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TECHNICAL PAPER FROM THE CPMR GENERAL SECRETARIAT

## CURRENT CHALLENGES ON CLIMATE AND ENERGY POLICY

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### I. BACKGROUND

According to the European Union's energy and climate goals set in 2007, by 2020 it should achieve a 20% reduction in greenhouse gas emissions, a 20% share in renewables in the EU energy mix, and a 20% decrease in energy consumption. For energy efficiency this is compared to the 2007 Reference projections and the Energy Efficiency Directive (2012/27/EU) establishes a common framework to ensure the achievement of the 20% target. Earlier this year, the European Commission proposed new targets for 2030 in greenhouse gas reductions and renewable energy in its 2030 Framework on Climate and Energy - 40% and at least 27%, respectively, as well as a target of 30% increase in energy efficiency; proposals will be presented to Council in October 2014. The European Commission has received criticism for not proposing more ambitious or binding targets, which would re-establish the European Union's leadership on climate policies. In the meantime, the UN Secretary-General hosts in New York on 23 September 2014 the Climate Summit 2014, and considers it to be a unique opportunity for world leaders to champion an ambitious vision, anchored in action that will enable a meaningful, global agreement in the 21<sup>st</sup> Conference of the Parties (COP21) that will be held in Paris in 2015.

### II. THE 2030 FRAMEWORK FOR CLIMATE AND ENERGY POLICIES

While the European Union is not far from meeting its climate and energy targets for 2020, an integrated policy framework for the period up to 2030 is needed to make its economy and energy system more competitive, secure and sustainable, and also ensure regulatory certainty for investors and a coordinated approach among Member States. The European Commission announced its proposals for climate and energy policies towards 2030 in January 2014 through the Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, entitled "A policy framework for climate and energy in the period from 2020 to 2030".

The proposals of the European Commission referred to the following targets:

- Greenhouse gas emission reduction binding target of 40% in 2030 relative to emissions in 1990
- At least 27% share of renewable energy

On 23 July 2014 the two targets were complemented with an EC proposal for the third pillar, i.e. energy efficiency. The relevant Communication from the Commission to the European Parliament and the Council "Energy Efficiency and its contribution to energy security and the 2030 Framework for climate and energy policy" foresees:

- Energy efficiency target of 30% below business-as-usual as projected from a 2007 baseline

The 3 targets proposed have been called by the European Commission "achievable" and "ambitious" and will be presented on 23-34 October 2014 to the national governments in Council. Especially regarding energy efficiency the Commission considers that the proposal for a 30% target is "appropriate to maintain the existing momentum of energy savings" and that this will deliver substantial additional benefits, while the additional cost would represent a reasonable balance given the increased prominence of energy security risks whilst preserving the affordability of the Union's 2030 climate and energy strategy.

However, having in mind that in February 2014 the European Parliament had called for a more ambitious and binding energy efficiency target of 40%, the European Commission's proposal has received criticism in the sense that it is not ambitious enough to back the European Union's leadership in policies against climate change since the mid-1990s.

Apart from the final target for the improvement in energy efficiency by 2030 that will eventually be adopted by the Council to conclude the European Union's 2030 climate and energy policy, there are also arguments that specific binding targets for energy efficiency should be defined for the Member-States.

In any case, it should be noted that about one third of the progress towards the 2020 target will be due to the lower than expected growth during the financial crisis. It is therefore important to avoid complacency about reaching the 20% target and avoid underestimating the efforts that will be required in respect of the new target for 2030.

The built environment can have a major contribution in energy efficiency improvements since buildings represent 40% of the European Union's final energy consumption. In addition, households in the European Union spend on average 6.4% of their disposable income on home-related energy use, while also almost 11% of the population of the European Union in 2012 were unable to keep their homes adequately warm, due to rising energy prices. Such figures reveal the high potential of the building stock in the increase of energy efficiency, as well the impact that can be expected for household savings.

According to the Energy Efficiency Directive (2012/27/EU) each Member State shall set an indicative national energy efficiency target and shall submit regularly National Energy Efficiency Action Plans. The National Energy Efficiency Action Plans shall cover significant energy efficiency improvement measures and expected and/or achieved energy savings, including those in the supply, transmission and distribution of energy as well as energy end-use, in view of achieving the national energy efficiency targets.

However, financing energy efficiency remains a challenge; in recent years it has become clear that EU funds, and generally public funds, should aim to raise private capital. In this direction, the European Union has been developing pilot schemes for innovative financing instruments, such as the European Energy Efficiency Fund ("EEE F"), the Global Energy Efficiency and Renewable Energy Fund ("GEEREF"), the Private Finance for Energy Efficiency ("PF4EE"), and encourages Member States to use them as examples for replication at national level.

The above clear shift in the aim of the Union's funds, from grants to leverage of significant private financing, indicates the importance of EU Structural and Investment (ESI) funds in the 2014-2020 programming period. Beneficiary regions are strongly encouraged and expected to use ESI funds in a way that would trigger further capital from the private sector for energy efficiency investments. Building on initial successful experiences in the 2007-2013 programme period, such as the JESSICA instrument in some Member States, the use of such financial instruments together with the ESI Funds is an opportunity for regions to increase their weight and contribution to the implementation of the 2030 climate and energy policies. In this sense, the development of regional strategies on energy efficiency and renewable energy in buildings, notably by peripheral and maritime regions that have significant renewable energy potential, as well as the enhancement of multi-level cooperation, e.g. between regions and cities or islands, is the way forward in order to strengthen the regions' role and address this challenge.

For the assessment and evaluation of the National Plans, the use of additional indicators, to express and monitor progress towards the energy efficiency target, such as energy intensity, which take better account of underlying changes in and projections for GDP and population growth will be explored by the Commission. In this context, the progress on energy efficiency will be reviewed in 2017. There are already arguments that European climate leadership would further boost EU competitiveness and therefore the policy on Energy Efficiency should be further strengthened by reviewing the targets proposed and by introducing binding national targets for Member States. The elected President of the European Commission Jean-Claude Juncker also stated he is in favour of an ambitious, binding target for energy efficiency. In this direction, if binding targets are eventually set for Member-States, the Energy Efficiency Directive itself may also have to be amended in the forthcoming years.

### III. COOPERATION OF REGIONS ON ENERGY TOWARDS THE CLIMATE AND ENERGY TARGETS

A number of municipalities, regions and other public bodies have already put into place integrated approaches to energy saving and energy supply, for example via sustainable energy action plans, such as those developed under the Covenant of Mayors and the Pact of Islands initiatives. In recent years the exemplary role of the public sector has been underlined in several EC Directives. Municipalities and regions are encouraged to adopt integrated and sustainable energy efficiency plans with clear objectives, to involve citizens in their development and implementation and to adequately inform them about their content and progress in achieving objectives. Nine (9) member regions of the CPMR participate in the Pact of Islands initiative so far and have delivered sustainable energy action plans aiming to reduce their CO<sub>2</sub> emissions by at least 20% by 2020. Such plans can yield considerable energy savings, especially if they are implemented by energy management systems that allow the public bodies concerned to better manage their energy consumption. Exchange of experience between cities, regions and other public bodies should be encouraged with respect to the more innovative experiences.

The abovementioned planning and implementation process at local and regional level is expected to deliver sustainable energy investments. Experience shows though that the step from energy planning to implementation that a local or regional administration should take may require going through a long and demanding process in terms of capacity in human resources, expertise, time and institutional support, as well as through a step-by-step interaction with the stakeholders. Peripheral areas often lack the necessary capacity to approach in a consistent way the implementation of their energy planning. In addition, peripheral and coastal areas differing significantly from neighbouring zones are often absorbed by administrative structures that are oriented to different needs and also lack the institutional capacity to develop partnerships and interact effectively with others levels of governance. Not to mention the economic conditions that further decrease the availability of capital for small and medium-scale projects. As a result, peripheral regions across Europe often face difficulties to implement in a concise way their sustainable energy planning through the long-term.

Multilateral and multilevel cooperation between cities and regions is considered an important parameter that can facilitate delivery of sustainable energy investments. “No single level can deal with the challenges we face alone” is stated in the Charter for Multilevel Governance in Europe adopted by the Committee of the Regions in April 2014. At a time when the European Union (EU) is moving into a new political cycle as well as in a new programming period for major European policies, it is important to remind people that it is only by involving regions and cities further in policy design that a successful implementation and assessment of EU policies can be guaranteed.

The CPMR is active in the promotion of multilevel cooperation together with islands and regions from 10 European countries, through the SMILEGOV project (April 2013 through September 2015), co-funded by the Intelligent Energy Europe programme. The project addresses multilevel governance issues as a barrier to the implementation of sustainable energy plans and the lack of resources and expertise and it assists island authorities to find ways to finance sustainable energy projects. The facilitation of cooperation between regions through the formation of clusters, the exchange of knowledge between different levels of governance and between different clusters in order to support the development of sustainable energy action plans and the implementation of concrete actions, the identification of strategic guidelines for overcoming existing barriers through the assistance of the most advanced regions, as well as the process of learning from the experience of model areas will be the guide for the exploration of this path. This is done in the largest part of the European island regions: The Atlantic Arc (Canaries, Madeira, Scotland), the Baltic Sea (Denmark, Sweden, Norway, Finland, Estonia) and the Mediterranean (Italy, Malta, Cyprus, Greece). As a result, the knowledge and knowhow sharing process through a demanding capacity building process “learning from the experts” facilitates less advanced regions to take the step from planning to effective implementation of their energy planning and to contribute to the EU’s climate and energy policies.

The outcomes and the results achieved within SMILEGOV, as well as the initiatives undertaken for the facilitation of smarter and more effective cooperation between different levels of governance will be presented in a European conference that CPMR will organise in September 2015.

#### IV. THE WAY FORWARD

In the political guidelines set by Jean-Claude Juncker for the new European Commissions, key energy issues are highlighted; the focus on additional investments on energy networks, the further boost of energy efficiency, notably in buildings, with ambitious, binding targets so as to continue the current energy efficiency pathway and together with the strengthening of renewable energy production to increase the European Union's flexibility in energy supply and hence its energy security; the continuation of the European Union's leadership in the fight against global warming in view of and beyond the United Nations (COP21) Paris meeting in 2015; the objective of limiting any temperature increase to a maximum of 2 degrees Celsius above preindustrial levels.

Within this framework, being the beneficiaries for EU Structural and Investment (ESI) funds in the programming period 2014-2020, peripheral and maritime regional governments can develop investment programmes based on their renewable energy and energy efficiency potential and strengthen their role in the forthcoming period. Notably the CPMR will monitor closely and carefully the progress on energy efficiency and the evaluation process and will participate in any future discussions related to climate and energy targets.

The CPMR will also undertake the adequate political initiatives to communicate priority issues to the relevant European Institutions, such as the Ljubljana Declaration adopted in 2013, with the aim of identifying and highlighting the challenges for its members and making proposals that would contribute to better governance and boost the implementation of the European Union's climate and energy policies.