Ibec policy brief

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What does Energy Union mean for Ireland?

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The European Commission Energy Union Strategy, initially unveiled in February 2015, outlines the EU's vision to:

- secure Europe's energy supply
- reduce import dependency
- integrate national energy markets
- put energy efficiency first
- decarbonise the economy
- promote research, innovation and competitiveness.

This followed political agreement by EU Heads of State in October 2014 to meet the following targets by 2030:

- a binding commitment at an EU level of an least 40% domestic reduction in greenhouse gas emissions compared to 1990
- a split of this 40% overall target into 43% reductions in the EU Emissions Trading Scheme (EU ETS) including the power sector and heavy industry and 30% in the non-ETS sector (agriculture, buildings, transport, waste) compared to 2005
- an EU wide, binding target at least 27% renewable energy
- an indicative, EU level target at the of at least 27% energy efficiency
- an interconnection target of 15%.

What will Energy Union look like?

Work on the Energy Union commenced in 2015 with a public consultation on a new power market design and a proposal for a revised EU ETS. The coming months will provide a clearer picture of what the Energy Union actually means for the individual Member States. The European Commission's Work Programme for 2016 includes measures to reach the 15% electricity interconnection target, a consultative communication on renewables and a proposal to bring the measures contained in the Energy Efficiency Directive in line with the 2030 targets.

Following the conclusion of the international climate negotiations in Paris attention will turn to fine tuning the legislative instruments to meet the EU's ambitious climate targets. The European Commission published its proposal to revise the ETS for the period 2021-2030 and is awaiting the necessary input from the European Parliament and the Council to take the proposal forward to the next stage.

The Commission will also focus on emissions from the non-ETS sector which include buildings, agriculture, and transport. How this will translated into Member State targets has yet to be decided but the Commission will issue a proposal sometime in 2016. Ireland's unique emissions profile and the low mitigation potential of agricultural and transport emissions make it one of the most pivotal pieces of the Energy Union for Ireland.

European Commission Vice President Maroš Šefcovic will make his State of the Energy Union in November 2015. This will provide guidance to the Member States on what their energy and climate plans should consider if the EU's ambition is to be realised, and how the European Commission will pull all these strands together to create a meaningful Energy Union.

What does this mean for Ireland?

Ireland has made a striking economic recovery thanks to continued business investment, innovation and growth. Business is leading the national effort in decarbonising manufacturing and power generation, advancing smart technology usage, developing interconnection and delivering an all-island electricity market. Ireland remains a location of choice for FDI and provides an attractive offering in terms of business environment, skills, infrastructure and security of energy supply. While business has led the recovery, Ireland's heavy dependence on manufacturing and services exports mean it is vital for these firms to remain cost competitive against their counterparts both within the EU and elsewhere. Furthermore, the limited investment capacity of the Irish government is important in focusing on the least-cost pathway to reducing emissions in the non-ETS out to 2030. Current IMF projections estimates Irish national debt of 86.9% of GDP by 2020 – almost 11% above the EU average.

Ireland is committed to achieving its European obligations and is creatively addressing its climate and energy goals. Creativity is important because our unique history and geography means that our challenges are unusual and, in some cases unique, in the EU. For this reason, we would caution against an overly prescriptive and uniform framework. We welcome the all-

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encompassing nature of the Energy Union and the goal to add significant value to key sectors of the economy, and would highlight the following as crucial issues for Irish business.

One size does not always fit all

The proposal for a new electricity market is supposed to incorporate growing levels of renewables and align wholesale and retail markets.

We would caution against an overly prescriptive 'one size fits all' framework for national power market designs. Already, at the halfway point towards our renewable energy goal, Ireland is among the leaders in Europe in its level of intermittent renewable generation. We are innovating to find ways to increase this while maintaining system stability. Other Member States are looking to Ireland as we seek to address long-term adequacy provision and minimise 'missing money' issues. We don't yet know what the precise answer will be; we do know that gas-fired generation is an important support and that our gas and electricity systems strongly interact with one another. A single target for installed electricity interconnection must be considered with all of these factors in mind.

Major reforms are taking place in Ireland's all-island electricity market (SEM) design that will contribute to completing the EU's single energy market. There are important lessons to be learned from the SEM and the design choices should remain a matter of national policy. Irish business is committed to ensuring the benefits accrued from our market are retained when implementing European energy and climate policies. The current consultation on the power market design signals further changes (and costs) could arise in the coming year. Consumers paid significant systems costs to create the SEM just under ten years ago, and will do so again to make our market compatible with the Target Model.

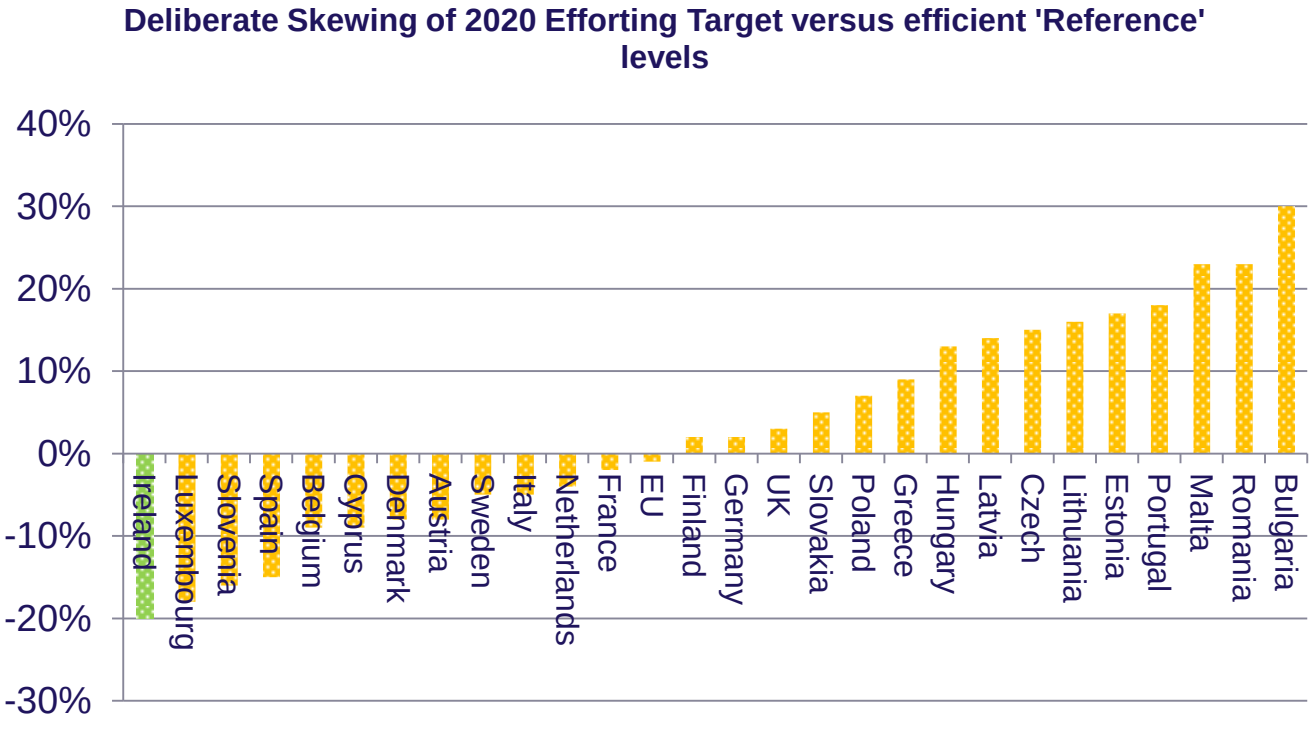
A fair, realistic climate target

Meeting the 30% target in the non-ETS is the responsibility of national governments. As we move to deciding binding Member State level non-ETS targets for 2030, it is important to note that Ireland's non-ETS greenhouse gas reduction 2020 targets are the joint highest in the EU and arguably the most ambitious. As shown in figure 1, setting targets by GDP per capita alone resulted in an unfair outcome for Ireland.

The 2030 climate and energy framework explicitly provides for flexibility and permits the use of cost-effectiveness. It says "*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*". This demonstrates an important deviation from the 2020 Effort Sharing Decision methodology measured solely by GDP per capita. In order to meet this shared challenge in a cost-effective, transparent manner, flexibility instruments should be enhanced, underpinned by a liquid market to trade annual emission allocations (AEAs). This flexibility must be retained so Ireland can creatively meet its unique climate challenge at least-cost or bring maximum economic or social benefits.

The Effort Sharing Decision was always underpinned by a redistributive ethos. Member States that underachieve their targets are assumed to acquire excess emission allocations from countries that overachieve their target. We now have the opportunity to devise a meaningful market for the trading of AEAs, perhaps one whereby buyers and sellers would periodically bid all of their respective annual shortfalls and

Figure 1. Skewing of 2020 Efforting Target vs efficient 'Reference' levels



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surpluses into a Mandatory Gross Pool market, a "use it or sell it" approach.

A GDP per capita approach by itself would bear heavily on Ireland's economic recovery; a balanced approach for target allocation between cost-effectiveness and GDP per capita would alleviate the burden. Furthermore, carbon sequestration from improved land use should be allowed to count towards the EU's collective 30% non-ETS target for 2030 and the use of net afforestation LULUCF credits to assist in mitigating Ireland's non-ETS emissions. Committed action on the least-cost pathway to decarbonisation in the usage of energy – the non-ETS sector - will be key to a successful transition for the economy.

Protect manufacturing industries

Getting the revision of the ETS right is critical for the future viability of EU based energy-intensive industries. If the ETS is to remain the main tool for least-cost emissions reduction while promoting investments in low carbon technologies, it must address the loss of competitiveness through effective, evidence-based measures to prevent carbon leakage. The international scope of our members' markets reinforces the need for least cost reduction, and long-term protection against carbon leakage for the most efficient installations in the EU (especially while there is no global level playing field).

Ibec energy policy team

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Catherine started her career in the European Parliament, before working as a Parliamentary Researcher in the House of Commons. Catherine joined Ibec in 2008 as an Industrial Products Executive, before moving to the role of Senior Energy Policy Executive in 2012. Catherine holds a Master Degree in International and European Politics from the University of Edinburgh, and recently completed a Masters in European Law with King's College London.

Neil Walker, Head of infrastructure, energy and environment

Neil Walker joined Ibec as Head of Energy and Environment Policy in 2010. Previously, he gained more than 25 years of senior management and consulting experience in a variety of energy-intensive industries. Neil holds a Master's Degree in Chemical Engineering from Cambridge University, an MBA from the London Business School, and a Doctorate in Environmental Economics from University College Dublin.