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## EUROPEAN UNION: 2030 goals hinge on next two years

OxResearch Daily Brief Service. (Apr 12, 2013).

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### Abstract (summary)

The EU's energy and climate strategy for 2030.

On March 27, the European Commission published a 'green paper' to develop a 2030 framework for EU climate change and energy policies. The main goals are to decrease greenhouse gas emission, ensure energy supply and boost economic growth. The public consultation period will conclude on July 2; until then, energy ministers and heads of government will review the proposals with the aim of securing agreement on new targets by end-2014 or early 2015.

### Full Text

SUBJECT: The EU's energy and climate strategy for 2030.

SIGNIFICANCE: On March 27, the European Commission published a 'green paper' to develop a 2030 framework for EU climate change and energy policies. The main goals are to decrease greenhouse gas emission, ensure energy supply and boost economic growth. The public consultation period will conclude on July 2; until then, energy ministers and heads of government will review the proposals with the aim of securing agreement on new targets by end-2014 or early 2015.

ANALYSIS: Impacts.

Carbon reduction is on track for the 2020 target.

However, the renewable energy share goal may not be met if current policy backlash persists.

The energy efficiency objective cannot be met on the basis of existing rules and behaviour.

The future of the EU's energy and climate policies has entered a new phase with the Commission's consultation on

a possible 2030 framework. Although the current 2020 strategy has another seven years to run (see EUROPE: Euro-area crisis may jinx 2020 energy goals - February 6, 2013), the Commission argues that it is important to begin discussions on whether and what form a future policy might take:

Investments undertaken in the next few years will be a central part of energy infrastructure in 2030 and investors (in the energy sector but also in the rest of the economy) need to have some certainty about the overall context for their future planning and operations.

At the policy level, the EU needs to have a stronger sense of its medium-term ambitions not least as a basis for its negotiations with the rest of the world on a post-2020 climate regime, which are due to be finalised by end-2015.

The experience of the current 2020 strategy needs to be taken into account, as do the economic problems, which have impacted private investors, government budgets and household spending.

Euro crisis effects .

The recession, the over-allocation of credits and policies supporting renewable energy and energy efficiency have contributed to a collapse in the price of carbon credits, currently languishing below 5 euros (6.5 dollars) a tonne. Since the carbon credits price was supposed to drive the climate policy, squeezing out fossil fuel usage and rendering zero carbon options more competitive, the low price (less than a fifth of what many had expected) has undermined investment plans and encouraged continued use of not just fossil fuels but of the heaviest emitting fuels (coal and lignite).

At the same time, economic conditions have made it difficult for the EU to reach consensus on tackling the problem. The Commission's proposals to backload credits to push up prices are struggling to secure a qualified majority in the European Council (the German government is divided on the issue). Moreover, the normally supportive EP appears divided on whether to approve the plans.

Economic conditions have also intensified short-term pressures for governments to focus on competitiveness and fiscal austerity at the expense of longer-term policies:

Governments have been rolling back their programmes to support the development of renewables (see EUROPEAN UNION: Renewables post-2020 hinges on targets - June 20, 2012), with some applying retroactive cuts in support frameworks or imposing taxes on producers of renewable energy.

Carbon capture schemes (CCS) have also been on hold, since the Commission was unable to allocate its funds for CCS development due to member states' unwillingness to provide financial guarantees on potential projects.

Mixed results.

The Commission highlights a mixed picture for the 2020 goals:

Carbon reductions.

In 2011, carbon reductions were at 16% of 1990s levels, indicating that the EU is well on its way to meeting the target of 20% -- although this owes more to reduced economic activity and energy demand. However, the recent increase in coal consumption may reverse this trend ( see EU/SPAIN: Coal demand may follow shrinking production - July 12, 2012).

Renewables .

Another milestone for 2020 is for renewable energy to account for 20% of total energy used. This also appears to be on track, but perhaps only in the short term. The Commission highlights that the share of renewable energy consumption for 2010 was already in excess of the interim target set for 2011-12 (except in the United Kingdom,

the Netherlands, Malta and Latvia). However, the final target could be in jeopardy given the increasingly difficult market and policy conditions. Moreover, whereas the expectation was that momentum behind renewable development would increase, the Commission sees signs that the rate of growth is falling short of what was intended.

Energy efficiency .

The Commission expects that the energy efficiency target (a 20% saving in primary energy consumption) will not be met due to the watering-down of the 2011 directive (see EUROPEAN UNION: Energy efficiency targets are at risk - September 5, 2011).

Effective targets?.

While good for embedding a certain amount of political commitment, providing some policy certainty and gauging progress, targets have also been criticised for lacking coherence and efficiency and for not taking account of other considerations, most notably economic competitiveness. Moreover, there is a risk that rather than reinforcing each other, different targets might be contradictory.

Officials have voiced fears that without targets, the existing commitments would stagnate or be reversed after 2020. Furthermore, the Commission notes earlier estimates which indicate that a 40% carbon reduction and a 30% renewables share are needed to keep in sight the long-term goal of a decarbonised economy by 2050. Yet it also raises the possibility of a single target -- for carbon reductions -- leaving open the means by which it would be achieved, and with no preference as to whether the targets should be binding or indicative.

Learning lessons.

The Commission emphasises the need to adapt the legislation behind any new targets to take account of current economic realities and the experience of existing legislation. First, renewable energy will have to operate on a level playing field without many of the supports and preferences that are currently applied. Second, policy should be informed more by internal market logic (trading across borders) than by member state intervention. Finally, the pursuit of CCS will probably require increased incentives or obligations on users of fossil fuel, such as a much tighter emissions certificate for new fossil fuel capacity.

CONCLUSION: The goal of agreeing on a 2030 energy and climate framework by end-2014/early 2015 faces several hurdles, namely diminished enthusiasm and opposition from member states and parts of the European Parliament (EP) -- a reflection of both the euro-area crisis and national concerns. Political changes such as Germany's elections in September and the installation of a new European Commission and a new EP in 2014, may also slow progress. Still, the negotiations on a new international agreement on climate action, which are expected to conclude by end-2015, may serve to spur the internal EU debate.

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## Indexing (details)

Subject	Economic conditions; International relations; Energy policy; Environment; Economic growth; Legislation; Natural resources; Public policy;
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Reforms; Negotiations	
Location	Europe
Company	European Union
Classification	9175: Western Europe 1520: Energy policy
Identifier / keyword	Europe, Economic conditions, Industry, International relations, Energy policy, Environment, Economic growth, Legislation, Natural resources, Public policy, Reforms, Negotiations
Title	EUROPEAN UNION: 2030 goals hinge on next two years
Publication title	OxResearch Daily Brief Service
Pages	n/a
Publication year	2013
Publication date	Apr 12, 2013
Year	2013
Publisher	Oxford Analytica Ltd
Place of publication	Oxford
Country of publication	United Kingdom
Publication subject	BUSINESS AND ECONOMICS
Source type	Reports
Language of publication	English
Document type	News
ProQuest document ID	1326228320
Document URL	<a href="http://libproxy.nps.edu/login?url=http://search.proquest.com/docview/1326228320?accountid=12702">http://libproxy.nps.edu/login?url=http://search.proquest.com/docview/1326228320?accountid=12702</a>
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Last updated	2013-05-14
Database	OxResearch