ZEW
Zentrum für Europäische Wirtschaftsforschung GmbH
Centre for European Economic Research

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Structuring Theses for the ZEW Lunch Debate

"Post 2020 Energy and Climate Protection Targets"

1. Each policy target should be directly addressed by one specific policy instrument.

   The current EU climate and energy policy up to 2020 is based on a triangle of targets: a 20 percent reduction in greenhouse gas (GHG) emissions, a 20 percent share of renewables in EU energy consumption, and a 20 percent reduction in energy consumption. The proposal by the EC for a 2030 framework of climate and energy policies reduces the number of targets to two: a reduction of GHG emissions by 40 percent and renewable share of 27 percent. While the rationale behind the GHG emission target is clear, the market failure that should be addressed by targeting the renewables share has not been clearly communicated. Proponents of the target say it is supposed to send strong and stable low-carbon investment signals in the sector, but also reduce import dependency of fossil fuels. Other policy measures could be imagined to address these market failures, and policy assessment would be more efficient, if the market failures that need to be addressed are clearly named.

2. Presumably, the only target proposed by the EC communication COM(2014) 15 that will de facto be binding is the emissions target.

   According to the EC reference scenario for 2050 which has been published by the EC in December 2013, already with the current set of policies a share of renewables in Gross Final Energy Consumption of 24.4 percent will be reached in 2030. This goes in hand with a reduction of GHG emissions of 32.4 percent relative to 1990 levels with existing policies that are in place beyond 2020 such as the EU ETS directive. The impact assessment report by the EC predicts that if a GHG reduction target of 40 percent is reached, the renewable energy share will approach 27 percent even without a specific target. If we can be certain about this, the administrative burden on the European economy could be reduced if climate and energy policy focuses on a single GHG reduction target.

3. Reaching a global climate agreement is crucial for containing the cost of reaching EU climate targets. Whether or not an ambitious global agreement is achieved also determines if long term EU climate policy is worth the effort.

   Modelling results by ZEW which went into the impact assessment report by the EC indicate that the cost of European climate policy depends to a large degree on climate targets in the rest of the world. If the rest of the world implements climate policies that are in agreement with an 80 percent reduction of GHG emissions in 2050 vis-à-vis 1990 emission levels, the EU might be even better off with a GHG reduction target of 40 percent below 1990 levels by 2030 compared to a reference case where the EU and the rest of the world pursue the currently implemented policies and targets only.

   And while the EU appears to be determined to keep its role as a leader in global climate policy, it must be doubted that it will stick to its own ambitious target of reducing GHG emissions to 80 percent of 1990 levels by 2050, if other key emitters do not enter an ambitious global agreement.

4. Current low European carbon prices could be used as a signal to other key emitters to participate in a global climate agreement.

   Low permit prices signal low costs for climate policy and might encourage decision makers around the world to join the EU in taking meaningful action against global climate warming. If other regions install emission trading systems, they might find it attractive to couple their trading system to the EU ETS and profit from the low permit prices of the EU ETS, if they last. Participants of other trading schemes might end up buying the banked permits that currently exist within the EU ETS. Global integration would thus also help to stabilize permit prices.

5. The current view of the European Commission strikes the balance between needs of emissions mitigation and economic competitiveness.

   ZEW calculations show that while single sectors are adversely affected by the proposed targets, the overall impact on the economy and on competitiveness of trade exposed sectors is justifiable. Overall, the EU would tend to profit from issuing free permits to trade exposed sectors, but if this is regarded as unfair, fully auctioning permits to these sectors as well would not hurt them out of proportion. The arguments for free allocation would cease to apply, if other world regions implemented meaningful emission reduction targets. More ambitious EU targets could be imagined in that case as well.