

## **Position Paper**

# **on the Communication “A 2030 Framework for Climate and Energy Policies”**

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## **VDMA Position Paper**

### **on the Communication “A 2030 Framework for Climate and Energy Policies”**

The German Engineering Association (VDMA) supports the further development of the Commission’s proposals in the following sense:

- confirming the 40% greenhouse gas reduction target as headline target;
- developing target corridors for renewable energies and energy efficiency;
- allowing flexibility in the implementation of the framework and a fair burden-sharing amongst Member States;
- linking the target corridors with the proposed governance structure in three steps:
  - (1) The required contribution will be determined per Member State for sharing the burden in the non-ETS sectors.
  - (2) Member States determine, measured according to the national non-ETS target, the corridors for energy efficiency and renewable energies and establish corrective mechanisms. In this procedure, the Europe-wide corridors and coordination with other Member States about development and saving potentials for renewable energies and energy efficiency serve as guidelines.
  - (3) The European Commission reserves the right to enforce these national plans in the future.

#### **I. Introduction**

The European Commission presented its proposals on the further development of the post-2020 climate and energy legal framework on 22 January 2014. Against the background of the long-term objective of the low-carbon economy by 2050, the objective is to ensure that the development path during the next decade until 2030 is on track.

Instead of the previous triad of objectives, the European Commission proposes a single binding 2030 headline target – the greenhouse gas reduction target of 40%. Furthermore, the share of renewable energies in energy consumption shall amount to 27% Europe-wide by 2030. Energy efficiency will be dealt with separately in a strategy to be announced in autumn 2014. Two new elements compared to the 2020 framework are to be included in the 2030 framework: a governance structure, according to which the Member States and the Commission draw up a comprehensive national plan to meet the European objective in an iterative process, and indicators and objectives for affordable, safe and sustainable energy. Additionally, a proposal on reforming the emissions trading system is part of the policy package.

The German Engineering Association supports the ambitions of the European Union in driving forward climate protection. The around 3,100 highly innovative members<sup>1</sup> of VDMA already enable the deployment of highly efficient technologies, which contribute to the achievement of climate and energy policy objectives. The expertise

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<sup>1</sup> The sector currently employs around 993,000 people in Germany (January 2014) and generates revenues of EUR 206 billion (2013).

in delivering technology solutions and the creative resources of these primarily medium-sized companies will also ensure that the mechanical engineering industry remains an active contributor in the future. In order to leverage innovation potential and to stimulate investment, the 2030 policy must establish the right framework conditions for the economy, based on a long-term perspective. Ambitious and consistent EU climate and energy policies with clearly defined steps for the period to 2030, which take account of the opportunities and risks for the competitiveness of industry, are a key element in this respect.

VDMA takes a position below in particular on the architecture of the proposed 2030 framework for European climate and energy policies. We wish to provide impetus for further conceptual development and to put forward a constructive solution capable of winning majority support in the current debate. It does not cover the proposal on the emissions trading system reform.

## **II. 40% greenhouse gas reduction target as headline target**

The mechanical engineering industry supports a greenhouse gas reduction target of 40% (see [position paper on the 2030 Green Paper](#)). In the interests of cost-efficient achievement of the long-term climate and energy targets by 2050, the definition of an ambitious development path to 2030 is a logical step. The sooner the course for the further development of European policy to 2030 is set, the lower the costs will be for attaining the target.

The division of the targets into ETS and non-ETS sectors is the correct approach in view of the continuation and planned revision of the directive on the emissions trading system. VDMA acknowledges the contribution to be made by all sectors to the 2030 climate and energy objectives. The levels of the respective shares are still to be defined.

VDMA supports the European Commission's objective of reaching agreement between the EU Member States on the 2030 framework before the international climate conference in Paris in 2015 in order to ensure progress with the efforts to reach an international agreement with a strong negotiating position.

## **III. Target corridors for renewable energies and energy efficiency**

Conflicts between the three 2020 targets were observed in the past. In order to increase the efficiency of the energy and climate policies, inconsistencies between targets of equal status clearly evident in the past must be avoided in future. VDMA is therefore in favour of abandoning the original triad of 2020 targets and defining a binding headline target for the reduction of greenhouse gas emissions for 2030.

However, VDMA underlines that this headline greenhouse gas reduction target can only be achieved with a significant increase in energy efficiency and the share of renewable energies in the energy mix. VDMA therefore supports a quantified, indicative description of the development of energy efficiency and the expansion of renewable energies in the form of Europe-wide target corridors.

These corridors would provide European institutions and Member States with guidance on the required development of the – in addition to the ETS – key pillars to meet the climate target, namely the expansion of renewable energies and energy

efficiency. They primarily serve as benchmarks for the further implementation of the political framework.

Furthermore, corridors for the expansion of renewable energies and energy efficiency do not just define the contribution to climate policy but also make a contribution to other energy policy objectives, such as the improvement of security of supply and independence of energy imports. These objectives are explicitly addressed in the communication as further elements of European climate and energy policy.

For the mechanical engineering industry, it is a question of structuring the reorganisation of the European economy in a plannable way for companies. Investments will only be made if the direction of development for renewable energies and energy efficiency is mapped out.

#### **IV. Allowing flexibility in the implementation of the framework and a fair burden-sharing amongst Member States**

The communication provides for a governance system that allows Member States room for manoeuvre to structure their own contribution to European climate and energy policies. This approach is initially voluntary but requires comprehensive reporting. The Commission reserves the right to turn this into a legal provision if the “bottom-up” approach fails to bear fruit.

VDMA considers the proposal for a new governance system to be a positive development as it enables compliance with the target with the greatest possible freedom in terms of implementation on member state level. In our view, the corridor approach combines the respective target level with the governance structure.

The outcome is a three-tier procedure:

- (1) The required contribution is determined per Member State for sharing the burden in the non-ETS sectors.
- (2) Member States determine, measured according to the national non-ETS target, the corridors for energy efficiency and renewable energies and establish corrective mechanisms. In this procedure, the Europe-wide corridors and the coordination with other Member States about saving and development potential for renewable energies and energy efficiency serve as guidelines<sup>2</sup>.
- (3) The European Commission reserves the right to enforce these national plans in the future.

#### In detail:

VDMA is calling for the corridor approach to be applied in the field of governance at national level. The national corridors would be drawn up as part of the iterative process on the negotiation of the national plans individually per Member State. They would be derived from the national contribution to be made to the achievement of the greenhouse gas emissions reduction target in the non-ETS sector and become part of the governance structure. Each Member State should be allowed to describe the

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<sup>2</sup> Articles 6-12 of the Directive 2009/28/EC (the Renewable Energy Directive) could be used as a model to enable the cooperation mechanisms to be carried out whereby Member States either undertake joint projects or statistical transfers for the expansion of renewable energies in order to compensate for the fact that greater development potential exists in some countries than in others.

corridors themselves in order to create perfectly fitting development paths against the background of particular national characteristics. The Europe-wide corridors would serve as guidelines in order to bring Europe-wide performance into line with national performance overall.

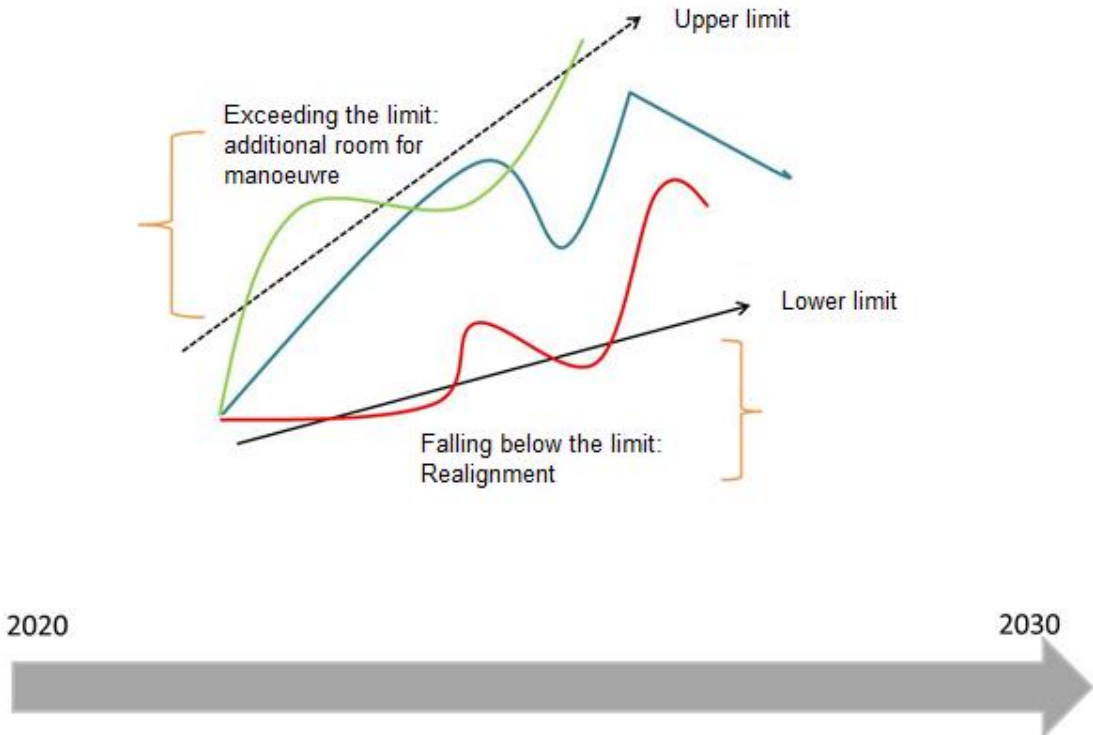
In VDMA's view, the measures to be undertaken would have to be set out in the national plans in advance. If measures were necessary for entry into the respective energy efficiency and renewable energies corridor, these should be described. The political instruments aimed at the expansion of renewable energies and energy efficiency increases should be aligned and structured in a market-oriented and technology-neutral way as far as possible.

Which measures would be taken if readjustment was required during the term of the corridors should also be defined. The need for readjustment arises if a Member State falls below the defined corridors. On the other hand, exceeding the corridors (overachievement) creates additional room for manoeuvre which can either be used for other governance objectives or an easing of the control mechanisms. The Member States define which form of political interventions would be likely and under which circumstances. This applies to non-legislative but also regulatory interventions. Open discussions between politicians and business would be possible during the phase of developing the national plans as a result of the transparency created, including on the extent to which industry can make its own contributions in order to prevent regulatory measures. The objective should be to create an incentive structure which would have a 'self-regulating' effect in the Member States without EU interventions. The exact definition of the possible readjustment mechanisms in advance will ensure a consistent horizon of expectations and a certain degree of certainty in long-term planning (keyword: investment).

An exact definition would be required of the time at which measures would be taken. Two to three milestones in the period 2020 to 2030 should also be provided which indicate the development of the corridors and against which the national plans could be checked. A one-off check, as suggested in the Commission proposal, would not be sufficient in the view of VDMA. Faster means of action should be provided in order to counter undesirable developments.

VDMA supports the iterative process described in the communication. This should result in a binding result. If nothing else, companies require the certainty that the national plan will actually be implemented so that corresponding investments can be made. In summary, the Member States are primarily responsible for the definition of and compliance with the target corridors in line with the European corridors. If the corridors are not complied with and no suitable adjustment measures are taken, the European Commission should, as the last resort, have the opportunity to enforce the implementation of the plans.

Example of the development of a corridor:



Contact:  
Holger Kunze  
VDMA European Office  
Tel.: +32 2 706 8213  
Email: [holger.kunze@vdma.org](mailto:holger.kunze@vdma.org)

Hanna Blankemeyer  
VDMA European Office  
Tel.: +32 2 706 8217  
Email: [hanna.blankemeyer@vdma.org](mailto:hanna.blankemeyer@vdma.org)