

Speech by Commissioner Danuta Hübner

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The EU Energy and Climate Package – a Chance or a Threat for Europe?

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There is a consensus that climate change is one of the gravest challenges facing Europe and the world and that human activities lie today at its roots. Global greenhouse gas emissions due to human activities increased since pre-industrial times, by 70% between 1970 and 2004.

There is also consensus that without action to break this rising trend, global average temperatures are likely to increase in an unprecedented way. This would have devastating consequences for ecosystems and lead to very serious economic losses. The Stern Review conducted for the UK government estimates that letting climate change continue unabated could cost as much as 20% of world output in the long term. This is comparable to the impact of the Great Depression, except that this Depression would be permanent.

It is therefore our responsibility to act urgently to prevent the worst consequences of climate change from happening and to minimise the impact of those consequences that we can no longer avoid. The European Union's position is that it is essential to limit the increase of global temperature to no more than 2 degrees Celsius above pre-industrial levels. There is a strong body of scientific evidence to

indicate that irreversible and potentially catastrophic changes to the planet become much more likely beyond this threshold.

To stay within this ceiling, global emissions will need to be cut by at least half of their 1990 levels by the year 2050. This is an enormous challenge, but the costs are manageable and far lower than the consequences of doing nothing.

It also provides important economic opportunities. We are on the eve of a new industrial revolution and, as in the 19th century where Europe led the way to our industrialised societies, the winners will be those that anticipate and go in the lead. The competitiveness of the European economy will be determined by the progress that we make towards a low carbon economy built on resource and energy efficiency. Europe can gain a competitive edge through innovation and energy-efficient technologies. This will be a sound basis for sustainable jobs today and in the future.

On Kyoto and climate change package

A global effort involving all major emitters is required. This needs to take the form of an international agreement that will govern the fight against climate change after 2012, when the Kyoto Protocol's first commitment period will end.

It is largely thanks to Europe's leadership that negotiations on such an agreement are now well under way. At the Bali conference last December, the EU succeeded in convincing other Parties not only to start these negotiations and to agree to an ambitious roadmap to guide them, but also to conclude them at the end of 2009 in

Copenhagen so that there will be time to bring the agreement into force before 2013.

A key staging post on the way to concluding an agreement in Copenhagen will be the UN climate conference, to be held in Poznan in December. It is no exaggeration to say that the eyes of the world will be on Poznan to make progress in structuring the post-2012 agreement and to lay the groundwork for the crucial final year of the negotiations. The European Commission will do everything it can to support the Polish presidency of the conference in making Poznan a success.

There are already economic benefits of a low-carbon economy for Europe. Last year global investment in sustainable energy increased by 43%. Market revenues for solar, wind, biofuels and fuel cells are forecast to increase to 150 billion EUR by 2016. That is one of the reasons why Member States committed to reducing emissions to at least 20% below 1990 levels by 2020, whatever the outcome of the negotiations on a global agreement, and to increase the share of EU energy consumption provided by renewable energies to 20% by 2020.

The climate and energy package of legislative proposals the Commission put forward in January is intended to implement - in the most economical way, through market mechanisms - the targets set by the Member States. The proposals not only underline Europe's firm resolve to take serious action against climate change but can also serve as inspiration for the international negotiations on how to share the necessary efforts among Parties with very different national and economic circumstances.

Crucially, by implementing the most ambitious set of climate and energy targets anywhere in the industrialised world, the EU is demonstrating to our partners that making the deep emissions cuts necessary to avert dangerous climate change is fully compatible with continued economic growth and prosperity. This is a vital message if we are to succeed in rallying all countries behind the 2 degrees temperature limit.

The climate and energy package will bring important economic benefits to Europe and Poland. It will cut Europe's oil and gas imports, thereby increasing energy security and reducing our import bills. It will bring significant health benefits and other cost savings through lower air pollution. An ambitious EU climate policy will also stimulate economic growth and job creation through innovation in what are important markets for the future: wind turbines, carbon capture and storage, smart grids, distributed generation, efficient cars, solar heating and cooling, and passive houses, to name but a few. Using resources and energy efficiently is essential for Europe's future competitiveness, particularly with energy prices at today's record levels.

On Poland and Polish power sector

The package takes fully into account the principles of fairness and solidarity. It gives less wealthy Member States extra room to continue catching up through higher growth. Poland will be allowed to increase greenhouse gas emissions that are not covered by the Emissions Trading System (ETS) - by 15% above the 2005 level, while more advanced MS will be requested to cut their emissions by up to 20%. And within the ETS itself, Poland and other less wealthy Member

States will receive extra emission allowances for auctioning which will become an important additional source of revenue.

We estimate that by 2020 auctioning will raise some 30-50 billion Euros a year for national treasuries, of which Poland alone could receive about 6 billion Euros a year. This money can be used for the support of some social groups affected by energy price increases or for the necessary investment. This amount is based on the proposal to introduce full auctioning in the power sector from 2013. If there were not full auctioning in this sector the revenues for Poland would be substantially lower.

The fact that electricity producers will no longer receive any allowances for free is not in itself expected to have a significant influence on electricity prices since generators are able to pass on a significant part of the cost of allowances to their customers, irrespective of whether they receive the allowances for free or not. The most important impact from ending free allocation to electricity generators is that it will eliminate windfall profits, which currently exist.

The total bill for households may not increase: this depends on the extent to which household energy efficiency measures succeed in reaching the target of 20% savings. There is still very large potential in Poland in energy saving, much greater than elsewhere in Europe, which allow to reduce energy consumption at relatively low cost. Good thing that actions in this area figure quite prominently in the recently adopted draft country energy strategy until 2030.

Around 70% of the Polish power generators in any event are obsolete and need to be replaced in the coming years. This is an opportunity for general modernisation of the whole power industry sector.

The climate package makes very clear that coal generated power has future in the Union. Hence emphasis on clean coal and carbon capture and storage technologies under 7th Framework Programme (also in the past under 4th and 5th FP) and the intention to launch 12 power generators applying clean coal technology in the Union. This opens new future for coal mining sector, but also may become an important vehicle for development of innovation and new technologies.

On ETS

The revision of the ETS directive creates a truly European market based on the principle of cost-efficiency. The same conditions apply to all installations, wherever they are located in the EU. Allocations will be based on common EU-wide rules, avoiding distortions on the internal market and bringing down the cost of reaching our greenhouse gas targets.

Introducing auctioning as the basic principle for allocation will also foster innovation and reward efficient companies. Auctioning is the simplest and most transparent way to distribute allowances, and the best way to prevent unwanted distributional effects such as windfall profits for companies. Auctioning as the main tool for allocation will foster innovation and reward efficient companies. Full auctioning should be applied as of 2013 for the power sector. For industrial installations a phasing in of auctioning is foreseen between 2013 and 2020, giving them time to adjust.

On international competitiveness of the EU

The Commission is of course fully aware of the impact that auctioning could have on certain energy-intensive sectors if no new international agreement were reached, or if a global deal did not impose sufficiently stringent carbon restraints on our trading partners. That is why we will review the situation once the international negotiations have been concluded, and why we envisage taking appropriate measures if necessary. These could include granting up to 100% free allocation for sectors judged to be particularly vulnerable to carbon leakage, meaning that they could be forced by international competitive pressures to relocate production to countries outside the EU that did not impose comparable constraints on emissions.

The adoption of the climate change package by the Council and Parliament will send a strong political message to our international partners, and confirm that what the EU says at international level is backed up by concrete measures at home. This will allow us to go to the Copenhagen conference at the end of 2009 with the necessary legislation in place to achieve our reduction targets. This is essential because I firmly believe EU leadership will remain key to getting an ambitious global agreement, just as it was in starting the negotiating process in Bali last December.

On regional dimension and cohesion policy 2007-2013

European regions will be increasingly confronted with the effects of climate change. Some regions in Southern and Northern Europe will be especially hard hit by global warming. This will pose serious challenges to important climate-dependent economic sectors such as

agriculture, fisheries and tourism and require significant investments to face drought, forest fires, coastal erosion and flooding.

Similarly, increasing energy prices and energy security will affect the entire Union, but their impact will be distributed unevenly among regions, with knock-on effects on lagging and remote areas or on regional economies depending on energy-intensive sectors such as transport and heavy manufacturing. Regions will have to move to a new development path aiming to reduce Greenhouse Gas Emissions through higher energy efficiency and a more pronounced role for renewable energy.

That is why, for 2007-13, cohesion policy has allocated € 104 billion for supporting the environmental sector or 30% of the total Cohesion policy allocation. In particular, € 22 Billion are allocated to the water sector, namely helping regions meeting the Community acquis in the water resources sector. For Member States like Spain, where water supply is a crucial factor for economic activities, it was granted to include the water corresponding expenses in their convergence regions as contributing to meet the Lisbon goals.

On developing countries

The climate change package contains a clear commitment by the Commission to maintain the scheme's recognition of credits from emission-saving projects carried out in developing countries and elsewhere, while further harmonising the EU ETS' provisions in this area. This will strengthen companies' willingness to engage in action to reduce emissions globally, leading to the transfer of clean technologies to third countries and to emission reductions taking place where this is most economically efficient.

On EU budget

What I regret, however, is that with the adoption of the climate change package we did not use fully the occasion to propose a new own resource for the EU budget. Revenue from the auctioning system seemed to be an ideal candidate for such a resource and could have been used to finance EU support for climate change related actions.

On public support for climate change package

The support with which the Commission proposals on climate change were met shows that there is a way to communicate Europe to our citizens. We used a proper advocacy and branding for this cause – speaking about inter-generational solidarity and communicating climate change together with NGOs. And this was widely understood by the public, even though there was much room to present it in a more negative way – emphasising the loss of international competitiveness of EU industries or the risk of delocalisation.