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#### COVER NOTE

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From:	Presidency
To:	Delegations
Subject:	Letter from the EFC President on the Ecofin contribution to the October European Council on the 2030 framework for climate and energy policies

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Delegations will find attached a letter from the EFC President on the economic elements of the EU 2030 energy and climate framework intended to serve as a basis for the exchange of views in the Council (Economic and Financial Affairs) on 14 October 2014.

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Encl.: [...]



**ECONOMIC AND FINANCIAL COMMITTEE**

**THE PRESIDENT**

Brussels, 2 October 2014

Ares(2014) 3257402

Mr Pier Carlo Padoan  
President of the ECOFIN Council

**Contribution of ECOFIN to the October European Council on the 2030  
framework for climate and energy policies**

Dear Pier Carlo,

A discussion and agreement on future energy and climate policies up to 2030<sup>1</sup> and the energy security strategy<sup>2</sup> is on the agenda of the European Council in October. In view of this forthcoming discussion, both the EFC and EPC have exchanged views on the key economic issues of the proposed package. I would hereby like to bring the main points of our discussion to your attention as this policy framework will have a number of macroeconomic consequences in terms of growth and employment, as well as on energy prices and on energy costs, competitiveness of our industries and public finances. It should be noted that a number of Member States have not yet adopted final positions and as such the content of this letter does not prejudice the individual opinions of Member States.

In its “Strategic agenda for the Union in times of change” in June the European Council stated that the Union needs to take bold steps to foster growth, create more and better jobs. In line with this strategic objective we need to invest and prepare our economies for the future by addressing overdue investment needs as a priority for the next five years. An early agreement on the future framework for climate and energy policy up to 2030 is important to facilitate and enhance investment. An agreement on the future policy framework would reduce regulatory uncertainty concerning climate and energy policy, which would facilitate investments in both safe and sustainable low-carbon technologies and the energy system. This is particularly relevant in these sectors in view of their long investment horizons. This framework is also relevant for the EU’s global competitiveness and trade opportunities - obtaining agreement on it is the best tool the EU has to encourage other major emitters, including the USA and China, to come forward with their own commitments ahead of the UNFCCC Conference of Parties in Paris next year.

The EU needs to apply a cost-efficient and coherent strategy to be consistent with its short and long-term ambitions to achieve its energy and climate objectives. Market-based

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<sup>1</sup> COM(2014) 15 "A policy framework for climate and energy in the period from 2020 to 2030", including COM(2014) 520 on the energy efficiency policy.

<sup>2</sup> COM (2014) 330, "European Energy Security Strategy".

instruments and well-functioning, fully integrated energy markets should play a central role in the policy framework for 2030. Policies at an EU wide level need to be consistent with the EU's long-term ambition to further reduce greenhouse gas emissions at a level in line with the objectives set for 2050 as well as the Union's long term objectives for improving energy security and maintaining industrial competitiveness. Given these objectives, it must be left up to Member States to decide on the appropriate energy mix at the national level. At the same time, the economic and fiscal implications of the policy framework in terms of the distribution of abatement efforts between the ETS and non ETS and the distribution of the non ETS burden and related costs across countries and sectors need to be carefully considered, taking into account economic trade-offs linked to competitiveness and fiscal space.

As a core part of the EU's drive towards a more market orientated, cost efficient and transparent climate policy the EU Emissions Trading Scheme (ETS) is a key instrument in the policy framework. The ETS should be strengthened to provide a robust and meaningful carbon price and remain the main instrument aimed at achieving the EU target for greenhouse gas emissions reduction in the covered sectors. It is therefore essential that the overall 2030 package is constructed in such a way that we learn the lessons from the formulation of the 2020 package. At the same time measures to prevent carbon leakage should be reviewed and improved for the post 2020 period in order to ensure the competitiveness of Europe's energy intensive industries and to ensure a stable environment for industrial investments in the short and long-term.

The emission reduction efforts in the sectors currently not covered by the ETS including transport, agriculture and the household sector should be shared among the Member States in a cost efficient, affordable and fair manner. This implies that all Member States should take part in the abatement effort and that appropriate non-distortionary flexibility mechanisms should be applied when necessary and that the collective effort should be as cost-effective as possible for both Member States and the EU as a whole. Some Members stressed the importance of a cost-efficient approach, which takes account of reduction potentials to achieve emission reductions in the sectors outside the ETS including, for example, using carbon dioxide taxes among other options.

Any EU level target for renewable energy should take account of technical feasibility and be a cost-effective contribution to the EU climate policy as well as to competitiveness and security of supply. This should be achieved through a flexible and effective EU governance framework.

Improved energy efficiency, which is crucial to reduce both energy costs and emissions from sectors including industry, the transport sector and households, should be part of the 2030 policy framework to be decided upon by the October European Council. Energy efficiency measures can bring benefits in terms of investment and employment in the concerned sectors, as well as reduced imports of fossil fuels, thus contributing to improved energy security. Additional benefits include reduced GHG emissions and better health due to reduced air pollution. As the Commission expects the biggest efficiency improvements to come from the household sector as a result of both its savings potential and the policies envisaged, Member States highlighted that a careful consideration of the concrete energy efficiency measures to be implemented needs to take account of the cost effective potential that remains within the sector, the size of public and private funds available to this sector

and the capacity of households to borrow. Energy efficiency policies will also need to complement the wider growth policies being set out at EU and Member State level.

Another key element of the energy and climate policy is a well-functioning competitive internal energy market, which is indispensable to ensure affordable and secure energy supplies to households and businesses. Thus, the work to enhance competition and deepen integration of the European energy market must continue to be a key priority within the EU 2030 framework for climate and energy policy. The development of missing energy interconnectors needs to be accelerated in view of the Ukraine crisis for energy security reasons. A coordinated approach for electricity interconnectivity should take into account cost and benefit aspects, country specificities and the potential for commercial exchanges in the relevant regions, and be consistent with other objectives; while also enhancing the integration and functioning of the internal energy markets throughout the EU. The use of existing means for EU co-financing may be necessary for some of these interconnectors, which have been identified as projects of common interest to address both energy security concerns and long-term market demand in a cost-effective way. In this context, following the European Council conclusions of March 2014 and the European Energy Security Strategy, particular attention should be given to the need to connect isolated Member States.

In recent years, electricity prices paid by industry and households have increased in the EU despite falling wholesale power prices<sup>3</sup>. In most Member States this is mainly due to increasing energy taxes and levies as well as network costs, which reflect the impact of public intervention in the energy sector, e.g. through support provided to renewable and other energy sources<sup>4</sup>. The EU manufacturing sector has largely responded to energy price increases through sustained energy intensity improvements and structural change. So far average energy costs per unit of output, measured through the Real Unit Energy Cost (RUEC) indicator<sup>5</sup>, are similar in the EU and the US, and considerably lower than in countries like China or Russia. However, there is no room for complacency. Energy price increases underline the need to ensure competitive energy markets and a cost-efficient climate and energy policy framework for 2030 both at EU and national levels. They also point to the need to monitor future energy cost developments. The set of key energy indicators proposed by the Commission provides a first basis to measure progress toward a competitive and secure energy system, and should include the RUEC indicator alongside other relevant indicators to monitor competitiveness.

Finally, it is important to have a sound analytical basis for policy so that future public interventions on the market become more market-oriented, cost-efficient, transparent and limited to a necessary minimum consistent with need, in line with the EU's modernised state aid framework.

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<sup>3</sup> On average across the EU, since 2008 retail electricity prices have risen by 17% for industrial consumers and by 18% for households. It refers to medium-size households (incl. VAT) and industrial users (excl. VAT and other recoverable taxes), nominal prices.

<sup>4</sup> European Commission (2014) Energy prices and costs in Europe COM(2014) 21 final

<sup>5</sup> European Commission (2014), Energy Economic Developments in Europe, European Economy 1/2014 (also published as SWD(2014)19).

As energy and climate change policies have important implications for our economies, the EFC intends to continue to follow these issues and, if deemed relevant, report to you again on this topic at a later stage.

Yours sincerely,

A handwritten signature in black ink, consisting of the letters 'T.W.' followed by a stylized flourish.

Mr Thomas Wieser