



Council Conclusions on the 2030 Climate and Energy Framework: Outcomes & Analysis

23-24 October 2014

TABLE OF CONTENT

| | |
|--|----------|
| 1. Executive Summary: A Grand Compromise..... | 3 |
| What happened?..... | 3 |
| Why does it matter?..... | 3 |
| Main takeaways | 3 |
| Next Steps | 4 |
| 2. A detailed breakdown per topic..... | 4 |
| GHG Emission reduction targets | 4 |
| Renewables | 4 |
| Energy Efficiency | 4 |
| ETS reform..... | 5 |
| Burden-Sharing..... | 5 |
| Non-ETS..... | 6 |
| Transport..... | 6 |
| Internal Energy Market | 6 |
| Energy Security..... | 6 |
| Governance | 7 |
| 3. Legislation in the pipeline for the next 12-18 months..... | 7 |
| 4. Stakeholders Reactions..... | 7 |
| Tweets | 8 |
| Press Releases | 8 |

1. Executive Summary: A Grand Compromise

What happened?

On 24 October 2014, the European Council reached an agreement on the 2030 Climate and Energy Framework.

Why does it matter?

The Conclusions, reacting to the European Commission's January 2014 Communication on the 2030 policy framework, provides a framework for EU and Climate policy for the next 15 years. The Conclusions sets the agenda for the next European Commission as several legislative procedures will follow at the beginning of 2015 following from the agreement.

Main takeaways

- **GHG reductions:** The centerpiece of the EU Climate and Energy Framework for 2030 is the binding 40% GHG reduction target. Further details on how and where these reductions will be achieved and the 'flexibility clause' allowing for the 40% target to be revised if there is not an acceptable agreement at the Paris 2015 COP summit are given below.
- **Renewables:** A 27% target was agreed for the share of renewable energy in the EU energy consumption in 2030. However this target is only binding at the EU level and thus crucially, is not binding at the individual Member State level.
- **Energy efficiency:** A 27% non-binding target for improving energy efficiency by 2030. The indicative nature for the target is a major defeat for proponents of stronger energy efficiency measures. Indeed, EuroAce (Alliance of Companies for energy efficiency in buildings) immediately reacted referring to the agreement as "dismal".
- **Burden sharing:** To coax Member States from the Central and Eastern European region (especially Poland) into an agreement, a complex compensation system involving the transfer of ETS allowances has been agreed. For more details on the system will work, please see below.
- **Carbon leakage:** To appease European energy intensive industries the system of free allocation of allowances for sectors deemed to be exposed to carbon leakage will continue in the post-2020 framework. Interestingly, for the first time the "indirect carbon costs" (the pass through costs of the ETS) are mentioned, saying that both the direct and indirect costs should be taken into account, in line with State Aid Guidelines. Elsewhere, unlike previous drafts of Council Conclusions, there is no mention of the need to reduce the list of sectors and sub-sectors currently on the carbon leakage list.
- **Energy Security:** Unlike the European Commission's Energy Security Strategy released in May, the Council Conclusions lack ambition on energy security, with no tangible concrete measures proposed.
- **Electricity interconnectivity:** In a defeat for the Iberian Member States, the conclusions do not clearly call for a binding electricity interconnector target for 2030. The obligation remains at 10% for 2020. Spain and Portugal had threatened prior to the Summit to veto the agreement over the lack of a 15% binding energy electricity interconnector by 2030.

Next Steps

- The Conclusions represent just the beginning of the process. Based on this, the European Commission will come forward with legislative proposals in Q1/Q2 2015. These proposals must go through the full co-decision procedure involving the Parliament and Council. This process will likely take 12-18 months and thus, will not be finalized before the COP Summit in December 2015.
- Elsewhere, all eyes will be on Paris in December 2015 for the COP Summit. The EU will submit its contribution in Q1 2015. If an acceptable agreement is not reached in Paris, EU policymakers could scale back ambition, calling for a GHG reduction figure less than 40%.
- In the Conclusions the European Council clearly refers to this saying that they “will keep all the elements under review and will continue to give strategic orientations as appropriate”. This reference (and earlier formulations in previous drafts) caused confusion during negotiations, as it was understood as a ‘tour de force’ of European leaders against codecision, and a possibility for them to veto climate legislation. It should instead be understood as protection for CEE countries against ambitious EU measures going beyond commitments of other regions.
- Should no agreement be reached the already clear split between the Member States pushing for stronger climate legislation such as the UK, FR, DE and the Nordic States and those less willing such as the CEE Member States led by Poland could become more pronounced.

2. A detailed breakdown per topic

GHG Emission reduction targets

- **40% target for 2030:** The centerpiece of the EU Climate and Energy Framework for 2030 is the binding 40% GHG reduction target.
- **ETS vs. Non-ETS sector split:** Reductions in the ETS sector will be 43%, while reductions in the non-ETS sector (transport, industry, buildings) will be 30%.
- **‘Flexibility clause’:** In addition, a special ‘flexibility clause’ was added to the final text allowing for the targets to be reviewed after an international summit on climate change in Paris in 2015. This means that, in theory, the European Council can change the targets if an acceptable international agreement is not reached at the Paris COP Summit.

Renewables

- **27% EU wide target:** A 27% target for renewable energy target for 2030 was agreed. However this target is only binding at the EU level and thus crucially, is not binding at the individual Member State level.

Energy Efficiency

- **27% non-binding energy efficiency target:** A 27% non-binding target for improving energy efficiency by 2030. The indicative nature for the target is a major defeat for proponents of stronger energy efficiency measures. Indeed, EuroAce immediately reacted referring to the agreement as “dismal”.

- This means that EU Member States have chosen not to follow the line of the European Commission President Juncker, who had recently called for a binding 30% energy efficiency target in an attempt to underline his commitment to reduce the EU's reliance on hydrocarbon imports from abroad.
- **Pre 2020 Review:** Looking ahead, this target will be reviewed “by 2020” and could be increased by 30%.
- **Potential proposal on priority sectors:** The Commission will propose priority sectors in energy efficiency. The proposal will look at “ways that energy efficiency gains can be reaped and ways to address them at EU level”. Most likely this proposal will focus on energy efficiency in the building sector.

ETS reform

- The chief instrument to reach our Climate and Energy targets in the post 2020 period will remain the ETS. In its Conclusions, the European Council outlines the measures it supports to reform the system.
- **No mention of Market Stability Reserve:** The Council does not make any direct reference to the ‘Market Stability Reserve’ proposal to reform the ETS. Instead it merely calls for “an instrument” to stabilize the allowances market.
- **Increase the annual linear reduction factor:** In order to reach the 40% GHG target by 2030 the annual linear reduction factor will be increased from 1.74% to 2,2% from 2021 onwards

Carbon leakage protection provisions

- **Free allocation to continue post 2020:** The system of free allocation of allowances to sectors deemed exposed to carbon leakage will continue in the post 2020 period. It notes that the benchmarks will be reviewed in line with “technological progress in the respective industry sectors”.
- **No mention of reduction in the list of sectors exposed:** Unlike previous drafts of the Council Conclusions, no mention is made of the need to reduce the list of sectors and subsectors deemed exposed to carbon leakage.
- **Indirect cost of the ETS:** The Conclusions directly refer to the indirect costs of the ETS, i.e. the costs passed through higher electricity prices.

Burden-Sharing

- A number of measures are included to appease Member States from the CEE region, particularly Poland.
- Under the burden-sharing compromise, a new reserve and a system of ETS allowance transfers has been created.
- **Allowance transfers:** 10% of EU ETS allowances will be distributed amongst those countries whose GDP per capita did not exceed 90% of EU average. The rest will be distributed according to the ordinary rule, i.e. on the basis of historic emissions levels.
- **Free allowances to the ‘energy sector’:** Countries with a GDP per capita below 60% of the EU average may opt to continue to give free allowances for the energy sector up to 2030 (this

system was initially supposed to expire post-2020). However, this will be limited to no more than 40% of the allowances allocated.

- **New reserve:** A new reserve of 2% of the EU ETS allowances will be created (instead of the 1% originally envisaged). Using very broad language it says that the funds will be used to “modernize” the energy systems of these Member States (again, countries with a GDP per capita below 60% of the EU average). The reserve will be managed by the Member States themselves, and not by the EIB (as was desired by Western Member States). The distribution of funds for this will be based on the combination of a 50% share of verified emissions and a 50% share of GDP criteria. This is deemed to be very favourable to Poland.
- **New NER 400 Fund:** The scope of the NER 300 will be extended to cover “low carbon innovation in industrial sectors”. This broad definition of low carbon innovation is reparation to CEE Member States. The endowment number will be increased from 300 million to 400 million allowances.

Non-ETS

- **Same methodology in post 2020 period:** The same methodology to calculate emissions in the non-ETS sector will apply in the post 2020 framework as current.
- The European Council also decided to establish a new flexibility on achieving targets through a limited one-off reduction of the ETS allowances, to be decided before 2020.

Transport

- **Possibility to include transport in the ETS:** There is no direct push to include transport in the ETS but the Conclusions note that Member States “can opt” to include the transport sector in the framework of the ETS by themselves. The idea was strongly rejected by NGOs such as *Transport & Environment* who believe there are more efficient ways to reduce emissions in transport than including transport in the ETS.
- **Biofuels:** Some hope is given to biofuels with the Council calling on the Commission to examine instruments for “renewable energy sources in transport” post 2020. This would possibly involve an extension of the Fuel Quality Directive after 2020. Electric transportation is also mentioned in this realm.

Internal Energy Market

- **Electricity interconnectivity:** In a defeat for the Iberian Member States, the conclusions do not call for a binding electricity interconnector targets for 2030. Spain and Portugal had threatened prior to the Summit to veto over the lack of a 15% binding energy electricity interconnector by 2030. Instead, the Commission will report regularly to the European Council with the objective of reaching the 15% target by 2030. These targets should be attained through the implementation of the projects of common interest.

Energy Security

- **Energy Security:** Unlike the European Commission’s Energy Security Strategy released in May, the Council Conclusions lack ambition on energy security, with no tangible concrete measures

proposed. No mention is made of the controversial South Stream project, nor of a common gas purchasing mechanism.

- **Shale gas:** In a reference to unconventional sources, the Council recognizes that EU energy security can be increased through “indigenous” resources

Governance

- Little clarity is given to the idea of a new governance scheme to govern the post 2020 framework

3. Legislation in the pipeline for the next 12-18 months

- **Transport:** The Council invites the Commission to examine ways to decarbonize transport in the post-2020 period. A Communication can thus be expected in this realm.
- **Land Use, Land Use Change and Forestry:** The Commission will come forward with measures of how to include Land Use, Land Use Change and Forestry into the 2030 framework before 2020
- **Energy efficiency priority sectors:** The Commission will propose priority sectors in energy efficiency. The proposal will look at ways that energy-efficiency gains can be reaped and ways to address them at EU level.
- **Electricity interconnectors:** The Commission is invited to present a Communication ahead of the March 2015 European Council on the best means to achieve the 10% electricity interconnector target by 2020.
- **ETS Directive:** A revision of the ETS Directive will be required to adjust it to the new 40% GHG reduction target, the new linear reduction factor and new provisions on carbon leakage, the 2% reserve and the NER400 mechanism.
- **Renewable Energy Directive:** A revision of the RED should also be on the table, to enshrine the 27% target and the governance mechanism. It may also incorporate measures for renewable in transport post-2020.

4. Stakeholders Reactions

The most consistent phrase across the stakeholder community was that the Conclusions were “lacking ambition”, however some industry associations welcomed the safeguarding of measures to maintain European competitiveness.

- **40% GHG Reduction:**
 - > Both too high for industry and too low for climate-oriented groups, this measure was welcomed lukewarmly at best. NGOs such as Friends of the Earth branded it as irresponsible, while The European Steel Association raised the specter of carbon leakage in the face of enhanced regulation.
 - > The Prince of Wales’ Corporate Leaders Group did support the measure, saying it would “boost the momentum toward an agreement in international climate negotiations in Paris”.

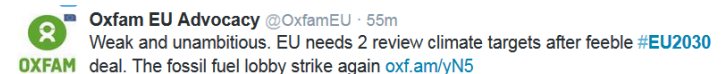
– Renewables Targets

- > That being said, the Prince of Wales group also joined a chorus of stakeholders who criticized the ‘at least’ 27% target for renewables. While [EPIA](#) was cautiously optimistic, labeling it an “important signal of political resolve”, [Greenpeace](#) argued that “EU leaders are knocking the wind out of Europe’s booming renewables sector”.
- > Furthermore, making the renewables target binding at EU level highlighted concerns of the way the council reaches consensus. The [European Green Party](#) was critical of the use of vetos by Poland, France and the UK saying “we used to have a polluter-pays-principle, now we’ve got a polluter-vetos-principle”.

– Energy Efficiency

- > [Eurima](#) was the most vocal in their criticism of the failure to adopt a binding energy efficiency target. Friends of the Earth noted that the lack of strong commitment on the topic ignored analysis by the [European Commission](#) showing that higher ambition is better for jobs, the economy and energy security.

Tweets



Press Releases

- **Oxfam:** Europe must review climate targets after weak climate package deal
- **Greenpeace:** EU leaders pull handbrake on clean energy
- **WWF:** EU fails credibility test on 2030 climate and energy ambition
- **Friends of the Earth Europe:** EU climate deal puts polluters before people
- **EPIA:** Council decision on 2030: Lacking Ambition
- **Cambridge University:** EU Climate and Energy package is a major step forward but weak on renewables and energy efficiency
- **IETA:** EU 2030 GHG reduction target good for business, says IETA
- **EBB:** EU leaders racing to the bottom
- **The Greens:** EU Council abdicates Climate Leadership