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The Institutional Investors Group on Climate Change (IIGCC) represents 91 European pension funds, insurance companies and asset managers with approximately €7.5 trillion of assets under management. Our holdings include all the major listed industrial companies in Europe.

We support the EU Commission's vision for a single energy market, the Roadmap for a low carbon economy and the 2030 proposals. We believe a move to a low carbon economy presents opportunities for economic growth, jobs, energy security, as well as tackling climate change.

With this in mind, the new Commission can move the process forward by taking the following steps:

- Implement an ambitious 2030 climate and energy package which maintains the EU's leadership position in the run-up to the Paris 2015 deadline for a global climate agreement.
- Review the 2030 emissions reduction target of 40% and consider greater ambition once a global target has been agreed.
- Reform the EU Emissions Trading Scheme (ETS) to create a stable, transparent system that can provide clear and meaningful price signals and will support low carbon investment, including in renewable energy.
- Consider how to drive improvements in energy efficiency with any target designed to work with a reformed ETS.

This document details the challenges and issues we believe are of most importance as the incoming Commission begins its work.

Challenges

The investment challenge

Overall, Europe's climate and energy challenges require investment over the next forty years of up to €7 trillion. Despite the positive progress that has been made, energy investment is still falling short of the levels necessary to meet climate and energy targets and deliver energy security. This investment gap is in part a result of regulatory and policy uncertainty at the EU and Member State level. Clear and long term policies from the Commission and Member States will get investment flowing into energy infrastructure and technology that governments and the EU cannot afford to fund.

- After seven years in which investment in clean energy rose steadily, investment has fallen over the last two years and in 2013 declined 41% to under €58bn. This shortfall presents real challenges to achieving energy security and meeting climate change targets.

- Delays to EU policies and uncertain policy signals have become an increasing source of concern and played a large part in the fall in investment we are currently seeing. Investing in energy infrastructure is expensive, complex and demands a multi-decade commitment. Investors therefore require supportive policy frameworks and signals which endure over the long-term.
- Retroactive changes made by member states such as Spain, Italy and Bulgaria to their renewables subsidy regimes have had severe impacts on our investments. These changes, often at extremely short notice, have seriously damaged investor confidence and in some cases stopped us from investing in renewable energy infrastructure.

Competitiveness

The argument is sometimes made that strong climate and energy policies will harm Europe's competitiveness. In fact, enabling the trillions of investment in energy infrastructure and energy efficiency required by the low carbon transition could kick-start innovation and support jobs and growth.

- Competitiveness is determined by a host of structural factors, such as relatively high natural gas prices and the cost of imported energy. Recent research by French, German and British economists said energy accounts for a very small percentage of overall costs for EU industry.¹ Innovation and efficiency are more important in determining levels of competitiveness.
- At the same time, investors take seriously genuine competitiveness concerns related to "carbon leakage" and support appropriate carbon leakage protection.

Towards a single energy market

Delays to the creation of a single European energy market have led to a missed opportunity to lower prices for consumers and businesses.

- Greater EU interconnectedness can deliver energy security and reduce energy prices. Experts have said a fully integrated system could reduce electricity bills across the EU by ten percent. Building the infrastructure which allows energy to be moved quickly and efficiently between countries should be a key goal. Energy security and international competitiveness is best delivered on a collective basis.
- Capacity payments are an economically inefficient way of delivering security of supply, compared with interconnection and a diversification of the energy mix.

¹ "Staying with the Leaders" <http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2014/02/Staying-with-the-leaders.pdf>

Targets

(1) GHG emission reduction target

An EU emissions target has provided a signal concerning the EU's overall level of climate ambition. The 2030 framework has proposed a 40% emissions reduction target by 2030.

- We see 40% as a minimum level of ambition and would like to see greater ambition in light of a global climate agreement in Paris in 2015. For the 40% target to provide the certainty that would spur investment it must be transposed into national legislation.
- Energy investors need long-term visibility on policy. Delaying action until shortly before the expiry of the 2020 target has had a negative impact on investor confidence and levels of investment.

Solution:

- The Council should agree an emissions reduction target of 40% for 2030 by October; this should be reviewed and greater ambition considered once a global target has been agreed.
- We would urge the Commission to begin considering an emissions reduction target for 2040 at the earliest possible date following agreement on the 2030 target.

(2) Governance regime

- The Commission has proposed a new non-binding governance regime driven by the creation of national plans. We acknowledge the case for greater national flexibility and recognise the need for EU-led national planning for the low-carbon energy transition. However, it is unclear how this regime will enforce accountability and what steps the EU would take if the envisaged cooperative approach is not effective.

Solution:

- We would like clarity on the rules which will shape this governance mechanism to ensure they are sufficiently ambitious and drive delivery of EU targets.

Emissions Trading Scheme

A strong carbon price is crucial to stimulating low-carbon investment. Due to an over-supply of allowances, the carbon price has weakened in recent years, falling to record lows of under €2.50 in 2013.

- The structural reform plans outlined in the 2030 framework include a market stability reserve to come into effect in 2021. Investors welcomed the plans as a first step to reforming the ETS.

- Concern remains that backloading will fail to raise the price to an adequate level and the structural reform plans will not deliver a robust price signal until 2025. This delay threatens to hold back much-needed investment.

Solutions:

- We support the earlier introduction of the stability reserve mechanism from 2016 to ensure the ETS begins to send a meaningful price signal and stimulate investment from an earlier date.
- A number of other countries have implemented or are in the process of implementing national or state-level cap-and-trade schemes. We would encourage the Commission to monitor the progress of these schemes.

Energy efficiency

Energy efficiency must play a key role in Europe's climate and energy policy framework to 2030 and beyond. The IEA has said that there is greater potential for energy efficiency savings within the EU than other region in the world. Energy efficiency enhances competitiveness, security of supply, and the transition to a low-carbon economy. Numerous studies have shown that many countries are failing to maximise this improvement opportunity.

- Minimum standards have been useful in driving improved energy efficiency in some sectors, such as real estate, but many sectors currently have little incentive to deliver greater energy efficiency.

Solutions:

- Given the differing energy efficiency needs across a disparate range of sectors, sector-by-sector mechanisms or standards for energy efficiency may be an effective way to drive improvements and reach those sectors which currently sit outside the ETS.
- Any 2030 target for energy efficiency must be designed to work with and not undermine the effectiveness of a reformed ETS.

Unbundling – unintended consequences of the Third Energy Package

We support the broad intent of the Transmission System Operator (TSO) unbundling provisions in the EU's Third Energy Package. It is important to introduce more competition and prevent conflicts of interests between generators and TSOs.

However, we are concerned that the provisions have not considered the role of portfolio investors, which provide capital to both sides, but are not materially conflicted and do not affect competition. As drafted, the unbundling requirements, in effect, require us to choose between investing in equity in the generation sector or in the transmission sector across the whole of Europe. If, as seems likely, investors prefer to invest in the

lower risk transmission sector, this will potentially deny the generation sector access to our investment capital.

Extensive discussions between investors and the Commission and an interpretive note from the Commission to clarify the Commission's practice in assessing the presence of a conflict have failed to reassure some investors.

Solution:

We would welcome further dialogue with the Commission on this issue in order to find a solution.

Kick-starting low-carbon growth

The last ten years have shown that with the right policy and signals, investment will flow into low-carbon assets.

The EU must ensure the progress seen to date is built on and not reversed. Investors need policies which are stable and predictable over a long time horizon. Delays to targets and climate and energy policies have been a recurrent issue.

The new Commission can kick-start low-carbon growth by signalling a clear commitment to ambitious climate and energy policies.

With the right signals, investors are ready to play a full role in financing the transition to a low-carbon economy which drives growth, competitiveness and delivers energy security.