

## **GIE answer to European Commission's consultation on the Green Paper "A 2030 framework for climate and energy policies"**

---

### **Introduction**

The 2030 climate and energy framework is currently being discussed intensively in the light of the results of the current climate and energy policies. The ambitious 20/20/20 objectives of the European climate policy have delivered positive results as well as unintended effects : Europe has developed huge capacities in renewable energy sources (especially biomass, wind and solar PV), CO<sub>2</sub> emissions have been reduced, energy efficiency has improved; but Europe is also deindustrialising, coal is increasingly used for power production, offsetting the benefits of low-carbon and renewable energy sources, and the wholesale electricity market is sending wrong investment signals, which may endanger security of supply in the middle term. Whereas the economic and financial crisis is leading to a reduction of demand and a temporary overcapacity in electricity production, this situation might be quickly reversed when economic growth returns to Europe. Moreover the cost of the various non-market support schemes is increasingly felt by the industrial end-users and households.

In the light of these results, it is appropriate that competitiveness and security of supply are given the right attention on a policy level next to the European climate objectives. Therefore an overhaul of the various instruments of the climate and energy policy at European and Member State level is needed. Conflicting targets and instruments at European and Member State level have to be better aligned to become more effective in meeting all objectives of the EU energy and climate policy. The ETS should remain the cornerstone to achieve a low-carbon European economy. National policies should no longer be developed and implemented in isolation but be more coordinated with neighbouring Member States. Lastly Europe cannot act alone: in the absence of a global commitment, Europe should re-evaluate its decarbonisation target, which on its own would have no meaningful impact on the world climate, but would reduce further the competitiveness of the European economy.

GIE welcomes the opportunity to respond to the public consultation on the Commission's Green Paper. In particular GIE would like to provide some insight on the effects of impact of the 2030 climate and energy framework on gas and gas infrastructure.

### **Who is GIE?**

Gas Infrastructure Europe (GIE) is an association representing the sole interest of the infrastructure industry in the natural gas business such as Transmission System Operators, Storage System Operators and LNG Terminal Operators. GIE has currently 69 members in 25 European countries.

GIE voices the views of its members vis-à-vis the European institutions, regulators and other stakeholders. Its mission is to actively contribute to the construction of a single, sustainable and competitive gas market in Europe underpinned by a stable and predictable regulatory framework as well as by a sound investment climate.

## Answers to consultation's questions

### 1. General

- **Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?**

The 2020 framework is primarily focused on sustainability objectives: the 20/20/20 targets call for the reduction of CO<sub>2</sub> emissions, the development of renewable energy sources (RES) and the improvement of energy efficiency. The other two pillars of the European energy policy – competitiveness and security of supply – are not an integral part of the 2020 framework. They are addressed in other policy instruments which have been defined separately and for which no quantitative targets have been defined. In the 2030 framework, the three pillars of EU energy and climate policy – competitiveness, security of supply and sustainability – should be better balanced and aligned.

The 2020 framework has encouraged different parts of society to take action to reduce greenhouse gas emissions. In particular it has led to huge developments of renewable energy sources, like electricity production from biomass, wind and solar energy, some of which are now mature technologies. But the 2020 policy did not provide a cost-effective framework for decarbonizing the energy system – this is demonstrated by the increasing divergence between wholesale and end-use prices of energy. As the internal energy market is progressing through better interconnected national markets, it also failed to provide adequate signals to ensure security of electricity supply, forcing some Member States to design additional policy instruments at a national level to the detriment of the functioning of the internal market.

The European Trading Scheme (ETS) was supposed to be the main policy instrument to reduce CO<sub>2</sub> emissions. It is technology-neutral and market-based. But the economic downturn led to unintended effects: as demand for energy is closely related to GDP, which stagnated during the crisis, the ETS cap could be reached at a far lower ETS price than calculated in the impact assessment. In addition, the targets for renewable energy and energy efficiency were transposed in national policy instruments supporting some technologies independently of the market – i.e. Feed-In Tariffs, emissions standards, industry standards (non-ETS sectors) and efficiency standards. These measures are not technology-neutral and often not market-based. They provide support schemes distorting the functioning of the ETS and of the electricity wholesale market. The 2030 framework should be designed in such a way that the ETS can function as the market-driven instrument to reduce CO<sub>2</sub> emissions.

In electricity production, investments made in gas-fired power plants intended to reduce EU greenhouse gas emissions based on an expected ETS price of approximately 30 €/tCO<sub>2</sub>, are currently no longer economical. Gas is being replaced by coal, despite the fact that combined-cycle gas turbine (CCGT) plants save 50% of CO<sub>2</sub> emissions compared with coal power plants along with the reduction of other harmful pollutants. When combined with recovery of input fuel energy as usable heat (CHP), this can lead to overall plant efficiency of around 90%. Gas is thus a very efficient and cost-effective energy source for decarbonizing power production.

The share of renewable energy sources with a low marginal cost (i.e. wind and solar) is increasing in the energy mix, supported by non-market-based measures like Feed-In Tariffs and priority dispatch. This is driving down wholesale electricity prices. Moreover, the load factor of the power

plants needed to provide back-up for these variable renewable energy sources is decreasing also, while capacity and flexibility provided by these back-up power plants is not properly valued and remunerated by the market or incurred on the energy sources causing imbalances. The commodity-only electricity market is more and more unable to cover the costs of renewable energy sources as well as the cost of their back-up. The electricity-only market should be redesigned to properly value CO<sub>2</sub> emissions (through the ETS) as well as capacity and flexibility in order to provide the right signals for cost-effective long-term investments.

This experience shows that multiple closely inter-related targets have unintended and damaging effects. For the 2030 framework, there should be only one target on CO<sub>2</sub> emissions, supported by a working ETS as technology-neutral market-based instrument to reach that target on a cost-effective way. This does not prevent other policy instruments to be designed, especially to promote non-mature technologies, but they should be consistent with the CO<sub>2</sub> target and the ETS and sufficiently flexible to adapt quickly in case distortions appear on the ETS or on the wholesale electricity market. In a working market without distortions, mature technologies should all be able to compete in the market without support schemes. Capacity remuneration mechanisms (CRM) for back-up capacity could be a potential measure to address security of supply if relevant market distortions cannot be removed or not quickly enough. GIE believes that capacity mechanisms should be analysed on a case-by-case basis, having first ensured that they will not hamper the recovery of investments made in other infrastructures, thus not distorting the market.

While Member States remain responsible for their energy mix, the wholesale electricity market is progressively evolving towards an internal electricity market according to the Electricity Target Model where interconnections and market coupling are the key elements to balance supply and demand. ETS is also a European-wide instrument. In this context, national choices – energy mix, supply/demand adequacy, renewable policy, energy efficiency policy, support schemes – have more and more cross-border impacts. It is therefore necessary that the national policies are at least coordinated before implementation and monitored for unintended effects on neighboring Member States, especially when national policies in one Member State can have an impact on other Member States.

Most importantly, the CO<sub>2</sub> emissions reduction target at EU level should take into account the commitment of CO<sub>2</sub> reduction at global level. It would be useless for Europe – representing 11% of global CO<sub>2</sub> emissions – to look for costly emission reductions while the rest of the world does not share the burden. Up to now, no effective agreement to that aim has been achieved. In absence of a global commitment, less ambitious reduction targets for Europe should be re-considered.

## 2. Targets

- **Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectorial), and to what extent should they be legally binding?**

There should be only one legally-binding economy-wide CO<sub>2</sub> emissions reduction target for the European Union. Such target should be reasonable and affordable, and should be set in coherence with a global effort on climate action. GIE notes that the CO<sub>2</sub> emission reduction

target should be at least 40% by 2030 to be coherent with the EU decarbonisation targets approved by the EU.

A single target will frame the competition that will ensure that CO<sub>2</sub> will be reduced cost-efficiently. Other targets – e.g. for renewable energy sources or energy efficiency – are actually means to achieve the overall CO<sub>2</sub> reduction target and would bear the risk of distorting that competitive framework, thus negatively affecting cost-efficiency.

The burden of reducing emissions should be shared appropriately and transparently between sectors covered by the ETS and non-ETS sectors.

- **Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?**

The 20/20/20 targets combine an EU-wide CO<sub>2</sub> emissions reduction target and ETS with largely nationally-focused measures on non-ETS sectors, renewable energy sources and energy efficiency. This has been a source of inconsistency and imbalance.

Moreover, the 20/20/20 targets put a stronger emphasise on the sustainability objective of the European energy policy, at the expense of security of supply and competitiveness. This has also been a source of imbalance.

As the 20/20/20 targets are interdependent, implementing measures on one target have an effect on the other. In particular, European and national measures regarding renewable energy sources and energy efficiency have a strong impact on the ETS – leading to a wide divergence between the ETS price and the implied CO<sub>2</sub> price of various support schemes.

Whereas the 2020 objectives were designed under a situation of economic growth and prosperity, it should be borne in mind that future objectives and policy instruments should be designed to work appropriately under different economic cycles.

- **Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO<sub>2</sub> reductions for passenger cars and light commercial vehicles?**

The ETS should be the main policy instrument. The ETS should extend to sectors that are currently not covered by the ETS if their emissions and reductions are verifiable and their inclusion is practically feasible.

Non-ETS sectors sensitive to the price of CO<sub>2</sub> should also bear the costs associated with CO<sub>2</sub> emissions. As demonstrated, targets for sub-sectors could interfere with more cost-efficient decarbonisation solutions. Therefore, there should be no renewables target for transport or any other sector. Just as under the ETS, any government revenues arising should be recycled in support of low-carbon investment.

The 2030 framework should also provide more guidance to Member States on the policy instruments that are most suitable to fulfil the share of emissions reductions to be achieved in non-ETS sectors. Such guidance should, again, be based on the principle that measures should be technology-neutral to be cost-efficient.

Two important energy sectors currently not covered by the ETS are the transport sector and the residential and services sector. About 30% of the overall CO<sub>2</sub> emissions in the EU are caused in transport. The residential and services sector contribute to about 18%. There are various options to reduce emissions in these sectors, of which many include gas.

In the transport sector, natural gas is currently the best option to reduce CO<sub>2</sub> emissions by fuel substitution, especially for urban fleets, lorries and shipping. The further development of large scale volumes of natural gas and biomethane enables a further and immediate decrease in the net emissions of vehicles fuelled with gas. There are no technology constraints and the existing European gas grid can be used. Moreover, natural gas and biomethane have extremely low emissions of NO<sub>x</sub> and other pollutants and emit no particulate matter. Gas thus helps improve air quality and reduce noise and CO<sub>2</sub> emissions.

Gas in the form of compressed natural gas (CNG) is a flexible fuel that is a proven technology and has further potential for passenger cars, vans and busses, just as electricity. For lorries, engines running on liquefied natural gas (LNG) are also a proven technology that can easily achieve CO<sub>2</sub> emissions reductions in the freight sector at large scale from today on. However support on the deployment of these technologies should be fostered by the EU. In this sense, GIE welcomes the Commission's Proposal on the Clean Power for Transport Package.

Growth targets for alternative filling stations and related local infrastructure are a useful policy measure to encourage emissions reductions in the transport sector. The decision whether this growth is in electricity, gas or both should be driven by cost-efficiency.

In the residential and services sector, the quickest and cheapest way to reduce greenhouse gas emissions is to support and incentivise renovation by replacing existing technologies with improved appliances – e.g. gas heat pumps, gas condensing boilers, micro-cogeneration –, as well as stricter energy efficiency standards.

- **How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?**

Support schemes should reflect the maturity of technologies. Only non-mature technologies should be supported in a well-targeted manner for a limited period of time. Expenditure should also be limited. Progress should be measured regularly on the basis of key performance indicators. This should be carried out through adequate monitoring of the development of non-mature technologies and does not require targets. Mature technologies should not be supported in the future because they would not reduce CO<sub>2</sub> emissions in the most cost-effective way.

- **How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?**

In the gas sector, Regulation 994/2010/EU concerning measures to safeguard security of gas supply, Regulation 347/2013/EU on guidelines for trans-European energy infrastructure, and the Third Package on the internal energy market (Directive 2009/73/EC and Regulations 715/2009/EC and 713/2009/EC) are strong instruments on the basis of which security of supply is enhanced and monitored.

However, GIE wishes to outline several issues that the gas infrastructure sector is facing:

- New investments in gas infrastructure are needed, also for security of supply reasons. To enable these investments, a stable, transparent, and predictable regulatory environment is of key importance. In addition, it is necessary that policy makers send strong positive signals on the long term role of gas in the European energy mix.
- The current underutilisation of gas storage should also be taken into account as a concern for long-term security of supply. Due to low spreads on the gas commodity markets, there is no incentive for suppliers to inject gas in storage; they prefer using the traded markets instead. Under normal market conditions this might not lead directly to problems but relying on commodity markets only may be insufficient in the case of peak demand such as during a cold winter.
- LNG plants are also suffering from underutilisation. Since the Fukushima accident, Asia is demanding great volumes of LNG at relatively high prices which were intended to supply the European market. GIE would like to emphasise that despite the challenge for an LNG system operator of operating under the minimum send-out capacity, this could lead to a negative impact on the environment due to an increase of the CO<sub>2</sub> emissions, if the necessary adjustments and investments are not implemented.

In the electricity sector, some Member States are concerned about security of supply (or supply/demand adequacy) because the operation of a number of thermal power stations, in particular flexible and efficient gas-fired power stations, has become uneconomical. Strong contributors to such a situation are regulated end-user prices, price caps and floors, restrictions or unnecessary regulatory requirements on plant operations. Another factor is the increasing share of electricity from variable renewable sources, as this is promoted by certain support schemes and priority grid access with no responsibilities for meeting scheduling, nomination and balancing requirements. These barriers to a well-functioning commodity-only market should be removed as a priority.

When distortions persist, the introduction of a capacity remuneration mechanism might be an approach to face the economic challenges of thermal generation and present a tool to bridge the missing investment signals from the commodity-only market and to ensure a stable investment climate. As Europe is moving towards an Integrated Electricity Market along common rules defined by network codes, an EU-wide capacity remuneration mechanism is preferable to a set of national capacity mechanisms. However, such mechanism should be carefully designed based on specific needs in Member States or regions.

Apart from security of supply, the impact of measures taken both at the EU and national level on competitiveness should be assessed by the appropriate means.

### 3. Instruments

- **Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?**

A clear hierarchy of policy instruments should be defined. CO<sub>2</sub> emissions reductions based on an economy-wide European target and the ETS as the main market-based measure at EU level

should be at the top of this hierarchy, along with the internal energy market. Other measures should be designed in such a way that they will not interfere with them.

The **binding economy-wide CO<sub>2</sub> emissions reduction target** should be reasonable and affordable and should be set in coherence with a global effort on climate action. The burden of such a target should be shared appropriately and transparently between ETS and non-ETS sectors. A technology-neutral approach should provide the flexibility to make use of all current and future low-carbon technologies in the most cost-efficient way. Until an equitable global agreement is reached, the competitiveness of EU industry exposed to international competition is at stake.

The **Emissions Trading Directive** should be revised as a matter of urgency in order to become the market-based instrument to reduce CO<sub>2</sub> emissions and to drive investments accordingly. The addition of new sectors may be considered to the extent that their current CO<sub>2</sub> emissions and emissions reductions are fully verifiable and their inclusion is practically feasible. The auction revenues should be recycled in support of low-carbon investment, including in CCS.

The **Energy Efficiency Directive** is a key tool in reducing carbon dioxide emissions cost-efficiently, in lowering energy bills and in enhancing security of energy supply by reducing demand. Special attention should be given to a technology-neutral and hence cost-efficient approach. For example, in the power sector, switching to gas from higher carbon fuels also improves efficiency: combined cycle gas turbines (CCGTs) also achieve efficiencies of over 60%, and around 90% as combined-heat-and-power.

The implementation of the **CCS Directive** has faced strong public resistance in some Member States. Despite the funding made available through various EU instruments, the high costs of undertaking CCS demonstration projects hinder the financing of such projects. An equally strong obstacle is the uncertainty whether CCS will be allowed and become cost-efficient in the future. As public opposition is largely based on lack of correct information regarding risks and benefits, an EU effort to inform EU citizens would be beneficial. Consideration should be given to prolonging the NER300 facility and to other support measures that are well-targeted and limited in time and expenditure, to help the development of demonstration projects.

The full and speedy implementation of the **Internal Energy Market** will make a large contribution to competitive cross-border sales of electricity and gas. There is broad consensus on this in the ongoing discussion on the Commission Communication “Making the internal energy market work”.

The **Energy Taxation Directive** is in the process of being revised to take account of the carbon content of energy. Distinctions that may be made in the tax rates applied to different types of fuel and/or different consumer groups should be transparent and in line with the environmental objectives of the Directive. There should be no overlap with the Emissions Trading Directive, leading to installations being subject to a double burden. Whilst national circumstances should continue to be considered, further harmonisation of tax levels is desirable. Dramatic tax rises should be avoided.

The **draft Clean Power for Transport Package**, which the Commission proposed in January 2013, should ensure that different technologies in the transport sector can compete with each other on a level playing field. Gas-fuelled vehicles (CNG) have improved air quality and have reduced CO<sub>2</sub> emissions in cities around the world. Some countries, such as Germany and Italy, already have a

broad network of gas filling stations. Existing and new transmission and distribution infrastructure can be used to transport gas. For lorries and ships, engines running on liquefied natural gas (LNG) are also a proven technology that can easily achieve emissions reductions in the freight sector at large scale from today on.

The EU framework programme for research and innovation, **Horizon 2020**, should, in the areas of climate and energy, be open to all promising, non-mature technologies that help reduce greenhouse gas emissions. Of particular interest are hydrogen and synthetic methane. Excess of electricity from renewable sources can be used to produce hydrogen by electrolysis. If that hydrogen is reacted with CO<sub>2</sub>, synthetic methane can be produced. Both can be used locally, including in transport, and/or transported in existing or newly constructed gas pipeline and storage infrastructure, providing *de facto* storage of electricity.

The Commission is working on **Environmental and Energy Aid Guidelines** and intends to issue proposals in the near future regarding market mechanisms and support schemes. Existing national support schemes should gradually be phased out for all mature renewable energy sources without retroactive effect. New support schemes should focus on non-mature technologies; they should be technology-neutral, well-targeted and limited in time and expenditure. Capacity remunerations mechanisms could be introduced if market distortions (see above) cannot be removed or not quickly enough so that maintaining, upgrading and building necessary power generation capacities need to be incentivised over the short-term electricity prices.

Initiatives on **Smart Grids** and smart cities should take full account of the possibilities of smart electricity and gas grids, as well as of the differences and the complementarity between them.

- **How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?**

Measures should be concentrated first at the EU level, to ensure that CO<sub>2</sub> emissions are reduced in the EU where this is most cost-efficient, supported by the internal energy market and the EU-wide ETS. Other EU and national measures should be subordinate to the internal energy market and the ETS, because they are the most cost-efficient to meeting EU climate and energy objectives. Other measures should be designed in such a way that they will not undermine both instruments. National circumstances should be taken into account and effort sharing should be possible to an appropriate degree.

- **How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?**

There is a risk of fragmentation of the internal energy market if uncoordinated national climate and energy policies are pursued that result in trading or investment barriers. The implementation of the internal energy market should be rigorously pursued. Good progress is being made on the development of network codes and guidelines facilitating cross-border trade. Coordination of national measures between the concerned Member States – before being implemented, while being implemented, before changes are being considered – should reduce fragmentation and unintended effects in neighbouring countries. In addition, it is important to ensure that enough interconnection capacity is in place between Member States, provided it does not hinder the value of existing investments.

- **Which measures could be envisaged to make further energy savings most cost-effectively?**

Energy efficiency has a key role to play in the transition to a resource-efficient economy and a sustainable energy system. Large progress should be achieved by the implementation of the Energy Efficiency Directive. As the Directive is in the process of being implemented by mid-2014, it would be premature to reflect on other measures, if any, that could be envisaged to make further energy savings most cost-efficiently.

- **How can EU research and innovation policies best support the achievement of the 2030 framework?**

Support programmes, such as Horizon 2020, should be open to all promising, non-mature technologies that help reduce greenhouse gas emissions whilst respecting energy and environmental goals.

#### **4. Competitiveness and security of supply**

- **Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?**

The climate and energy policies can help improve the investment climate, which will create growth and jobs. Whenever the number of jobs created in certain energy sectors is estimated, the number of jobs eliminated in other sectors as a result of the policies has to be considered, too, in order for conclusions on employment in connection with changes to the energy system to make sense.

At present some 280 000 people are directly employed in the gas sector in Europe along the gas supply chain. As gas should play an important role in the transition to a low-carbon economy, more jobs may be created in the gas supply chain. However, predictability in view of reasonable returns of investment of any policy adopted for the 2030 climate and energy framework, at EU or national level, is the prime prerequisite to encourage investment.

Moreover, it is proposed that the Commission gives adequate attention to the competitiveness of the European Union in its impact assessments of proposals related to the 2030 climate and energy policy. A technology-neutral approach, a level-playing field and cautious use of support schemes are the very basic prerequisites for effective competition and competitiveness.

- **What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?**

As long as the EU's international trading partners do not make equivalent efforts to reduce CO<sub>2</sub> emissions, carbon leakage remains an important issue. This is comprehensively addressed in the Emissions Trading Directive.

The structural changes to the ETS should be made on the basis of evidence provided by the sectors concerned. Such changes should be discussed in the broader context of how competitive the general framework for business is in the EU as a whole and in individual Member States, compared with other parts of the world.

- **What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?**

The price of energy is generally determined by the global market. Diversity of supply from indigenous and external gas sources and diversity of supply routes is an important factor in ensuring that the price paid is competitive. The EU policy should encourage both indigenous production and imports by adopting appropriate and reliable long-term policies on the one hand and fostering good relations with export countries on the other hand.

To obtain a clear picture of energy costs, all elements need to be taken into account, including the cost of the energy as such, but also taxes, other levies (such as those used to finance support schemes), the price of carbon, etc. Energy taxation varies strongly between Member States. Multiple taxes frequently apply. The Energy Taxation Directive, which is currently being revised, can have a positive influence on the effect of tax on energy prices as well as choices.

- **How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?**

For the CO<sub>2</sub> emissions reduction target and effort of the European Union to be successful, it should be part of a global effort. The climate and energy policies proposed for 2030 in this response should help the EU to continue to be credible when urging for a global agreement by which the global climate objectives can be achieved. These measures should take account of the competitiveness of the European Union. Until an equitable global agreement has been reached, the competitiveness of the EU economy should be appropriately addressed, compared with other parts of the world.

- **How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?**

Generally, confidence should be given to the market that investment in energy will not lead to stranded assets or important drops in return on investment. Gas infrastructure is a long term capital intensive investment business with payback returns of 40-50 years. To promote investments, a clear, positive and stable future energy framework is crucial. Climate and energy policies should be clear and long-term measures should not be retroactive, changes or adaptations should be predictable, and the timeframe should be foreseeable.

The climate and energy policies proposed should be coherent with the progress made in international climate negotiations. They should be reasonable and affordable.

During the transition to more low carbon and a higher share of renewable energy sources in the energy mix, the commodity-only market might no longer provide reliable investment signals in the power sector.

- **How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?**

A new economy-wide CO<sub>2</sub> emissions reduction target supported by a well-functioning ETS should make the carbon price the main driver for investment in innovation.

Possible earmarking of revenues from the auctioning of allowances should be for non-mature, low-carbon technologies and should be in line with State aid rules and with the principles of a technology-neutral approach and competition on a level-playing field.

Consideration could also be given to the recycling of auction revenues in ETS sectors and revenues from equivalent measures in non-ETS sectors in support of low-carbon investment, including in CCS. This would prevent carbon leakage, increase the attractiveness of low-carbon investment and make a well-functioning ETS more acceptable in the face of the economic downturn.

- **How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?**

Increasing the exploitation of indigenous conventional and unconventional gas sources deserves policy support because it contributes to diversity of supply – and thus to security of supply – and it improves competition between supply sources. It also provides jobs and growth for Europe. However the exploitation of indigenous conventional and unconventional gas sources should meet appropriate health, safety and environmental standards – as for any other energy source.

Reducing import dependency is not an aim in itself because it does not necessarily lead to lower energy prices. Moreover, such an aim would ignore the economic advantages of international trade in general and comparative advantages in particular.

Import dependency is frequently associated with fossil fuels. Other energy equipment, raw materials or components, including for renewable energy sources and energy efficiency, are imported and create other dependencies.

- **How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?**

In the gas sector, Regulation 994/2010/EU concerning measures to safeguard security of gas supply, Regulation 347/2013/EU on guidelines for trans-European energy infrastructure, and the Third Package on the internal energy market (Directive 2009/73/EC and Regulations 715/2009/EC and 713/2009/EC) are strong instruments on the basis of which security of supply is enhanced and monitored. These instruments are currently under implementation and no new legislative measures are necessary at present.

Gas infrastructure operators contribute to the energy security of the European market by developing networks, interconnections and reverse capacity requirements, as well as well located gas storages and LNG terminals. The market design should be such that it enables long-term investments in gas and gas infrastructure; otherwise, the necessary investments will not be forthcoming.

It is of utter importance that, in order to improve security of supply in the EU, correct levels of interconnection capacity between Member States are in place, provided it does not hinder the

value of existing investments. If Europe is not well interconnected, risks to achieve market integration and ensure security of supply will persist.

The EU can assist the industry in diversifying energy supply routes towards the EU by tightening relationships with producer and transit countries.

#### **5. Capacity and distributional aspects**

- **How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?**
- **What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?**
- **Are new financing instruments or arrangements required to support the new 2030 framework?**

The approach of burden sharing should be maintained, making adaptations, if necessary, on the basis of lessons learnt and developments in the ability of Member States to implement climate and energy measures.

The implementation of the internal energy market and additional investments in interconnections will facilitate cross-border benefits and the availability of low-carbon energy throughout the EU.

The various EU funds available should be revised and, if necessary, made more effective in supporting the 2030 climate and energy framework as soon as this has been agreed.