Special Bulletin

A Japanese Perspective on the International Energy Landscape (158) January 31, 2014

European Commission Releases Climate and Energy Policy Goals for 2030

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On January 22, the European Commission published the European Union's climate change and energy policy goals titled "A Policy Framework for Climate and Energy in the Period from 2020 to 2030."

The goals include (1) a binding target of a 40% greenhouse gas emission reduction below the 1990 level for 2030 in the EU, (2) an EU-wide binding target for renewable energy of at least 27%, (3) reviewing the energy efficiency directive within this year to improve energy efficiency and (4) reforming the EU emissions trading system through a market stability reserve to be established at the beginning of the next ETS trading period in 2021.

The European Commission has designed the long-term goals for 2030 to enhance the EU's so-called Triple 20 goals for 2020 (cutting GHG emissions by 20%, increasing renewable energy's share to 20% and raising the energy consumption efficiency by 20%).

The long-term goals clearly indicate the direction of enhancement of climate and energy policy target. Given their details, various challenges considered in a run-up to the agreement on the goals and the EU's present economic conditions, we can find some interesting points in the published long-term goals

First, the goals suggest the EU's willingness to raise the 20% GHG emission cut for 2020 to the 40% cut for 2030. Given the difficult European economic situation including fallouts of the sovereign debt crisis as well as some signs of recovery, in addition to high energy costs affecting economic and industrial competitiveness as discussed later, we can interpret the 2030 goals as reflecting the EU's ambition to demonstrate the proactive GHG emission reduction goal and keep its position to lead global discussions on the matter. Some media reported that the EU eventually raised the originally planned goal of 35% to 40%, making the interpretation more convincing. In fact, however, how to address the conflict between achieving climate change goals and improving economic and industrial competitiveness may become a major challenge for Europe.

Second, it is interesting that the EU has adopted the renewable energy promotion as an EU-wide goal instead of country-by-country goals set for 2020. The renewable energy promotion policy implemented in European countries has brought about “bright and dark effects”. The EU might have chosen to set only the EU-wide goal in consideration of these effects and member countries' differences over how to position renewable energy promotion and other GHG emission reduction measures.

Certainly, promoting domestically procured renewable energy emitting no carbon dioxide can be expected to make positive contributions to climate change prevention and energy security. If renewable energy featuring higher costs and intermittent supply diffuses fast under feed-in tariff and other supporting systems, economic challenges including greater burdens on consumers and industrial competitiveness losses may emerge and electric grid infrastructure may have to be developed. In fact, EU members have differed over how to position renewable energy, nuclear energy and energy conservation for addressing climate change and energy security problems and how to utilize fossil energy for the same purpose. How individual members would coordinate their respective renewable energy promotion goals with the EU-wide goal will also be a focus of attention.

Third, the European Commission announced the climate change and energy policy goals under the acknowledgement that these goals should be coordinated with other policy agenda that are very important for the EU. As well as the goals, the commission released an energy prices and costs report. The report's core acknowledgement is that European energy costs are relatively higher (particularly than U.S. levels) and expected to greatly affect Europe's economic competitiveness. Compared with the United States that enjoys the fruits of the shale revolution and sees clearer signs of economic recovery, Europe has higher natural gas and electricity prices that are a serious problem particularly for energy-intensive industries. High energy costs can also drag down household or private consumption by reducing disposable income. The problem of energy costs and competitiveness has attracted global attention. It reportedly became one of the key topics at this year's World Economy Forum in Davos. Under such circumstance, the EU has recognized that it must promote climate change and energy policies while preventing energy cost hikes through various approaches including competition policy measures and efforts to lower prices of energy purchases from outside Europe.

The latest EU policy goals also indicate that the problem is how individual EU member countries would coordinate their respective energy and environmental policies with the union's basic concept of an integrated European market. The abovementioned acknowledgement has prompted the European Commission to call for utilizing new governance systems as well as energy price and diversification indicators for comparison with other regions in trying to achieve the policy goals.

Even in the face of the difficult environment and conditions, the EU has come up with the new climate change and energy policy goals and launched efforts to achieve them. It is a major challenge for the EU to simultaneously achieve the three E's (Energy security, Environmental protection and Economic efficiency) plus S (Safety) plus M (Macroeconomic protection) to which Japan now gives priority. In this sense, the EU's and individual EU members' future relevant initiatives will become an interesting reference case for Japan.

Contact: report@tky.ieej.or.jp
The back issues are available at the following URL
http://eneken.ieej.or.jp/en/special_bulletin.html