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PRELIMINARY DRAFT OPINION

of the

Section for Economic and Monetary Union and Economic and Social Cohesion
(Lisbon Strategy Observatory)

on

Energy and climate change as an integral part of the renewed Lisbon strategy
(own-initiative opinion)

Rapporteur: **Ms Sirkeinen**

To the members of the **Lisbon Strategy Observatory**

N.B.: This document will be discussed at the meeting on **Monday 7 September 2009 beginning at 10.00 p.m.** To allow time for translation, any amendments must be submitted in writing to the section secretariat no later than 5.30 p.m. on Wednesday, 2 September

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On 17 June 2008 the European Economic and Social Committee decided, under Rule 29(2) of its Rules of Procedure, to draw up an own-initiative opinion on

Energy and climate change as an integral part of the renewed Lisbon strategy
(own-initiative opinion).

The Section for Economic and Monetary Union and Economic and Social Cohesion, (**Lisbon Strategy Observatory**), which was responsible for preparing the Committee's work on the subject, adopted its opinion on The rapporteur was **Ms Sirkeinen**.

At its ... plenary session, held on ... (meeting of ...), the European Economic and Social Committee adopted the following opinion by ... votes to ... with ... abstentions.

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Conclusions and recommendations

- 1.1 Climate change and security of energy supply are two of the biggest challenges of this century. Consumption and production structures need to change towards decreased greenhouse gas emission and energy use. Some production will fall out and others develop and grow. Existing jobs will be lost and new ones created; support measures will be needed. Skill and knowledge needs will change. Research and massive investments have to take place.
- 1.2 1.2. Moving finally from political statements to practical measures is necessary and urgent, but it will not be easy. Our political leaders have to make these challenges and their implications clear to citizens and plan carefully the measures needed. Without the support of citizens and the civil society change will not happen. Many questions concerning consequences of EU policy decisions remain open and need further study and information from the Commission.
- 1.3 Concrete moves towards a low carbon society must not be postponed because of the present economic downturn, however serious. The crisis could and should also be seen as an opportunity for a fresh start with a different approach to achieving growth. The EESC in particular stresses the importance of an international agreement in Copenhagen.
- 1.4 The renewed Lisbon Strategy has to include an action plan for a low carbon economy. This must be achieved while respecting the three pillars of sustainable development – economic, environmental and social - and without losing sight of the overall goal of competitiveness, growth and jobs.

- 1.5 Key areas of action are technology development and investments, awareness and behaviour, societal and educational aspects and the international dimension. Achieving real, sustainable results will require both time and resources.
- 1.6 The EESC recommends that
- The EU should now, after putting in place a comprehensive legislative framework for energy and climate change, concentrate on practical implementation.
 - Effective policy measures should be integrated into the integrated guidelines, country specific recommendations and national reform programmes of the future Lisbon Strategy.
 - The EU and Member States have to focus on technology development and must, in hard international competition, invest more in R&D&I for clean technologies in order to realise the potential of first mover.
 - Framework conditions favourable to investments in new technologies must be ensured, including possible reallocation from the Community budget.
 - Correct information, a list of best practices, concrete advice and relevant support measures have to be put in place by the Commission and other relevant actors in order for consumers to adapt their behaviour.
 - Education and training, especially life-long learning, has to be available to everyone in order to adapt to the changes in production and consumption patterns.
 - Careful attention must be paid to the effects of policies on energy prices in order to avoid risks of energy poverty and weakened competitiveness.
 - The EU must do all possible efforts to reach an international agreement on climate change that creates a level playing field globally, including an international trading system or compatible systems.
 - Civil society and the social partners must be actively involved in the enormous effort of restructuring our economies. The EESC is ready and willing to play its part.

Reasons

2. Introduction: State of the art

Energy policy

- 2.1 EU energy policy has three parallel objectives: security of supply, competitiveness and environmental protection, including mitigation of climate change. In a modern society citizens and industries are dependent on a continuous supply of energy, therefore, if necessary, the first priority is to be given to security of supply. Lack of energy, incl. electricity generation, is an increasingly real risk, in particular when the economy starts to recover.

- 2.2 The environmental and climate effects of energy production and large-scale use are targeted by regulation and new proposals on emission caps and permit systems. New caps in the emissions trading system, covering energy production, energy-intensive industries and air transport, have been approved by the EU. The practical effects of these proposals are still unknown in spite of impact assessments on aggregate level. .
- 2.3 The key and highly potential building bloc for energy security and lower emissions is efficiency and saving in all sectors of energy use as well as in energy production. The EU has several policies in place for this and further policy measures are being prepared. Practical measures in Member States are, however, still scarce.
- 2.4 Investment needs in energy production and transport infrastructure are massive and urgent. For instance, to replace outgoing capacity some EUR 1000 billion are needed within a decade even if demand would not increase. Transport networks, in particular cross-border and connecting renewable electricity to the grid, need substantial upgrading. The standstill of investments in the recession and its potential longer term effects raise serious concerns.
- 2.5 The sources and routes of European energy supply have to be diversified and the energy mix should be directed towards low carbon and low emission alternatives, such as renewable energy and nuclear power. Optimisation and decisions on the energy mix are in the hands of Member States, but EU policies on renewables as well as environmental and climate legislation direct choices.
- 2.6 For some years, it has been obvious that Europe needs to be a stronger player in international energy relations and markets. The problems of gas supply encountered again in 2009 may finally lead to a long overdue determination to act together.

Climate change policies

- 2.7 The Council and Parliament reached a decision on a legislative package on climate change late in 2008 after a record fast first reading. This package comprises measures in all sectors to reach the well known targets of 20-20-20 by 2020. The main target of greenhouse gas emissions would be increased to 30% in the context of a sufficiently ambitious and comprehensive international agreement.
- 2.8 A big part of the measures to cut emissions are to be put in place by Member States. Many details of the legislation, in particular as regards the emissions trading system and the problem of “carbon leakage” still need to be decided at EU level.
- 2.9 How the whole system will work in practice is still unknown. Questions of great importance are, for instance, the price of carbon dioxide, energy price increase as a result of policies for renewables and the cost to households of action in the non-ETS-sectors? More studies and

information is needed from the Commission. It is essential to ensure the efficiency of the emissions trading system

- 2.10 Negotiations on an international climate agreement will culminate in Copenhagen in December 2009. The EESC presents its views on this in a separate Opinion. The European Council has agreed on main lines for preparing for the Copenhagen meeting, including preparation of a burden sharing between Members States to support the poorest countries.

3. **Issues to be taken up in the renewed Lisbon Strategy on energy and climate policies**

- 3.1 A low carbon economy implies big industrial changes. Emissions have to decrease and the use of energy and natural resources have to be decoupled from economic growth. Consumption and production structures need to change. Some production will fall out and others develop and grow, jobs will be lost and new ones created. Skill and knowledge needs will change. Massive investments are needed, as well as necessary social support measures.
- 3.2 Our political leaders have to make this and its implications on our everyday life clear. Political measures needed, which we discuss below, have to be carefully planned and assessed in order to give most cost effective, real results. Governments have to make clear what is needed, like how much fossil energy has to be substituted and by what, or how much energy each of us has to save. Without the support of and acts by citizens the change will not happen. The role of civil society is central.
- 3.3 Measures to combat climate change and secure Europe's energy supply must not be postponed because of the present economic downturn, however serious. Policies for easing the economic crises should support the goals of a greener economy, and vice versa. The crisis could and should also be seen as an opportunity for a fresh start with a different approach to achieving growth.
- 3.4 The bulk of policies and legislation on energy and climate issues for some years ahead are in place, with the very important exception of an international agreement. Much has now to be done on the national level, and we do not know yet how this all will work. Changes in targets or legislation must now be avoided in order to make it possible for all actors to prepare and execute their measures, in particular investments, with as much foresight and certainty as possible. Efforts must now be targeted towards practical implementation.
- 3.5 An action plan for a low carbon economy has to be incorporated into the renewed Lisbon Strategy. This must be achieved while respecting the three pillars of sustainable development – economic, environmental and social - and without losing sight of the overall goal of competitiveness, growth and jobs.
- 3.6 Appropriate measures should be integrated into structural policies to be covered by the integrated guidelines, the country specific recommendations and national reform plans. The

Commission should enforce its monitoring of implementation. In addition to GDP other indicators need to be used to track the development towards sustainability.

- 3.7 The change is driven by technology development on the one hand and change in attitudes and behaviour on the other. Both take time in order to give real, lasting results. Other important issues are investments, social and educational aspects and the international dimension.

Technology

- 3.8 Technological competition is strong globally. The US have allocated significant resources to R&D for technologies to mitigate climate change. The same trend is to be seen in other developed economies and increasingly in big, fast developing economies.
- 3.9 Europe must be able to realise the potential of first mover in the “clean” technologies of renewable energy and climate change. This is a very demanding task, and it is high time to focus on it. A price on carbon dioxide cannot alone be expected to provide enough incentive for technological change.
- 3.10 The Commission has presented several initiatives to enhance clean/renewable and climate technologies. More resources from the EU budget should be allocated to these purposes. Also the administrative burden of participating in EU programmes, which is a real obstacle to SMEs, has to be addressed.
- 3.11 The most efficient technologies emerge only from diversity and healthy competition between the various approaches, innovations and methods. . This means that no useful technology, like 4th generation fission energy and fusion, should be abandoned prematurely.
- 3.12 The vast potential of the development and deployment of ICT technologies should be tapped.
- 3.13 Renewable energy technologies that are still a long way from being economically viable should be actively further developed, but should not be prematurely forced upon the market through expensive subsidies (or artificial purchase prices). Instead, this money should be invested in increased research and development of sustainable and CO₂-avoiding energy technologies until these approach viability.
- 3.14 The EU's share of R&D and innovation financing is small in comparison with the resources of the Member States. It is crucial that they increase resources, including from ETS auctioning revenues, to R&D in general and clean technologies in particular, and that critical mass and world-level excellence be sought through efficient cooperation. These measures must be tangibly incorporated into the guidelines and national action plans of the reformed Lisbon Strategy.

Investments

- 3.15 New technologies and innovations come into use only through investments, which take place in households, companies and the public sector. Investments are necessary for economic development and employment as well as for reaching climate and energy goals.
- 3.16 Investments require certain framework conditions. These include a healthy economic framework, market demand and access to markets. The regulatory framework has to be stable and predictable and avoid heavy administrative and financial burdens on companies. Only profitable companies can invest in technology development, innovation and uptake of new technologies.
- 3.17 Consequently, a competitive economic framework is a prerequisite for achieving climate and energy goals. And, with the right policy approach, climate and energy policies can create growth and jobs.
- 3.18 Financial resources will come under strain, when R&D and huge investment needs in better technologies within the EU will compete with the need to finance climate change mitigation and adaptation in developing countries. Member States will have at their disposal revenues from the auctioning of emission allowances, but these cannot cover all relevant needs. In this context decision makers have to be careful about increasing the burdens on enterprises and thereby putting their investments in new technologies at risk.

Awareness and behaviour

- 3.19 In order to act and change their behaviour, people need to know what's at stake and what needs to be changed. Awareness of what people can do themselves must be reinforced and relevant education be provided. This is a task for both governments and civil society organisations. One useful tool would be a list of good practices, to be provided by the Commission.
- 3.20 While it is very positive that energy consumption and greenhouse gas emissions now are in the forefront of marketing and advice to consumers, it is to be deplored that also misleading information is provided. This has to be counteracted by relevant actors.
- 3.21 The EU is, rightly, relying to a large extent on market instruments in its climate policies. Price signals should change the behaviour of both citizens and businesses. However, this alone will not deliver the full potential of changes in behaviour. In some cases, such as the building sector, regulation is needed, and for some other purposes positive support is required.
- 3.22 Better energy efficiency usually leads to financial savings. Incentives are needed in particular in cases where payback periods are relatively long, or when the person who bears the cost does not reap the benefit. The Committee has earlier proposed to the Commission to study the

feasibility of sectoral targets for energy efficiency, especially in sectors with internal market implications.

- 3.23 To avoid distorting competition in the internal market, the EU applies mandatory common rules on public support.

Social and educational aspects

- 3.24 Consumption patterns will change over time, and consequently so will production. According to a study by ETUC, SDA, Syndex, ISTAS and the Wuppertal Institute¹, the net effect on employment of measures to decrease greenhouse gas emissions by some 40% by 2030 is slightly positive; this result is, however, seen by some as too optimistic. There will however be considerable changes in job structures and skill requirements. The study also concludes that changes will be bigger within sectors than between them. For example, a transfer of jobs is expected from power generation to activities related to energy efficiency or from jobs related to road transport to rail and waterways.
- 3.25 Education and training is in big demand to make companies, public sector services and the workforce able to cope with changes. Education and training, including lifelong learning, was the main subject of an earlier EESC opinion on climate change and the Lisbon Strategy.
- 3.26 The Commission has recently made proposals for enhancing foresight of skill needs, which is essential to enable timely reactions by education and training. Better foresight, improved matching of supply and demand of skills and enhanced lifelong learning measures are natural parts of the renewed Lisbon Strategy.
- 3.27 As almost everyone in the labour market will be affected by the changes, education has to be available to all so that they can adapt to changed requirements. For those who still may face problems, comprehensive social security networks must be maintained in the Member States.
- 3.28 People are also affected by changing cost structures following energy and climate policies. Particularly close monitoring is needed of the effects of changing energy prices. Energy prices fluctuate strongly for different reasons and one of the objectives of EU energy policies is to curb these fluctuations as far as possible.
- 3.29 On the other hand, environmental and in particular climate policies drive energy prices upwards with the aim of reducing energy use. The downside of this policy approach is, however, that it drags down the competitiveness of European industry and constitutes a risk of energy poverty among citizens. Reacting to higher prices by decreasing energy use usually

¹ The study on climate change and employment, commissioned by the European Commission, DG Environment, has been carried out by a consortium led by the European Trade Union Confederation (ETUC) and the Social Development Agency (SDA), which includes Syndex, the Wuppertal Institute and ISTAS. Study is available at <http://www.etuc.org/a/3676>.

requires investments in new equipment which may take time. A very balanced approach to energy prices, taking into account these time spans, is needed in order to achieve good, sustainable results instead of creating economic and social problems.

The international dimension

- 3.30 Measures to mitigate climate change in Europe alone have little impact as Europe's greenhouse gas emissions represent 14% of global emissions, and the share is decreasing. Without actions by all big economies, emissions will not be curbed in line with the warming limit of 2°C, and Europe will lose competitiveness and thereby risk the well-being of its citizens. Therefore an agreement in Copenhagen is of crucial importance, and the EU has to continue taking the lead.
- 3.31 The goal in Copenhagen must be, as the Commission itself puts it, "a sufficiently ambitious and comprehensive international agreement that provides for comparable reductions by other developed countries, and appropriate actions by developing countries". An important element is an international trading system, or at least compatible systems, in order to ensure both effective emissions reductions as well as a competitive level playing field.
- 3.32 It is evident that poor developing countries will need economic assistance to cope with both mitigating and adapting to climate change. Development of technology transfer and the Clean Development Mechanism are important elements.
- 3.33 The international agreement is also necessary for Europe to be a real frontrunner in better climate and energy technologies. Demand for these technologies would otherwise be much weaker.
- 3.34 The EU must strengthen its position and activity at international level in order to secure Europe's energy supply. But as the EESC has stated in earlier opinions, the EU must also take the lead on a responsible and sustainable global approach to energy.
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