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NOTE

Subject: European Council (23 and 24 October 2014)
Conclusions on 2030 Climate and Energy Policy Framework

I. 2030 CLIMATE AND ENERGY POLICY FRAMEWORK

1. Substantial progress has been made towards the attainment of the EU targets for greenhouse gas emission reduction, renewable energy and energy efficiency, which need to be fully met by 2020. On the basis of the principles identified in the March 2014 European Council conclusions, the European Council agreed today on the 2030 climate and energy policy framework for the European Union. Accordingly, the EU will submit its contribution, at the latest by the first quarter of 2015, in line with the timeline agreed by the UNFCCC in Warsaw for the conclusion of a global climate agreement. The European Council calls on all countries to come forward with ambitious targets and policies well in advance of the Conference of the Parties 21 in Paris. It will revert to this issue after the Paris Conference. The European Council will keep all the elements of the framework under review and will continue to give strategic orientations as appropriate, notably with respect to consensus on ETS, non-ETS, interconnections and energy efficiency. The Commission will continue to have a regular dialogue with stakeholders.

GHG emissions reduction target

2. The European Council endorsed a binding EU target of an at least 40% domestic reduction in greenhouse gas emissions by 2030 compared to 1990. To that end :
 - 2.1 the target will be delivered collectively by the EU in the most cost-effective manner possible, with the reductions in the ETS and non-ETS sectors amounting to 43% and 30% by 2030 compared to 2005, respectively;
 - 2.2 all Member States will participate in this effort, balancing considerations of fairness and solidarity;

EU ETS

- 2.3 a well-functioning, reformed Emissions Trading System (ETS) with an instrument to stabilise the market in line with the Commission proposal will be the main European instrument to achieve this target; the annual factor to reduce the cap on the maximum permitted emissions will be changed from 1.74% to 2.2% from 2021 onwards;
- 2.4 free allocation will not expire; existing measures will continue after 2020 to prevent the risk of carbon leakage due to climate policy, as long as no comparable efforts are undertaken in other major economies, with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness. The benchmarks for free allocations will be periodically reviewed in line with technological progress in the respective industry sectors. Both direct and indirect carbon costs will be taken into account, in line with the EU state aid rules so as to ensure a level-playing field. In order to maintain international competitiveness, the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage. Future allocations will ensure better alignment with changing production levels in different sectors. At the same time, incentives for industry to innovate will be fully preserved and administrative complexity will not be increased. The consideration to ensure affordable energy prices and avoid windfall profits will be taken into account;

- 2.5 in this context, Member States with a GDP per capita below 60% of the EU average may opt to continue to give free allowances to the energy sector up to 2030. The maximum amount handed out for free after 2020 should be no more than 40% of the allowances allocated under 2.9 for auctioning to the Member States using this option. The current modalities, including transparency, should be improved to ensure that the funds are used to promote real investments modernising the energy sector, while avoiding distortions of the internal energy market;
- 2.6 the existing NER300 facility will be renewed, including for carbon capture and storage and renewables, with the scope extended to low carbon innovation in industrial sectors and the initial endowment increased to 400 million allowances (NER400). Investment projects in all Member States, including small-scale projects, will be eligible;
- 2.7 a new reserve of 2% of the EU ETS allowances will be set aside to address particularly high additional investment needs in low income Member States (GDP per capita¹ below 60% of the EU average). It will have the following characteristics:
- the proceeds from the reserve will be used to improve energy efficiency and to modernise the energy systems of these Member States, so as to provide their citizens with cleaner, secure and affordable energy;
 - the use of the funds will be fully transparent;
 - allowances from the reserve will be auctioned according to the same principles and modalities as for other allowances;
 - the reserve will serve to establish a fund which will be managed by the beneficiary Member States, with the involvement of the EIB in the selection of projects. Simplified arrangements for small-scale projects will be ensured. Until 31 December 2030 the distribution of funds will be based on the combination of a 50% share of verified emissions and a 50% share of GDP criteria, but the basis on which projects are selected will be reviewed by the end of 2024;

¹ All references to GDP in 2013 in EUR at market prices.

- 2.8 for the purposes of solidarity, growth and interconnections, 10% of the EU ETS allowances to be auctioned by the Member States will be distributed among those countries whose GDP per capita did not exceed 90% of the EU average (in 2013);
- 2.9 the rest of allowances will be distributed among all Member States on the basis of verified emissions, without reducing the share of allowances to be auctioned;

Non-ETS sectors

- 2.10 the methodology to set the national reduction targets for the non-ETS sectors, with all the elements as applied in the Effort Sharing Decision for 2020, will be continued until 2030, with efforts distributed on the basis of relative GDP per capita. All Member States will contribute to the overall EU reduction in 2030 with the targets spanning from 0% to -40% compared to 2005;
- 2.11 targets for the Member States with a GDP per capita above the EU average will be relatively adjusted to reflect cost-effectiveness in a fair and balanced manner;
- 2.12 the availability and use of existing flexibility instruments within the non-ETS sectors will be significantly enhanced in order to ensure cost-effectiveness of the collective EU effort and convergence of emissions per capita by 2030. A new flexibility in achieving targets - for Member States with national reduction targets significantly above both the EU average and their cost effective reduction potential as well as for Member States that did not have free allocation for industrial installations in 2013 - will be established through a limited, one-off, reduction of the ETS allowances, to be decided before 2020, while preserving predictability and environmental integrity;

- 2.13 it is important to reduce greenhouse gas emissions and risks related to fossil fuel dependency in the transport sector. The European Council therefore invites the Commission to further examine instruments and measures for a comprehensive and technology neutral approach for the promotion of emissions reduction and energy efficiency in transport, for electric transportation and for renewable energy sources in transport also after 2020. The European Council calls for a rapid adoption of the Directive laying down calculation methods and reporting requirements pursuant to Directive 98/70/EC of the European Parliament and of the Council relating to the quality of petrol and diesel fuels. It also recalls that under existing legislation a Member State can opt to include the transport sector within the framework of the ETS;
- 2.14 the multiple objectives of the agriculture and land use sector, with their lower mitigation potential, should be acknowledged, as well as the need to ensure coherence between the EU's food security and climate change objectives. The European Council invites the Commission to examine the best means of encouraging the sustainable intensification of food production, while optimising the sector's contribution to greenhouse gas mitigation and sequestration, including through afforestation. Policy on how to include Land Use, Land Use Change and Forestry into the 2030 greenhouse gas mitigation framework will be established as soon as technical conditions allow and in any case before 2020.

Renewables and energy efficiency

3. An EU target of at least 27% is set for the share of renewable energy consumed in the EU in 2030. This target will be binding at EU level. It will be fulfilled through Member States contributions guided by the need to deliver collectively the EU target without preventing Member States from setting their own more ambitious national targets and supporting them, in line with the state aid guidelines, as well as taking into account their degree of integration in the internal energy market. The integration of rising levels of intermittent renewable energy requires a more interconnected internal energy market and appropriate back up, which should be coordinated as necessary at regional level.

An indicative target at the EU level of at least 27% is set for improving energy efficiency in 2030 compared to projections of future energy consumption based on the current criteria. It will be delivered in a cost-effective manner and it will fully respect the effectiveness of the ETS-system in contributing to the overall climate goals. This will be reviewed by 2020, having in mind an EU level of 30%. The Commission will propose priority sectors in which significant energy-efficiency gains can be reaped, and ways to address them at EU level, with the EU and the Member States focusing their regulatory and financial efforts on these sectors. These targets will be achieved while fully respecting the Member States' freedom to determine their energy mix. Targets will not be translated into nationally binding targets. Individual Member States are free to set their own higher national targets.

Achieving a fully functioning and connected internal energy market

4. The European Council noted the fundamental importance of a fully functioning and connected internal energy market. Recalling the March 2014 conclusions on its completion, the European Council stressed that all efforts must be mobilised to achieve this objective as a matter of urgency. Preventing inadequate interconnections of Member States with the European gas and electricity networks and ensuring synchronous operation of Member States within the European Continental Networks as foreseen in the European Energy Security Strategy will also remain a priority after 2020. In that context it decided that:

- the European Commission supported by the Member States will take urgent measures in order to ensure the achievement of a minimum target of 10% of existing electricity interconnections, as a matter of urgency, and no later than 2020 at least for Member States which have not yet attained a minimum level of integration in the internal energy market, which are the Baltic States, Portugal and Spain, and for Member States which constitute their main point of access to the internal energy market. The Commission will monitor progress and will report to the European Council on all possible sources of financing including on the possibilities of EU financing in order to ensure that the 10% target will be met. In this light, the European Council invites the Commission to make proposals, including on finance, within the limits of the relevant instruments of the MFF, if appropriate. Recalling the conclusions of the March and June European Councils, which stressed the need to ensure the full participation of all Member States in the internal energy market, the Commission will also report regularly to the European Council with the objective of arriving at a 15% target by 2030, as proposed by the Commission. Both targets will be attained via the implementation of PCIs;
- Member States and the Commission will facilitate the implementation of projects of common interest including those identified in the European Energy Security Strategy which link in particular the Baltic States, Spain and Portugal, to the rest of the internal energy market, ensure that they have the highest priority and will be completed by 2020. Special attention will be paid to the more remote and/or less well connected parts of the single market such as Malta, Cyprus and Greece. In this context, the European Council welcomes, as a first step, the recent transmission system operators' common strategy for the development of interconnections for the Iberian Peninsula with the internal electricity market, including concrete projects in order to increase the capacity. The European Council calls for the implementation of the strategy and encourages the transmission system operators and regulatory authorities to include the relevant projects in the upcoming 10-year network development plans;

- where the implementation of these projects will not suffice to reach the 10% target, new projects will be identified, added as a matter of priority in the upcoming review of the list of projects of common interest and swiftly implemented. EU co-financing should be made available for these projects. The Commission is invited to present a communication ahead of the March 2015 European Council on the best courses of action to effectively achieve the target mentioned above.

Energy security

5. Recalling its conclusions of June 2014, the European Council endorsed further actions to reduce the EU's energy dependence and increase its energy security for both electricity and gas. Moderating energy demand through enhanced energy efficiency will also contribute to this objective. The European Council took note of the Presidency report on energy security². It welcomed the Commission report on immediate action to increase the EU's resilience to a possible major disruption in the upcoming winter. This report provides a complete picture of the robustness of Europe's energy system (stress test exercise). In this context, the European Council welcomed the contributions from all Member States, key energy players, as well as neighbouring countries and partners. The European Council also recognised that the EU's energy security can be increased by having recourse to indigenous resources as well as safe and sustainable low carbon technologies.

The European Council agreed on the following points:

- implement critical projects of common interest in the gas sector, such as the North-South corridor, the Southern Gas Corridor and the promotion of a new gas hub in Southern Europe as well as the key infrastructure projects enhancing Finland's and the Baltic States' energy security, to ensure diversification of energy suppliers and routes and ensure market functioning;
- improve arrangements for a better use of regasification and storage capacity in the gas system to better tackle emergency situations;

² 13788/14

- invite the Commission to intensify its support in order to ensure better coordination of efforts to complete critical projects of common interest; and to develop targeted actions such as technical advice or the setting-up of multilateral task forces on specific interconnectors with the relevant Member States in order to swiftly resolve problems in implementation;
- streamline national administrative procedures in accordance with the Commission's guidance, and further develop a policy to address the protection of critical energy infrastructure, including against ICT risks;
- in order to increase the EU's bargaining power in the energy negotiations, make full use of the Decision establishing an information exchange mechanism with regard to intergovernmental agreements between Member States and third countries in the field of energy, in particular as regards standard provisions and the Commission's assistance in the negotiations;
- encourage that Member States and involved companies provide relevant information to the Commission and seek its support throughout negotiations, including on the ex-ante assessment of the intergovernmental agreements' compatibility with EU legislation and its energy security priorities;
- further strengthen the Energy Community which aims to expand the EU's energy acquis to enlargement and neighbourhood countries, in the light of the EU's security of supply concerns;
- use EU and Member States foreign policy instruments to convey consistent messages related to energy security, in particular to strategic partners and major energy suppliers.

The European Council will revert to the issue of energy security in 2015 to assess progress.

Governance

6. The European Council agreed that a reliable and transparent governance system without any unnecessary administrative burden will be developed to help ensure that the EU meets its energy policy goals, with the necessary flexibility for Member States and fully respecting their freedom to determine their energy mix. This governance system will :
 - 6.1 build on the existing building blocks, such as national climate programmes, national plans for renewable energy and energy efficiency. Separate planning and reporting strands will be streamlined and brought together;
 - 6.2 step up the role and rights of consumers, transparency and predictability for investors, inter alia by systematic monitoring of key indicators for an affordable, safe, competitive, secure and sustainable energy system;
 - 6.3 facilitate coordination of national energy policies and foster regional cooperation between Member States.

The European Council recalls its goal to build an Energy Union aiming at affordable, secure and sustainable energy, as stated in its Strategic Agenda, and will keep the implementation of this goal under regular review.
