14 March 2014

Position regarding key goals in the policy framework for climate and energy in the period from 2020 to 2030

On the proposal to impose binging targets of 40% GHG reduction compared to 1990 levels

Current obligations by the EU to decrease GHG emissions by 20% by 2020 are the most ambitious among industrialised nations. Because of these obligations EU citizens and businesses are experiencing an increasing financial burden, EU businesses are losing competitiveness vis-à-vis other industrial or industrialising nations, and a huge bureaucracy has been created that shall perforce have an interest to perpetuate itself. Unnecessarily ambitious and unfounded binding obligations to reduce GHG emissions would hamper job creation, wealth generation and other goals of the Europe 2020 strategy.

Unilateral and ambitious EU action would cost dearly to EU citizens and have no sizeable effect on the Greenhouse effect. EU is already experiencing de-carbonisation due to other causes—particularly technological innovation in both energy production and consumption. The economic crisis has also been a major driver for carbon reductions in the past few years. The fulfilment of existing binding obligations which would last till 2020 have played a minor role, if any. At the same time the emissions by industrialising countries are increasing. This means that EU emissions are playing an ever smaller role on the global level. Reductions of GHG emissions caused by EU citizens and businesses would be replaced by emissions from other countries. To some extent, the EU's increasing cost of energy has pushed energy-intensive industries to move offshore, thereby increasing global emissions while reducing Europe's ones.

Unilateral EU actions would have negative effects on the economy of the EU. Overambitious goals would not create substantial jobs or growth as to offset the negative impacts. Impact assessment clearly indicates that scenario of 40% of GHG reductions creates from 0.12% to 0.5% more jobs when compared to scenario based on current binding obligations of 20%.[1] Furthermore the **models assume that extra revenues from**

1 Table 21, 22, Impact Assessment, Accompanying the Communication a policy framework for climate and energy in the period from 2020 up to 2030

the carbon tax would be used to lower taxes on labor.[2] However, most carbon-abatement obligation in Europe do not have the form of a tax, so they would not generate direct revenue: for example, subsidies to renewable energies are a forcible transfer from energy consumers to specific technologies. They result into higher energy cost, and are not compensated by lower labor taxes.

This leads to two conclusions. First, given fiscal state of EU countries lowering of taxes is not guaranteed. Therefore negative impacts of 40% GHG reduction are very likely to be underestimated, and are overshadowed by the mere hypothesis of a stimulus created by lowering of taxes on labor. Second, if job creation is EU goal a simple reduction of tax burden would create all the benefits and no extra costs. In order to create jobs EU does not need any new binding obligations for reduction of GHG emissions. In fact, the only way to create job opportunities is to make Europe more competitive, while the proposed climate policies would result into the opposite.

Therefore we propose to reject the proposal for a legally binging obligation to reduce GHG emissions of EU by 40% by 2030. Additionally we are firmly against any proposals to increase this binding target above 40%.

On the proposal to have a legally binding target of 27% renewables in the final energy balance of the EU by 2030

Regardless of the decision on the 40% GHG target, the target of 27% RES is unnecessary and even harmful. If EU action is taken in order to combat climate change a reduction of GHG emissions is the main objective, regardless of the use of RES.

Certain RES are economically feasible without subsidies, feed-in tariffs or other support from taxpayers and consumers. The particular technology or production pattern is unique to each country or region, and depends on countless other variables (access to grid, geographical location etc.). Technological innovation is also a key factor: we don't know whether, 5 or 10 years hence, we will have some new, cost-effective, clean technology available. If winners and losers are picked beforehand, countless opportunities will be lost of cutting emissions in a cost-effective way.

Legally binding target of 27% RES would create a situation whereby investments into economically unfeasible RES energy would be undertaken. This would directly contradict one of the key goals of communicate – development of economically feasible RES. Support to RES is no environmental policy: it is an industrial policy aimed at promoting specific technologies and firms.

Therefore we propose to reject the proposal for a legally binging obligation to increase RES utilisation in final energy mix to 27% by 2030. Additionally we are firmly against any proposals to increase this binding target above 27%.

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2 To be more precise the Table 21 projections of employment impacts for 2030 compared to Reference of GHG reduction scenario with additional policies for EE and RES assume revenue recycling to consumers and energy efficiency and renewable energy investments. Table 22 assumes revenue recycling to lower labor costs and energy efficiency and renewable energy investments

On binding obligations to increase energy efficiency

Increasing energy efficiency helps (or at least does not hinder) to achieve the objective of reducing the GHG emissions. Yet, like in the case of 27% RES target, there is no need for a legally binding target. Existing high energy prices are the best driver to increase energy efficiency to economically feasible levels. A binding target might cause investment into means of increasing energy efficiency, which do not make economic sense.

A correct measure to help increase energy efficiency would be scrapping of all direct and indirect subsidies for energy production or transportation. As well as phasing out of welfare schemes which cover the expenses for energy for certain individuals.

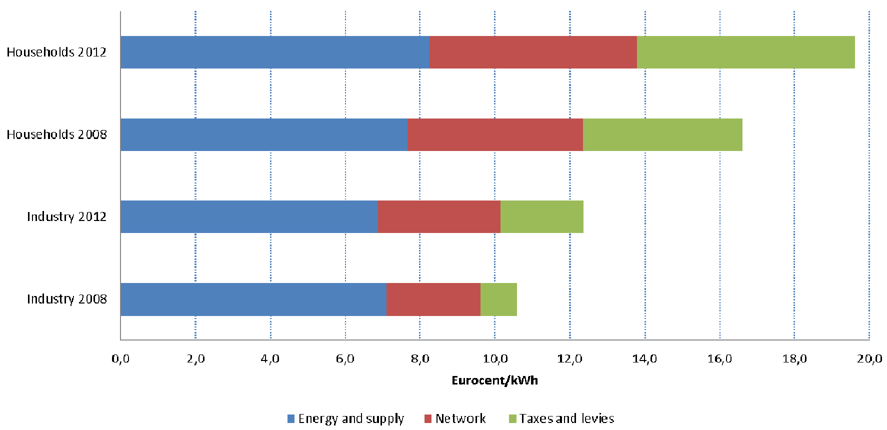
Therefore we propose to reject the proposals for a legally binging obligations to increase energy efficiency.

On important issues omitted in the communicate

a) Taxation of energy and energy products

Data (see figure below) as well as the communicate clearly show that the key driver of energy prices in the 2007-2012 period came not from rising prices of energy itself, but from taxes and levies applied to energy. It is also obvious that minimum level of taxation of energy set on the EU level hurts the members with lower purchasing power disproportionally. Considering that price of energy is essential element of human welfare and competitiveness of the economy, EU needs an initiative to lower taxes on energy and energy products.

Electricity Price Evolution by Component 2008-2012



Source: Eurostat. Includes taxes in the case of households; excludes VAT and other recoverable taxes in the case of industry, other industry exemptions are not included (not available).

b) The future of domestic sources of energy including but not limited to unconventional hydrocarbons

Communicate, impact assessment and other documents correctly point out that EU is losing its competitiveness to the US because US has developed cheap shale gas. The exploitation of unconventional hydrocarbons would considerably improve security of supply of EU and has the potential to lower energy prices. This in turn would help job creation, wealth generation, increasing EU competitiveness. Furthermore if cheaper natural gas from unconventional sources were to (partially) replace coal this would help to reduce GHG emissions. Clearly, exploitation of unconventional hydrocarbons in Europe have a wide array of net benefits.

Yet arbitrary and discriminatory legislation is being passed on EU and member-state level. Such legislation aims to restrict or prohibit exploitation of unconventional hydrocarbons, thus depriving European people and companies from the benefits this economic activity could bring. Clearly an initiative on behalf of the European Commission is needed to monitor and evaluate such legislation, with a possibility of issuing recommendation to remove the legislative barriers for exploiting unconventional hydrocarbons.

Even more important than opening the EU's underground to exploration and production of unconventional hydrocarbons, is the full integration and liberalization of European natural gas and electricity markets.