

## Oxford Energy Comment

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### **The European Union's new targets on emissions and renewables: pluses and minuses.**

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David Buchan argues that Angela Merkel has got her fellow EU leaders to agree at their March 8-9 summit to goals giving her a strong hand in chairing this year's G-8 climate change negotiations. But making the emission trading scheme work would be a better long- term route to promoting clean energy than setting renewables targets.

Angela Merkel pulled off a remarkable success at the European Union summit she chaired on March 8-9. The German chancellor went into the Brussels summit with a dozen EU governments opposed to the Commission's plan for "a binding target" to increase the share of renewable energies in total energy consumption to an average 20 per cent across Europe by 2020 - but she emerged with unanimous acceptance of it. This plan, and another summit commitment to raise the level of bio-fuel to 10 per cent of all transport fuels by 2020, were designed to give credibility to Europe's new stance in international climate change negotiations. For it was also agreed at the summit that the EU should unilaterally extend its current Kyoto treaty commitment (of an 8 per cent greenhouse gas reduction, from 1990 levels, by 2008-2012) to a 20 per cent emissions cut by 2020 – and up to a 30 per cent cut, but only if matched by other developed countries.

Among the various positive consequences of these decisions are:

- A likely boost to Ms Merkel's attempts to use her parallel chairmanship of the G-8 this year to persuade the US and other major polluters to join in emissions reductions when the current phases of Kyoto run out in 2012. As Ms Merkel remarked, the summit should enable the

EU to play “a vanguard role” in climate change negotiations at the G-8 summit at Heiligendamm in June and at the next big United Nations climate change conference at Bali in December.

- An immediate boost to the EU’s emission trading scheme (ETS), where, just after the summit, the first trade of carbon allowances for delivery in 2013 was made, and at a somewhat higher price (Euros 20.05 per tonne of carbon) than current transactions for the 2008-12 period. The power sector and emission traders had previously complained that uncertainty about the post-2012 future of the ETS was inhibiting low-carbon investment and transactions in carbon permits.
- A possible precedent for a wider legal basis to develop EU energy policy. Existing EU treaties give EU institutions considerable scope to set policy on the environment (such as the emission reductions required by Kyoto), but no specific competence to act in energy (except through standard horizontal measures such as anti-trust rules). However, the 20 per cent renewables target, set albeit for environmental reasons, bears directly on countries’ national energy mix regarded traditionally as an area of sovereign decision. This was one reason why the renewable target was more controversial than the emissions target.

However, these potentially positive effects will depend on EU states delivering on what their leaders have signed up to. And the obvious problem is whether, and how quickly, individual EU states can agree to share the burden of their collective targets. It took EU states almost a year to divide the overall emission reduction the Union collectively agreed to make in Kyoto 10 years ago. Now there will a double burden-sharing exercise – on emissions and renewables – and it is unclear how closely these two sets of negotiations will be related.

Both targets will be a stretch for the EU – at present the Union is far off track in hitting even its less ambitious Kyoto target of an 8 per cent emissions cut, and renewables currently account for only 6 per cent of its total energy consumption. In addition, Ms Merkel only got agreement on renewables in Brussels by promising the criteria for burden-sharing would take into account:

- France’s insistence on recognition of the contribution that its high share of nuclear power generation makes to a low-carbon economy.
- Poorer east European states’ worries about having expensive renewables imposed on them. Some land-locked countries in the region lack the wind resources available to coastal states, and many of them are having to shut down Chernobyl-style reactors on safety grounds at Brussels’s insistence.

So to placate these countries, the Brussels communiqué contained the following Byzantine sentence. “From the overall renewables target, differentiated national overall targets should be derived with member states’ full involvement with due regard to a fair and adequate allocation taking account of differing national starting points and potentials, including the existing level of renewable energies and energy mix”. Logically, since what is at stake here is an increase, a country’s “starting point” is less relevant than its “potential”. But as a matter of practical politics, starting points have to be taken into account. Moreover, if a country has already come a long way in renewables, its potential for further improvement may be limited.

But there are also questions about how the renewables target relates to the ETS. What is the point of the EU coming up with a new administered quota system for low carbon energy when the ETS already gives it, at least in theory, a reasonable market mechanism? The renewables target is very ambitious, involving tripling the share of renewables in total energy consumption over the next 13 years. If energy companies are going to meet this target, they may end up developing renewable technologies with a very high cost. According to some estimates, this cost could be in the range of Euros 50-70 per each tonne of carbon avoided, or far above the price at which carbon trades on the ETS.

In addition, there will be no cross-border flexibility to the renewables target. At the time that national renewable targets are set, allowance may be made for member states’ differing comparative advantages in developing renewables. But once set, the targets cannot be changed, even if comparative advantage does. By contrast, carbon permits are traded across the EU in the ETS. Nor will the renewable target embrace and encourage nuclear power, as the ETS ought to do automatically and continually. As national renewable targets are set, some allowance can be made, on a one-off basis in line with the Brussels compromise, for a country’s nuclear stock. But no renewable target can give full allowance to nuclear power, because it is not a renewable energy source – and any pretence to the contrary would draw loud political protest.

Yet a renewable target may be a necessary evil after all, at least until the ETS can be made to work properly. So far EU governments have not been brave enough to create the necessary shortage of ETS permits required to price carbon pollution high enough to stimulate investment in clean power. Another way of achieving this is through quotas. It is not as good as the ETS’

market mechanism. However, if EU governments find it easier to screw their courage to the sticking place of a renewables target, so be it.