

*Dialogue on a RES
policy framework
for 2030*



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**Achieving the EU
renewables target for 2030
– a closer look at
governance options**



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1 Introduction

When taking office in late 2014, European Commission President Juncker expressed the ambition that the EU should “*become the world number one in renewable energies*”. To reach this objective, a dedicated policy framework for renewables will be required within EU energy policy, even beyond 2020.

In parallel, the European Council agreed the 2030 Climate and Energy Policy Framework for the EU on 23-24 October 2014, which sets new targets for 2030, namely:

- a binding target of 40% greenhouse gas (GHG) emissions reduction compared to 1990 levels;
- a binding target of at least 27% renewables in final energy consumption;
- an indicative target of improving energy efficiency by at least 27% compared to the ‘business-as-usual’ projections of future energy demand.¹

In March 2015, the European Council anchored the 2030 framework in the Energy Union project, calling for “*reviewing and developing legislation related to emissions reduction, energy-efficiency and renewables to underpin the agreed 2030 targets; developing a reliable and transparent governance system*”. The European Commission is expected to issue a revised or new Renewable Energy Directive by the end of 2016 or early 2017.

Given the political importance of Renewable Energy Sources (RES), which is also reflected in the public debate on energy, this Issue Paper focuses on the fulfilment of the 2030 renewable energy target, while taking into account the overall framework of EU governance on energy and climate. More precisely, it considers how to reach the binding EU RES target as agreed by the European Council, in the absence of national binding targets. This paper presents an initial overview of the governance options that are currently being discussed and identifies the elements required to ensure the achievement of the 2030 target.

2 The EU has a binding RES target for 2030. It should ensure it will be met.

The 2020 RES target is binding at EU level and broken down into binding domestic targets per Member State, with interim targets leaving little room for non-compliance. Every two years Member States publish a report on their progress. Based on these reports, the EC publishes a renewable energy progress report that provides an overview of the situation and trends regarding renewables and the 2020 target. If Member States do not meet their targets they face infringement procedures. This sends out a fairly clear and credible signal that increases the confidence of investors and stakeholders at national and EU-level, but it has been criticised as being too rigid a framework.

The 2030 RES target is of a different nature. As stated in the 2014 Council Conclusions, it is binding, but at EU level only. The Council Conclusions state that the 2030 EU binding RES target “*will be fulfilled through Member States contributions guided by the need to deliver collectively the EU target (...) Targets will not be translated into nationally binding targets*”. Contrary to the 2030 *indicative* energy efficiency target agreed by EU Heads of State, it was agreed that the EU 2030 renewable energy target will be *binding*.

The EU also has a binding target at EU-level for GHG emissions. To achieve this target, an EU-wide instrument is in place: the EU Emissions Trading System (EU ETS), covering around half of the emissions. The other half is covered

¹ With a view to increasing this target to 30% in 2020.

by the Effort Sharing Decision (ESD), which established binding annual GHG emission targets for non-EU ETS sectors for Member States.² In order to reach their ESD target, Member States can rely on the implementation of EU level legislation (such as the Ecodesign directive), but also have to implement national legislation.

In its January 2014 Communication, the European Commission proposes that Member States submit “*national plans for competitive, secure and sustainable energy*” that will streamline the current reporting on energy efficiency, renewable energy and climate change. As emphasised by the Commission Secretary-General Catherine Day, “*the national plans should provide long term predictability and certainty for investment*”.³

According to the Council Conclusions, the 2030 EU binding target “*will be fulfilled through Member States’ contributions guided by the need to deliver collectively the EU target*”. In order to create investor certainty, key questions need to be answered: will the EU collectively reach its binding 27% RES target by 2030? Is this target reliable as a basis for long-term renewable energy and infrastructure investments?

In order to assess whether Member States’ contributions will enable the EU to meet its RES target, the Commission Communication envisages a review of the plans: “*If the plan is deemed insufficient, a deeper iterative process would take place with the Member States concerned with the aim of reinforcing its content*”. However, no concrete solution is proposed, if the Member State contributions do not add up to the “at least 27%” target. There is therefore a risk that the EU RES target will be missed.

In its impact assessment accompanying the Commission’s proposal for a 2030 energy and climate policy framework,⁴ the EC assesses a scenario with only one GHG reduction target driving energy and climate policy, and no dedicated RES measures, as a consequence of the absence of EU and national RES targets.⁵ Its conclusion is: “*without a dedicated RES target for 2030, the pull effect of GHG reduction is projected to lead to RES shares ranging from 25% to 27% in 2030.*” How close is such a scenario to one with a binding EU RES target but no national binding targets? The 2030 framework agreed by EU Heads of State does entail an EU ‘binding’ target. But when calculating investment risks, RES developers (and investors) look at the stability of the national policies. And national policies are driven by national RES targets. The EU RES target will trigger investments in RES plants to the extent that Member States can establish ambitious and credible *national* RES targets.

In both scenarios (a GHG-only scenario and an EU RES Target scenario with no national RES targets), Member States are free to set their own level of RES ambition. In the absence of national targets and implementing measures, there would therefore be a risk that the RES target would be missed by up to 2%. In order not to fail on the political commitment from Heads of States and Governments at EU level, further measures will be required.

² Both instruments should be reformed before 2020 and will remain in place up to 2030.

³ Guidance sent by the Commission’s Secretary-General Catherine Day to Member State Ambassadors dated 23rd of July 2015.

⁴ Impact assessment accompanying the Commission’s proposal for a 2030 energy and climate policy framework in 2014.

⁵ Impact assessment accompanying the Commission’s proposal for a 2030 energy and climate policy framework in 2014, p. 44.

3 If the pledges made by EU Member States fail to meet the 2030 RES target, how will the EU reach its binding EU target?

In its August guidance, the EC Secretariat General specifies that the EU-level targets will be *“if necessary, complemented by further EU action and instruments”*. Several Member States have put forward ideas on how to ensure that the EU RES target are met.

3.1 The Portuguese proposal

According to Portugal in its Non-Paper on the Governance System of the 2030 Climate and Energy Targets, *“if the pledges presented by the Member States are not sufficient to deliver the EU target, action should be taken to address the need to fill the gap.”* Portugal proposes:

- Payments by Member States *“who do not comply with their pledges (a scale would be defined in advance according to the gap). The amount collected would be reoriented towards projects in over-performance countries”*.
- A link should be established between the accomplishment of targets of renewables generation and energy efficiency at the pledged trajectory and funding by the European financial instruments.
- A scheme could be designed to attribute benefits in the accession to preferential rates in loans conceded by the EIB to those countries that have succeeded in the implementation of national measures that are contributing in a decisive manner to the overall EU performance of the 2030 targets.

What would be required for the Portuguese proposal to work?

- **Payments by underperforming Member States:**
 - The payments proposed by Portugal could constitute an incentive for Member States to go beyond their renewable energy pledges and help create burden-sharing between under- and over-performing Member States.
 - However, it could also constitute an incentive for Member States to make strategically low pledges, in order to easily over-perform their pledges. If all EU Member States strategically bid low, all of them would be over-performing countries. Significant actions would then be needed at EU-level to bridge the gap between the pledges and the EU target, which would risk putting a strain on the EU budget.
- **Benchmarks to define the default level of Member State pledges**
 - In order to avoid such strategically low pledges, some kind of benchmark would need to be defined for the fair contribution of each Member State.⁶ Without such a benchmark, it will be difficult to assess whether the pledges by Member States contribute adequately to meeting the EU target collectively. Only those Member States who meet or pledge above this benchmark should be entitled to receive payments.
- **Linking the RES target and European financial instruments**
 - Portugal proposes linking the achievement of the RES target and European financial instruments such as the European Regional Development Fund (ERDF) and the Cohesion Funds. The

⁶ see Held et al. 2014 and Zehetner et al. 2015

assessment as to whether a Member State is on track to reach its pledged target should be made early enough on the road to 2030, e.g. in 2025. Otherwise, it will be too late to ensure that the EU reaches its 2030 target. For this proposal to work:

- a trajectory of pledges (e.g. biannual) should be set, as suggested by Portugal (“*pledged trajectory*”).
- a methodology similar to the one used by the EC in its biannual report on the implementation of the RES Directive could be used (scenario modelling, based on measures adopted and planned).
- a minimum share of the ERDF and Cohesion Funds could be earmarked solely to renewable energy investments under the Multi-annual Financial Framework 2020-2030. These funds would only be disbursed to Member States that meet their pledges.

3.2 The German proposal

The issue of a potential gap between the pledges and the EU target has been raised by Germany.⁷ For Germany, the question: “*What happens if Member States’ contributions do not add up to the EU 2030 target?*” remains unanswered. In order to address this issue, Germany suggests several options:

- Regional binding targets.
- A possible back-up EU mechanism: EU Member States would be free to develop renewable energy domestically or rely on (and pay for) an EU instrument that would support the required investments.
- The Portuguese proposal.

Regional binding targets

Germany argues that the 2014 European Council Conclusions excluded the breakdown of the EU 2030 RES binding target into national binding targets. However, they did not explicitly exclude *regional* targets. Hence, binding regional RES targets would in principle still be an option.

For this proposal to work, key questions would need to be solved:

- The definition of regions: should the regions be defined in a top-down or bottom-up manner? Letting EU Member States group themselves within regions would have the advantage of creating ownership of a specific region, however, it would also imply the risk of leaving out certain Member States.⁸
- Regional liability in case of infringement procedures: Member States’ accountability within regional cooperation would need to be defined.⁹

EU back-up mechanism

In order to bridge the gap between the pledges and the EU target, Germany proposes a “back-up EU instrument” as input to the DG meeting of July 2015:

“Member States can then choose between making own efforts or, in case of a gap, relying on the EU-instrument. However, in this case, all Member States would need to have clarity – particularly on the question whether their voluntary contributions will be taken into account as early effort. Otherwise they cannot do a proper cost-benefits-analysis; they would even have an incentive not to pledge at all.”

⁷ Non-paper issued by Germany following the 15th of July Director General meeting.

⁸ see Gephart et al. 2015

⁹ Idem

How could this proposal work? The European Commission could implement an EU-wide tender or a European quota obligation, for instance. However, one should clarify how such an EU mechanism would interact with national support schemes, as both would rely on the same RES potentials. Furthermore, several design options would have to be decided upon, e.g. should the EU mechanism be technology specific or technology neutral? Should it be limited to renewable electricity or include renewable heat and transport?

Such an EU back-up mechanism would come at a cost. A cost-sharing approach would need to be agreed, whether it is financed through the EU budget or a consumer levy. As the German non-paper points out, Member States would need to be aware of the costs to be shared in order to decide whether to pledge high or low.

4 Member States need to know the consequences of their pledges before they submit their national plans

In the guidance sent to Member States, the Secretariat-General suggested the year 2017 as the date for submission of national plans:

The draft national plans should be submitted to the Commission by [early-2017], after which a peer-review by other Member States and the Commission will be organised, with a view to achieving collective EU-level targets and objectives.

If Member States provide their renewable energy pledges within the national plans, pledges would be made public in 2017.

If a Member State does not know – before it pledges – the consequences of its pledge, (e.g. whether it will be rewarded for a high pledge or fined for not complying with its pledge), it may be inclined to present unambitious pledges. Member States should therefore know:

- whether the pledges will be binding: if they are, legal enforcement will be needed. The ‘bindingness’ of the pledges can be an incentive to pledge low. If they are not binding, the pledges risk not being meaningful.
- whether the pledging level will lead to financial consequences: if the pledging level does not have any financial consequences, Member States may be inclined to pledge low or not to be serious about the pledge.
- what their fair share of the EU target would be: if there are no public benchmark, Member States will not be able to evaluate their fair share in relation to the EU collective efforts. Public benchmarks would enable the European Commission to “provide guidance to encourage sufficiently ambitious pledges of EU Member States and allow them to better assess the contribution needed by each Member State for achieving the EU target”.¹⁰

If EU Member States have an idea, before they pledge, of the cost and benefits incurred if they develop RES domestically or if they resort to an EU mechanism, they can compare the cost and benefits of both options. Based on this, they could decide on the ambition level of their pledge. In the past, Member States often preferred fostering RES deployment on a national level, despite the cost-saving potential of using EU or cooperation

¹⁰ see Zehetner et al. 2015

mechanisms (Gephart et al. 2014). If this national preference continues, it could be a reason for making more ambitious pledges.

In any case, the question of the effort-sharing will come up at one stage or another, whether when setting pledges or when sharing the costs of an EU back-up mechanism.

5 To provide reliable pledges, Member States need to know their commitments in other climate policy areas

In order to make consistent and reliable renewable energy pledges, it is crucial for Member States to have a clear idea of their EU climate and energy commitments under the effort sharing for non-ETS sectors and the energy efficiency target, as well as the future framework of the ETS. Indeed, each of these commitments and actions interact with each other. The carbon price of the ETS may influence the development of renewables, and conversely the development of renewables may depress the price of carbon by displacing fossil-based power generation. By reducing energy consumption, energy efficiency may have an effect on ETS sectors (as it leads to decreased power production) and non-ETS sectors (as it reduces energy consumption in non-ETS sectors, for instance heating or transport). Reducing energy consumption also facilitates the achievement of RES targets measured as a share of energy consumption, as less capacity is needed to meet the target. Therefore, policies in this area should be elaborated in a comprehensive and inclusive manner, taking into account their mutual impact.

In this regard, the timeline indicated in the Commission guidance may raise issues: a legislative proposal to revise the EU Emissions Trading System (ETS) for the post-2020 period was presented in mid-2015. A legislative proposal on the Effort-Sharing Decision is expected by June 2016. A first reading agreement under co-decision procedures takes on average 17 months (32 months under 2nd reading)¹¹. Provided there is a first reading agreement, we could assume that the proposals on ETS and on the effort sharing could be finalised by the end of 2017.¹²

Additionally, EU Member States might want to know what tools are at their disposal before they commit to pledges: two directives will be presented on energy efficiency and on renewables, possibly by the end of 2016. If these proposals are agreed within a first reading agreement, this means final adoption by mid-2018.

It thus becomes clear that in early 2017, when Member States are asked to present their draft national plans,¹³ they will not:

- be aware of their commitments, e.g. under the non-ETS sectors,
- know about the RES and EE post-2020 Directive.

This timeline therefore raises questions about Member States' ability to make meaningful and reliable pledges when submitting their national plans in early 2017.

¹¹ These are average figures from 2009-2014. European Parliament Activity Report on Codecision and Conciliation. http://www.europarl.europa.eu/code/information/activity_reports/activity_report_2009_2014_en.pdf

¹² Member States may want to agree on both pieces of legislation at the same time to make compromises over the two pieces of legislation.

¹³ As suggested by the Secretariat-General note.

Figure 1: Timeline¹⁴

Date	Status of the piece of legislation
June 2016	Legislative proposals on the Effort-Sharing Decision
End of 2016	Review of the Energy Efficiency Directive, possibly already accompanied by a proposal for a new RES Directive
Early 2017	Submission of the National Plans by the Member States (as suggested by the COM Guidance of the Secretariat General)
End of 2017	Adoption of legislative proposals on the Effort-Sharing Decision and the ETS proposal
Mid-2018	Adoption of legislative proposals on the EED and RES Directives. ¹⁵

6 Conclusion

This Issue Paper has identified key elements in the debate about the implementation of the 2030 RES target in order to set out governance options required to meet the target. The binding character of the EU RES target has been agreed by the Council. In order to uphold the credibility of the Council, a reliable governance system will be required. However, in contrast to the 2020 framework, this governance framework is not supposed to include nationally binding targets, as this has been ruled out by the Council. Indicative national targets would be in line with the Council Conclusions, but do not seem to be the preferred option in the current political debate. Without measures to ensure target achievement, there is a great risk that the target will not be met.

The European Commission has proposed an iterative process to encourage Member States to pledge sufficiently high, but has left open the question of how to reach the 2030 target (e.g. back-up or gap-filling mechanism).

Portugal and Germany have made proposals to explore possibilities for ensuring the achievement of the EU RES target. They reflect varying levels of stringency, going as far as to link EU funding to the achievement of the pledge. They also advance the idea of a potential European ‘gap filler’ mechanism as a back-up to cover the investment gap if Member States’ efforts are not sufficient. These issues will still require more discussion at EU level to determine what mechanism will be acceptable to a majority of Member States. However, several key elements will be required for a reliable future RES target governance framework and can already be determined:

- Mechanisms to monitor and ensure compliance with the national pledges.
- If the pledges do not add up to the EU target, additional EU-level action will be required, be it in the form of additional EU-level incentives for national action or an EU gap-filler mechanism.
- Even without national targets, effort-sharing between Member States will have to be addressed, either when agreeing the level of the pledges or when setting up a potential gap-filling mechanism. This requires consistent national benchmarks to determine the fair share (and potential financial implication) of each Member State.
- Member States will need to know the consequences of not fulfilling their pledges before they formulate them, and will need to have clarity on their commitments in other sectors (regarding the effort-sharing decision, energy efficiency, etc.)

¹⁴ Source: EC Work programme and Ecofys assumptions based on average length of first reading proposals 2009-2014 under the co-decision procedure.

¹⁵ provided there is a first reading

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