

EU Climate and Energy Policy 2020 to 2030

A policy position

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Argument flow

- EU energy and climate framework to 2020
- Concerns with the current framework
- European Commission proposal for 2020 to 2030
- Market failures
- Policy recommendations based on market failures

EU climate and energy framework to 2020

- Reduce EU-wide GHG emissions by 20% by 2020 against 1990 levels (binding target)
- Obtain 20% of EU energy consumption from RE by 2020 (binding target)
- Reduce annual primary energy consumption by 20% by 2020 against BAU scenario through EE (commitment)

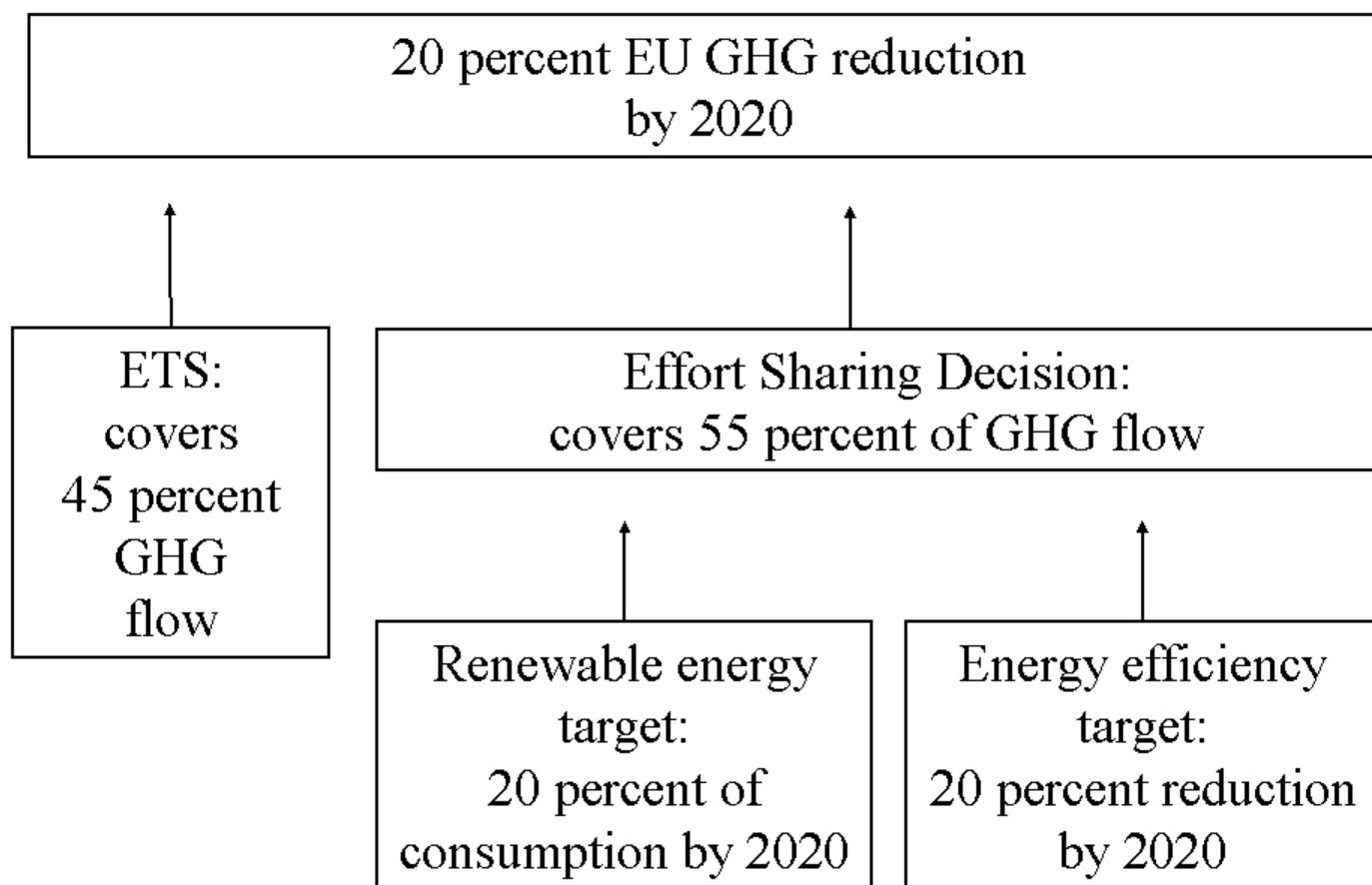
Policies that implement the 2020 framework

- Emissions Trading System (ETS) (January 2005)
- Effort Sharing Decision (March 2007)
 - 20% GHG reduction
 - 20% renewable energy target
- Energy Efficiency Directive (December 2012)

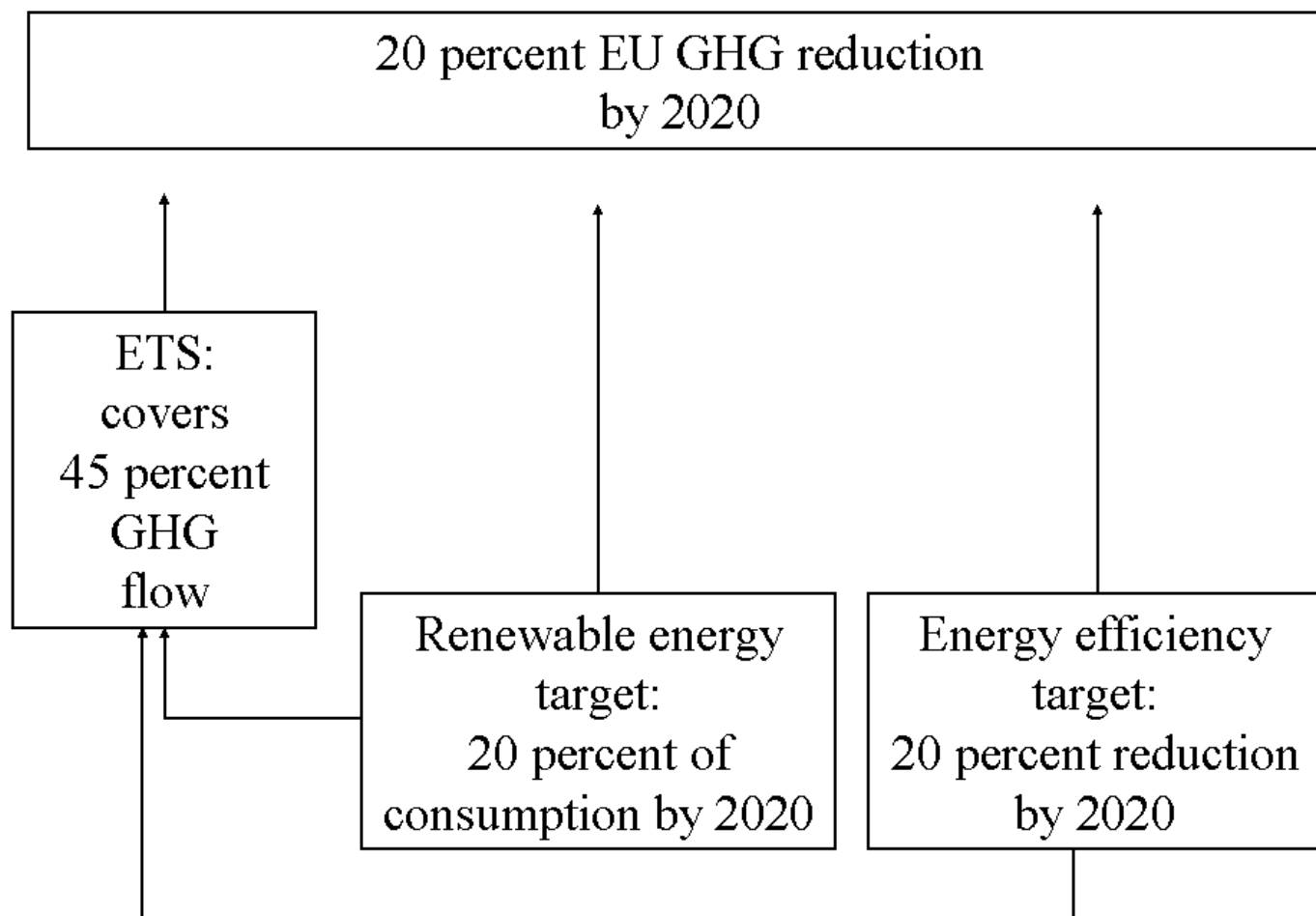
Concern 1: greater use of non-price supplementary instruments

- Economists prefer pricing:
 - Discourages the damaging externality
 - Minimally disruptive to market activity
 - Does not discriminate among technologies
 - Emitters decide abatement method

Policy configuration: intended



Policy configuration: actual



Concern 2: targets are undermining ETS performance

- Sapping demand for ETS permits
- Sending conflicting signals to investors and emitters, especially in electric power sector
- Undermining confidence in ETS

European Commission's proposal for 2020 – 2030

- Reform ETS to address price, stability and confidence issues (rule changes)
- Reduce GHG emissions by 40% by 2030 against 1990 levels
- Raise share of renewable energy consumed in EU to 27% by 2030 (binding on EU)
- Energy efficiency decisions deferred

Early reactions to proposal

- Renewable energy producers: 'mandatory RE targets please'
- Large energy suppliers: 'single carbon price please'
- Economists (Robert Stavins, The Economist): 'scrap RE targets and focus on the ETS'

Our position: policy should correct market failures

- Markets facilitate competition, innovation, productivity and growth
- Markets can fail to deliver socially desirable outcomes by not correcting 'externalities'
- Post-2020 climate and energy policy should respond to specific market failures

GHG damage is a major market failure

- Pricing is first-best response:
 - Surgical
 - Facilitates innovation
 - Avoids technology picking
 - Devolves abatement decision
- In theory, carbon price should equal the social damage cost along the decarbonization path to 2 degrees of warming or less

But there are other failures

- Spillovers: benefits of R&D not fully appropriable
- Path dependence: low rewards to inventive activity in new areas
- Networks: costly for new technologies to join
- Policy risk: long term uncertainty

We recognise limitations of pricing

- Complexity can lead to tax fraud, permit theft, information surprises
- Areas of political non-viability:
 - In industries dominated by small firms
 - Among voters / households ('tax on everything')
 - Among dirty incumbent industries

Where pricing is non-viable, second best instruments may be called for

- Japan: post disaster energy diversification strategy
- United States: economic agenda of jobs and new industries
- China: energy intensity targets for economic growth

Messages to EU policymakers

- Climate and energy should be seen as an area of global scientific, technological and economic leadership
- Purpose of EU is to improve welfare of all Member States through greater cooperation
- For climate and energy policy this means:
 - Reducing inconsistencies and frictions that keep abatement costs high
 - Opening opportunities for trade, technology development, industrial modernisation to all MS

Policy recommendations (I)

1. Top priority is ETS reform
2. Coordinate MS action to reduce non-ETS emissions
3. Address knowledge spillovers and path dependence through for example R&D tax credits

Policy recommendations (II)

4. Remove barriers to grid access and promote interconnectedness
5. Make 80% reduction by 2050 'objective' legally binding
6. If danger of no deal, consider decarbonisation targets