

Sustainable financing and new governance with a view to achieving the EU's climate and energy objectives

**Discussion paper for the Joint Informal Meeting of the EU Climate and Energy Ministers
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Synergies between the EU's climate and energy policies are an essential part of the Energy Union's new governance system. New investments and an appropriate financial framework are also a prerequisite for achieving our common goals and objectives. Therefore these two aspects will be the main subject of the joint discussion between climate and energy Ministers.

Sustainable financing

The European Council outlined the main targets and principles for 2030 Climate and Energy Policy Framework in October 2014¹. A centrepiece is the binding target to reduce overall EU greenhouse gas emissions by at least 40% domestically below 1990 levels by 2030. To achieve this target cost-effectively, the sectors covered by the EU emissions trading system (EU ETS) will have to reduce their emissions by 43% compared to 2005 while non-ETS sectors will have to reduce their emissions by 30% compared to 2005. According to the October 2014 European Council conclusions, a well-functioning, reformed EU Emissions Trading System (EU ETS) will be the main European instrument to achieve the 2030 target.

To achieve those goals significant investments will be required in a 2030 perspective both on the supply and demand sides, e.g. for electricity supply, low-carbon technologies in industry and transport as well as more efficient energy using equipment and building insulation. In order to enable a continued transition to a low-carbon economy by 2050 significant low-carbon innovations will be needed over the course of the next decade, in particular in major energy-intensive industries.

To complement the incentive provided for investments by the carbon price as well as existing financial tools like the revenue from auctioning of EU ETS allowances, the NER 300, the multiannual financial framework with Research and Innovation Framework Programme, the Connecting Europe Facility, the European Structural and Investment Funds and the Common Agricultural Policy, further funding mechanisms to support the transition to a low-carbon economy will be established.

More specifically, within the scope of ETS revision, the NER 300 programme will be renewed and extended beyond 2020. The proposed Innovation Fund would build on the existing NER 300 programme while extending its scope to include low carbon innovation in industrial sectors. It is also proposed to establish the Modernisation Fund, in low income Member States with a GDP per capita of less than 60 % of the EU average in 2013, to modernise their energy systems, improve energy efficiency and ultimately provide citizens with cleaner, secure and affordable energy.

According to the Impact Assessment for the Communication “A policy framework for climate and energy in the period from 2020 up to 2030”, a variety of financial instruments could in principle be used to address the capacity challenge, including EIB Bonds, the Project Bonds Initiative, Refinancing Guarantees, Equity Funds, Public-Private Risk Sharing Arrangements, etc. Importantly, these instruments leverage private investment flows: a large investment flow could be stimulated at relatively smaller fiscal cost. The objective of these flows could be the possibility to address the different capabilities of Member

¹ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/145397.pdf



States to finance long term investments in the energy system. Investors would profit from relatively stable, low-risk revenues. The investment flows would generate growth and jobs.

Modernization and Innovation Fund

In the discussion we would like to focus on the Modernization and Innovation Fund. The discussion in the Working Party on the Environment showed that the transparency of the selection process and the monitoring and reporting of results of projects must be guaranteed, as well as an efficient governance structure as foreseen by the European Council in its conclusions of October 2014, and support the objectives of the 2030 climate and energy framework.

Further work is needed on finding the right balance between the rules inter alia on scope, governance, procedures enabling the fund to function as intended, as well as to determine which elements should be set in the Directive and which ones can be defined later. One of the topics to explore further is whether additional details on the scope are necessary to ensure that investments through the fund contribute the 2030 climate and energy targets and the Paris agreement.

In addition, a clear and precise definition of transparency and reporting provisions could help to counterbalance more flexibility in the governance arrangements.

Relating to the Innovation fund, there is wide support for the proposed scope and size of the innovation fund and the strategic importance of enabling access for energy intensive industry to support low carbon innovation. It is needed to further explore the need for a wide geographical spread if simplified procedures and access to bid on fair terms are in place. Industry is invited to come forward with concrete ideas regarding the use of the innovation fund.

Questions:

Which relevant experiences and best practices from existing national and EU funding instruments related to climate action may strengthen the provisions for low-carbon funding instruments established for the next decade?

Do you think that if the project meets all of the minimum criteria it should be awarded to maintain the wider geographical spread of the projects of the Innovation fund (i.e. one per country)? What types of projects do you foresee to be implemented, are you thinking also about the implementation of CCS or CCU projects?

Should the Directive address the transparency of the Modernisation Fund primarily in a direct manner, through specific guidance on investments, or in an indirect way, through its governance arrangements (Investment Board and Management Committee)?

New governance of the Energy Union

A strong governance of the Energy Union is essential to meet its objectives, as acknowledged by both the Commission's Energy Union Strategy and the Council Conclusions of November 2015. The governance system should be the backbone of the European Energy Union. It should ensure fulfilment of EU energy policy objectives and agreed climate and energy targets, as well as policy coherence, by means of a functional governance process.



The main elements of the Energy Union governance were set out by the Commission in its communication on the Energy Union from February 2015. Governance of the Energy Union should be based on streamlined planning, reporting and monitoring across the energy and climate fields; a structured, political dialogue between the Commission, Member States and other EU institutions; and strengthened regional cooperation.

The Council gave political guidance on the creation of the governance system during the Luxembourg Presidency. The ministers set out a clear timeline for the process; and stressed the need for flexibility and the possibility to choose the most cost-effective policies in relation to Energy Union objectives and targets. Full involvement of the Member States which should have the ownership of the process and close cooperation with the Commission was identified as crucial. The ministers highlighted that the Council should discuss relevant stages of the governance system. They saw the need to have the guidance by the European Council based inter alia on the Commission's annual reports on the State of the Energy Union. They have also identified the basis for the main elements of the governance system (streamlining and reduction of unnecessary regulatory burden of reporting obligations, templates for national plans and progress reports, guidance for regional cooperation, a list of indicators and a methodology for these common key indicators, scenarios and projections).

The Commission will come forward with a legislative proposal on the governance of the Energy Union in late 2016.

National plans

The process of preparing national energy and climate plans has already started based on the Commission's guidance to Member States on national energy and climate plans and Council Conclusions from November 2015. In view of the preparations of integrated national plans, the Commission has initiated technical working group meetings to advance technical discussions and dialogue between the Commission and experts in the Member States.

During the discussions the best practices in the Member States were presented and the role of the Commission was discussed. Draft of key elements of the templates for the national energy and climate plans and key ideas of the guidance on regional cooperation were also discussed.

In its guidance on the national plans, the Commission proposed an ambitious timeline. This should result in the submission of draft national plans in 2017 and their assessment and finalisation in time for the 2018 State of the Energy Union, which will present policy recommendations on the national plans. According to the Commission's guidance, the Member States should by 2017 have carried out stakeholder and regional consultations on national plans, and provide the Commission with integrated projections covering both reference and policy scenarios.

The process to finalise and implement the national plans will be further detailed in the Commission's upcoming legislative proposal.

Streamlining of reporting and monitoring obligations

The Commission is finalising a fitness check on current planning, reporting and monitoring requirements – supported by a public consultation and external studies. Building on the fitness check and ongoing discussions with the Member States, the European Parliament and stakeholders, the Commission's legislative proposal will (besides specifying the governance and national plans) also aim to streamline existing reporting and monitoring obligations and ease the administrative burden on the Member States



and the Commission. At the same time, the initiative should ensure coherence, simplification and consistency between the various reporting streams and a close monitoring of the implementation of the Energy Union.

The streamlining of reporting obligations should make full use of synergies in both energy and climate change policy. Much effort in this area is still needed to reduce the administrative burden, in particular in the area of energy but also with regard to climate. Interlinkages and possible overlaps between the energy and climate fields will also be considered, which may provide further opportunities for streamlining.

Questions:

The Energy Union is also about preparing an orderly transition to a competitive low carbon economy. How can the Energy Union governance be best used as a tool to achieve this transition?

The Energy Council conclusions of last November and the Commission's guidance provide the basis for the development of integrated national energy and climate plans. What basic elements and key information should these plans include in view of national planning processes, the Europe-wide comparability of the plans and the collective achievement of Energy Union objectives in all five dimensions? Where do you see possibilities for effective streamlining of reporting obligations?

What is the appropriate design of the coordination process in view of regional cooperation on the integrated plans?

Kindly note that contributions will be strictly limited to 4 minutes per delegation. We invite Ministers to focus on the most important elements of their positions; we welcome receiving in writing any additional comments they may have.

