and with greater ambition.

Therefore, we are of the view that the March **European Council** conclusions should agree on concrete targets – a roadmap for the establishment of future targets is not enough.

With regards to tasking of further work of a more technical nature, related to efforts at Member State level and in different sectors, it is necessary to further discuss how effort-sharing will be implemented and how the proposed new governance system will work. We believe these new tools should ensure that the goals will be achieved in the most cost-effective way, strengthening and enhancing the internal energy market as well as the creation of green jobs and green growth while tackling issues related with competitiveness and energy prices.

Portugal supports the EU Emissions Trading System (ETS) as a central instrument of the EU climate policy architecture for 2030. We, therefore, welcome the structural reform as proposed by the European Commission in order to improve its functioning and guarantee a robust and predictable carbon price as well as long-term incentives to ensure the necessary investments in these sectors.

With respect to sectors not included in the EU ETS, Portugal considers crucial to extend the scope to the land use and forestry sector (LULUCF) in order to ensure that all sectors contribute to the efforts and deliver cost-effective emission reductions alongside with other sectors already included in the Climate and Energy package for 2020.

SWEDEN

The Swedish Government welcomes the European Commission's proposal on a collective framework for climate and energy policy in the period up to 2030, but believes the level of ambition needs to be raised. The EU needs to strengthen its leadership and act forcefully and constructively to achieve a global climate agreement at the 2015 Climate Conference in Paris.

The Government supports the 40 per cent reduction target for EU emissions proposed by the Commission, provided that the burden is distributed among Member States in a cost-effective manner. Each Member State's share of the total reduction is largely dependent on how this burden is distributed. Furthermore, the Government is willing to support an additional 10 per cent emissions reduction in the form of international carbon credits, provided that other developed countries assume their share of the responsibility in the international negotiations. As the most important objective is to reduce emissions, the emissions target takes priority over the renewable energy target.

The Government supports the proposed target that at least 27 per cent of energy consumed in the EU should be from renewable sources. Given that this target is not to be achieved by burden-sharing, the national targets set by Member States will play a highly significant role. The renewable energy target must be reached by cost-effective means. Changes in costs and technology may lead the Government to reconsider its view of the 27 per cent target. The purpose of the renewable energy target is to phase out fossil fuels.

The Government supports the Commission's proposal to address the energy efficiency issue later, after the review of the Energy Efficiency Directive later this year.

In the Government's opinion, the completion of the internal market is a prerequisite for competitive energy markets in the EU. A single market is also essential for the cost-effective achievement of targets. Policy instruments for the continued expansion of renewable energy should be designed for maximum possible cost-effectiveness. The framework should also encourage cooperation between Member States.

The Government also believes that bioenergy could play an important role in the EU's climate and energy policy up to 2030, and it intends to participate actively in discussions on the future of EU biomass policies.

The Government is of the opinion that the uptake and emission of greenhouse gases from forests and land use should be included as part of the climate policy. However, the great uncertainties involved in calculating greenhouse gas flows need to be taken into account when addressing this issue. The key role of forests in the production of sustainable bioenergy and climate-smart materials, biodiversity and ecosystem services must also be considered, as must the long-term production outlook for forests.

The Government sees some advantages in the proposed indicators and welcomes the fact that they are not expressed as binding targets. However, these indicators require further analysis.

The Government's ambition is for the European Council in March to take a position on the direction of the EU's long-term climate and energy policies, so as to provide industries and society in general with long-term conditions and to equip the EU with clear objectives prior to the climate summit in September.

- *Reform of the EU Emissions Trading System*

The Government's general position is that the EU Emissions Trading System (EU ETS) should be developed so as to secure and promote its role in European climate policy. The signals currently sent by the EU ETS are too weak to drive the investments required. The Government therefore welcomes proposals to further develop the EU ETS. Proposals to strengthen the EU ETS should be treated with priority.

The Government wishes to stress that the level of ambition for overall EU greenhouse gas emissions reductions has a decisive influence on how well the trading system works. A high level of ambition for EU emissions reductions by 2030 is a fundamental prerequisite for strengthening the trading system. The Government is still examining the Commission's proposal on a stability reserve.

The Government notes that the EU ETS continues to show a large surplus of allowances and that the Commission's proposal only concerns the period after 2020. The Government would therefore also like to see concrete proposals for the development of the EU ETS before 2020, in order to strengthen the trading system and the price signals it sends. Possible proposals could include an earlier increase of the linear factor or a cancellation ('set-aside') of allowances.