

TOWARDS AN INTEGRATED CLIMATE AND ENERGY 2030 VISION FOR THE ENERGY COMMUNITY

Non-paper document

INTRODUCTION

The Contracting Parties of the Energy Community (Albania, Bosnia and Herzegovina, Kosovo*¹, Former Yugoslav Republic of Macedonia, Georgia, Moldova, Montenegro, Serbia, Ukraine) are already experiencing climate change impacts – such as droughts and floods – that are inflicting severe damages to the national budgets. The urgency of the climate challenge has been recognized at the international scale via the Paris Climate Agreement, where countries called on each other to step up their climate action, to hold global warming to well below 2 degrees Celsius and to pursue efforts to limit it to 1.5 degrees Celsius.

To prevent further negative impacts to their citizens and the overall economy, Energy Community Contracting Parties support the call for enhanced action on climate change provided by the Paris Agreement. In the context of the Energy Community Treaty, the Contracting Parties express the readiness to take mitigation actions, having in mind that the energy sector is the key contributor to the greenhouse gases emissions, both globally and even more so in the region. In doing so, the Contracting Parties stay committed to the close cooperation with the EU and acknowledge the ongoing work on the development of the Clean Energy for All Package and the work on the 2030 targets and long-term strategies spanning to 2050 and beyond. They understand that the urgency of climate change does not allow waiting for the finalisation of the outcomes of these processes to start the action and they recognize the importance of mirroring these processes in the Energy Community.

Further action needs to be built on the preparatory work done in the past years. This includes the work performed in the framework of implementing the acquis on renewables and energy efficiency but also via technical and financial assistance provided by the EU and other donors. By using the regional approach, Energy Community countries can pool existing financial resources and make better use of the available assistance.

Leveraging on the support of the European Commission, the Energy Community Secretariat and the Climate Action Group - a platform for cooperation between representatives of ministries and agencies in charge of energy, climate change and environment from the Energy Community Contracting Parties and Observers - countries should work on the best ways to

¹ *This designation is without prejudice to positions on status, and it is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence

address the full and coordinated implementation of the Paris Agreement. In particular, they are expected to start:

- i) Aligning their legislation to the EU's climate policy;
- ii) Integrating national energy and climate policies and legislation;
- iii) Agreeing on 2030 targets for renewables, energy efficiency and greenhouse emissions reduction.

1. CLIMATE POLICY AND LEGISLATION

Besides an impressive amount of pieces of environmental acquis (with a strong focus on air quality), the Energy Community Contracting Parties are already under an obligation to implement the EU's rules on energy efficiency and renewables with a similar level of ambition and binding effects as EU Member States. Moreover, some of the internal market rules such as the State aid prohibition have turned into tools with a considerable impact on the promotion of renewables.

The Regional Energy Community Strategy 2011-2021 also reaffirms the paramount importance of developing a competitive, secure and sustainable energy market, by increasing the uptake of low-carbon technologies and providing a transparent regulatory and market framework for attracting national, regional and international investments. Finally, on July 2016, Contracting Parties of the Western Balkans have endorsed a Sustainability Charter to serve as guidance and support for their transition towards low-carbon and climate-resilient energy sectors.

On 14 October 2016, the Ministerial Council of the Energy Community adopted a **Recommendation for Contracting Parties to implement and align their legislation to the Monitoring Mechanism Regulation (MMR) Regulation (EU) No 525/2013**. The MMR includes a number of important provisions for monitoring and reporting greenhouse gas emissions, including, but not limited to: establishing GHG emission inventories, developing low-carbon development strategies, improving national systems for reporting on policies and measures and for reporting on projections of anthropogenic greenhouse gas emissions. Progress made by Contracting Parties on alignment their legislation and activities on the MMR are being monitored by the Energy Community Secretariat and have been reported within the latest Implementation Report of the Energy Community (10/2017).

Nevertheless, additional climate policy should be adopted in the region to address the most challenging needs ahead, in particular the full and coordinated implementation of the Paris Agreement by all Contracting Parties. In fact, similar to the European Union, Energy Community Contracting Parties also have multiple monitoring and reporting obligations on renewables, energy efficiency, and greenhouse gas emissions as well as other information relevant to climate change. The Paris Agreement further defines the climate change related reporting obligations for the period after 2020 by establishing an enhanced transparency framework for action and support.

In this context, the European Commission, having regard to the Treaty establishing the Energy Community (“the Treaty”), and in particular Article 2 of the Treaty², has proposed a **Recommendation on preparing for the development of integrated national energy and climate plans by the Contracting Parties of the Energy Community**. The draft Recommendation is **not legally binding** and does not impose any obligation on Contracting Parties. It rather aims to encourage Contracting Parties to start on a **voluntary basis** preparing the preconditions for the development of future integrated National Energy and Climate Plans, also by facilitating regional cooperation and consultation of NECPs between neighbouring Contracting Parties. Also, it **does not establish any deadline** on Contracting Parties for the preparation of NECPs. As indicated in its Article 5, the preparation of national plans should be an iterative and dynamic process starting in 2018.

The Secretariat and the Commission would support Contracting Parties in this endeavour and guidelines for the preparations of the plans would be adapted to fit the purposes and specificities of the Contracting Parties. They may draw upon the experience and best practices of EU Member States, which have already started preparing their NECPs, while recognizing the particular situation of Contracting Parties. The development of integrated NECPs by the Contracting Parties would support the attainment of the long-term energy and climate policy objectives of decarbonisation, **reduce the administrative burden** and enhance transparency while promoting investor certainty in the region. The draft Recommendation is on the agenda of the upcoming Ministerial Council of the Energy Community in Pristina on 14 December 2017.

2. ROLE OF THE CLIMATE ACTION GROUP

The Climate Action Group (CAG) was established at the First Informal Ministerial Council of Energy and Environmental Ministers (9-10 June, Wachau) as platform for cooperation between representatives of ministries and agencies in charge of energy, climate change and environment from the Energy Community Contracting Parties (CPs) and Observer Countries. Its key objective is to **facilitate the development of climate policy, the integration of energy and climate planning** and the transposition of related legislation into national legislation and to support its **effective implementation**.

As stated in Article 2 of the Recommendation on NECPs proposed by the European Commission and in particular in order to reflect its role in the future activities related to integrated national plans, following the adoption of the proposed recommendation, the CAG is invited to revise its name and be renamed the **Energy and Climate Committee**.

During the first meeting held in Vienna on September 5, the CAG appointed its co-Chairs, Connie Hedegaard (Chair of the Board, KR Foundation, Former EU Commissioner for Climate Action) and Ostap Semerak, (Minister of Ecology and Natural Resources,

² It defines as key objectives in relation to Network Energy, i) the creation of a stable regulatory and market framework and of a single regulatory space for trade; and ii) the enhancement of security of supply, the improvement of the environmental situation and related energy efficiency, and the development of energy from renewable sources.

Ukraine); the biennial work programme and its principles of organizations were also endorsed.

On November 15, 2017 the Energy Community, with the support of the European Commission Directorate General for Climate Change, convened the second meeting of the Climate Action Group at COP23 in Bonn. The meeting, which took place during the high-level segment of the COP, was the occasion to start discussing the draft Recommendation on integrated NECPs proposed by the European Commission and to exchange information and coordinate on a number of topics of the Paris work programme.

It was agreed that the Climate Action Group shall act as the primary platform in the Energy Community to work on NECPs. Participants also acknowledged that:

1. The CAG should be ready to **work on the preparatory steps for the development of national plans and progress reports**, in line with the recommendation to be discussed by the Energy Community Ministerial Council;
2. The CAG should work with the Energy Community Secretariat and the European Commission to propose a **EU-convergent, viable, streamlined process to establish 2030 targets**;
3. **TOWARDS 2030 OVERALL TARGETS (ENERGY EFFICIENCY, RENEWABLE ENERGIES, GHG EMISSIONS REDUCTION) FOR THE ENERGY COMMUNITY**

Stable national energy and climate plans up to 2030 (and possibly beyond) should be accompanied by targets for renewables, energy efficiency and greenhouse gas emissions reduction. This will provide higher regulatory stability, transparency of national efforts and increased investment certainty. Due to foreseen significant transformation of sectors of economy, including the energy sector, analysis and forward planning is needed to avoid large scale stranded assets and expensive policy failures. However, so far, Energy Community Contracting Parties have only national targets for the increase of renewable energy and overall target for energy efficiency up to 2020.

In line with EU efforts and their respective obligations in the EU accession process as well as considering the commitments taken by countries in the framework of the UNFCCC and the Paris Agreement, along with their respective National Determined Contributions (NDCs), Contracting Parties of the Energy Community - assisted by the Climate Action Group, the Energy Efficiency Coordination Group, the Renewable Energy Coordination Group, the Energy Community Secretariat and the European Commission – will have to discuss a rigorous, streamlined and inclusive process to establish energy efficiency, renewables and greenhouse gas emission reduction targets for 2030.

As a preliminary step within the target setting process and as part of a broader Study on 2030 overall targets (energy efficiency, RES, GHG emissions reduction) for the Energy Community commissioned by the Secretariat, a report on a **EU-convergent approach for the calculation** of the 2030 targets for the Contracting Parties has been submitted to the attention of the Ministerial Council.

BOX 1: Options for 2030 target setting in the field of energy efficiency, renewables and GHG

As starting point (**step 1**) for establishing a methodology for 2030 EE and RE target setting, **the overall ambition level at Energy Community level shall be determined**. As a next step (**step 2**), **the aggregated effort (at EnC level) needs to be broken down to national entities**. A 'flat rate + GDP based approach' could be followed for both steps, which would consider differences in CPs economic strength in terms of GDP. Doing so appears most useful to assure the intended alignment to overall EU approaches and appears fair from a socio-economic perspective. For **GHG target setting** complexity increases. Here a key question arises whether the **split between ETS and Non-ETS sectors** as undertaken at EU level makes sense also for the EnC. In this option, instead of a top-down approach (i.e. first defining an overall regional target followed by a breakdown to the national level), a bottom-up approach starting with national targets could be used. This would allow to directly applying national GDP-related targets comparable to EU Member State efforts. **An EnC contracting party with a similar GDP as an EU MS would adopt a similar target**. Due to the absence of an ETS, the level of effort for the Non-ETS sectors could be assumed for the entire economy. This would lead to a significantly lower aggregated regional target as compared to the EU, but would result in a higher "GDP fairness" as compared to adopting the same regional target as the EU.

(see Annex 16 – Interim report on 2030 overall targets for more detailed information on the methodology)

Aim of the overall study - based upon and evaluating all existent works, databases, assessments, targets and calculations relevant for the purpose - is to develop a methodology for target setting and to conduct brief assessments of the impacts of target achievement. The study will conduct a **quantitative assessment to show pathways for achieving calculated 2030 energy efficiency, RES and GHG emissions reduction targets** that can be expected under aligned framework conditions in the Energy Community Contracting Parties³. Its three main tasks can be summarized as follow:

Task 1 – Propose an EU-convergent methodology to establish overall 2030 targets in the Energy Community Contracting Parties. This should be based on a similar approach valid for EU Member States and on a similar specialised energy system model(s). It should also be based on a stock-taking exercise evaluating all existent studies, databases, assessments and calculations relevant for the purpose.

³ Whether targets will be binding or indicative, and whether they will be broken down to national entities, will have to be decided at a later stage by the Energy Community institutions in charge.

Task 2 – Based on the methodology above mentioned, calculate 2030 energy efficiency, RES and GHG emissions reduction targets that can be proposed under aligned framework conditions in the Energy Community (all Contracting Parties, excluding the EU). The calculation of targets shall be consistent with the EU's 2030 targets and framework for climate and energy.

Task 3 – Provide a general evaluation of the impact (costs and benefits) associated with the fulfilment of the targets referred to under Task 2, possibly assessing also the investment opportunities, implementing policy options, the associated employment possibilities, and reduction in fossil fuel consumption.

The study is being carried out by Technische Universität Wien (TU Wien), counting on the assistance of two other key partners – namely Joanneum Research and the Regional Centre for Energy Policy Research (REKK).