



European Economic and Social Committee

NAT/620
Market-based instruments –
Low carbon economy in the
EU

Brussels, 25 March 2014

OPINION

of the
European Economic and Social Committee
on the
Market-based instruments towards a resource efficient and low carbon economy in the EU
(own-initiative opinion)

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On 18 September 2013 the European Economic and Social Committee decided, under Rule 29(2) of its Rules of Procedure, to draw up an own-initiative opinion on

Market-based instruments towards a resource efficient and low carbon economy in the EU.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 March 2014.

At its 297th plenary session, held on 25 and 26 March 2014 (meeting of 25 March), the European Economic and Social Committee adopted the following opinion by 123 votes to 2 with 6 abstentions.

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1. **Conclusions and recommendations**

- 1.1 Progress in the transition to a resource efficient and low carbon economy has not been vigorous enough. If the EU is to achieve its objectives for 2050 in a cost-effective and socially acceptable way, as agreed by Member States and supported by various EESC opinions, faster progress is needed. This can be achieved by a combination of a clear, effective, strong and efficient regulatory framework and predictable market-based instruments (MBIs). The carbon reduction objectives agreed by Member States are designed to slow down resource depletion and global warming and so avert a future environmental crisis. The medium term objective to achieve this end will have to include a major expansion of renewables, and a substantial phasing down of coal, unless carbon capture proves to be viable and socially acceptable.
- 1.2 The effect of the current financial and economic crisis has put energy pricing under the spotlight because of the impact of high energy prices on household energy costs in the context of austerity and on industrial competitiveness. Energy is seen to be a burden on the recovery rather than a part of the solution. While these real concerns must be addressed, it is essential that the energy sector in particular can work to a long-term transition programme where there is a commitment to both a clear direction and stability in the various policies and related support mechanisms. The importance of Market Based Instruments (MBIs) is that they must both advance the transition to a resource-efficient and low carbon economy and support economic recovery.

- 1.3 Environmental fiscal reform (EFR) aims to use market mechanisms to address negative externalities linked to the use of natural resources: this is done in a budgetary neutral way by lowering tax burdens on labour. At the same time, EFR implements the polluter-pays principle more systematically, through phasing out environmentally harmful subsidies and shifting taxation away from labour towards resource use. As a result, it can correct market failures, improve economic efficiency, help develop new industries that provide sustainable and local jobs, create a clear, predictable environment for eco-innovative investments and contribute to restoring fiscal stability after the recession by raising additional revenues.
- 1.4 Energy prices have risen in all sectors. This is creating a backlash from households and industry in many Member States. Detailed research is needed to define the origin of these higher prices (production, distribution, taxes), and determine where renewables contributed to higher electricity prices and where to stable or lower prices. The Committee encourages Member States to move forward sensitively with environmental fiscal reform, particularly in times of crisis, anticipating a more fundamental reform of their fiscal systems in due course. Ensuring adequate carbon prices in the EU and, consequently, also at an agreed global level must be a core element of this reform. The Committee urges the Commission to make EFR an integral and permanent part of the European Semester, with a particular emphasis on encouraging energy efficiency.
- 1.5 The use of MBIs in the EU at the moment is not sufficiently consistent and coherent. EU Member States do not fully exploit the opportunities the transition to a low-carbon economy offers for the innovation and modernisation of industry and boosting employment. The automotive sector is a good example of how the objective of reducing the use of hydrocarbon fuels has been successfully achieved using the right combination of regulatory and market-based instruments. We need to strengthen and enhance MBIs in a way that sends a strong signal to the markets. The Committee calls on the Member States to follow and implement the best practice principles adopted in the recent Commission Communication on internal energy markets and accompanying guidance¹. There can be no doubt that completion of a Single Market in energy would remove major price differences between Member States. Furthermore, the completion of interstate energy networks would reduce the cost of the transition to renewables by making standby plants more widely available.
- 1.6 In addition to energy-related policies, the Committee notes that further use of MBIs can be applied to other strategies for improving the efficient use of natural resources and reducing carbon emissions, such as recycling, more sustainable waste management and more sustainable agriculture.
- 1.7 Environmental tax reform (ETR) encourages a shift in tax burden from labour to resource use, thus facilitating the maintenance of existing jobs and the creation of new ones throughout many economic sectors. Alternatively, within a particular sector such as energy, it can tax the

¹ SWD(2013) 439 final.

harmful CO₂ emissions produced by fossil fuels and use the proceeds to subsidise the introduction of cleaner new technologies, such as renewables, and energy efficiency, with the objective of achieving a much more sustainable energy mix, while keeping average energy prices or bills at more affordable levels. It can contribute to fiscal consolidation with less negative impact on economic growth and employment than other direct or indirect taxes. The European Commission should play a coordinating and driving role in promoting ETR.

- 1.8 For the Committee, it is unacceptable that unjustifiable environmentally harmful activities are still subsidised in the EU, directly by public budgets and indirectly as "external costs" which are not internalised in product prices due to an insufficient implementation of the "polluter pays principle". Such subsidies distort market signals and hinder the transition to a resource efficient and low carbon economy. For years, the EU has been committed to phasing out environmentally harmful subsidies and the internalisation of external costs. Given the EU's objective of eliminating such subsidies by 2020, the Committee is concerned about the lack of sufficient activities. The Committee urges Member States to set up inventories and action plans to abolish environmentally harmful subsidies as foreseen in the objective. The Commission should be the coordinating and driving factor in this field as well, for instance by including it in the process of the European Semester.
- 1.9 Solar and wind energy has considerably lower environmental impact than energy from fossil fuels. The best forms of clean energy production take into account social and environmental interests and the needs of future generations, keep production at home and reduce dependence on energy imports, as well as creating new jobs. Yet clean energy cannot compete on an equal footing in the market because fossil-based energy and nuclear-based energy have a greater extent of subsidy (direct and indirect) than energy from renewable sources. Clean energy needs a fair chance of development. That makes it essential to create a level playing field for energy production.
- 1.10 Although the general objective of transition to a low carbon economy is widely accepted, the speed of transition and methods chosen are still the subject of intense debate. There is concern about the failure to recognise the impact of the recession and debt crisis on the carrying capacity of Europe's economy. There is also unease that accelerating transition measures, in the short to medium term, will damage competitive ability. Finally, there is ongoing disagreement about the positive economic benefits that transition measures will bring and a feeling that negative effects are being disregarded. This Opinion acknowledges these concerns and recognises that they will be the subjects of ongoing discussion. Nevertheless the Committee calls on the EU and its Member States to increase the sense of urgency in the successful delivery of the low carbon future.

2. **Introduction**

- 2.1 European Member States have not been vigorous enough in adjusting their economies for climate change. There has been a comprehensive and fundamental debate in the EU on

whether it is necessary to adapt society for sustainable development and climate change. The outcome was agreement on the sustainable development course of action, including the "greening" of the economy. This policy direction is confirmed in several documents: the Sustainable Development Strategy of 2001, revised in 2006, the Seventh Environment Action Programme, the flagship initiative "Resource Efficient Europe" under the Europe 2020 strategy, the Roadmap to a Resource Efficient Europe and the Roadmap for moving towards a competitive low carbon economy in 2050. The Committee has supported this ambition in various opinions.

- 2.2 Over the last five years, all Member States have faced, to a greater or lesser degree, challenges arising from the banking crisis and the sovereign debt crisis, both compounded by a most severe economic downturn. The evolution of domestic and industrial energy prices in the context of austerity and in the face of lower priced global competition have caused questions about the way in which the EU environment and energy policy is being implemented in view of its potential negative side effects. The situation is critical and needs to be addressed. Market-based instruments must be applied in such a way that they deliver both on greening the economy and on supporting economic recovery.
- 2.3 Though the debate has partly been triggered by climate change, the discussion is also about the economy and societal progress. Europe has much to gain by leading the transition to an inclusive, green economy. A recent Commission study confirmed that European industry has so far maintained its global market position thanks to relatively low energy intensity levels and high renewables penetration². The Committee has pointed out the opportunity the low carbon economy provides for new sustainable business models and industrial change³. A successful, fast transition is not only a challenge; this green economic model also offers the Union its best opportunity to remain a world economic power. At the same time there is concern that, in the short-term, energy pricing is one of the factors leading to de-industrialisation and this concern must be addressed. In particular, high energy intensity industries are being affected by low gas prices in the USA and Russia. However, for the great majority of industry, energy costs remain a less significant factor in competitiveness than general productivity and labour costs. The Commission has made the shift to a resource efficient and low carbon economy a core element of its flagship initiative promoting a stronger industry for Europe,⁴ but has now also pointed out that the transition must be done in a way which takes account of the prevailing economic and political realities⁵.
- 2.4 It is certain that a transition towards a low carbon economy would increase Europe's energy security. Nowadays Europe imports over EUR 500 billion worth of gas and oil, partly from

² European Commission, Energy Economic Developments in Europe, European Economy 1/2014.

³ EESC Opinion on *Sustainable growth business models, low-carbon and industrial change*, [OJ C 133/8, 9.5.2013](#).

⁴ Communication "A Stronger European Industry for Growth and Economic Recovery" (COM(2012) 582 final).

⁵ Communication "A policy framework for climate and energy in the period from 2020 to 2030" [COM(2014) 15].

politically unstable regions. Replacing fuel imports by low carbon energy generated in the EU would increase the resilience of the European economy and help keep value chains in Europe. If this transition happens in time, with a smart management of the rate of change and with the right balance between economic, ecological and social interests, it can play a key role in overcoming the crisis.

- 2.5 This transition cannot be at the expense of Europe's competitiveness and the basic requirement is a higher level of economic activity involving more businesses in more sectors employing more people. In this context, it is impossible to ignore the impact of cheap energy, mainly shale gas, that has seen a resurgence of US manufacturing. The EU economy is crying out for a comparable industrial renaissance to put people back to work and grow tax revenues. Part of such a resurgence will require greater certainty and responsiveness to global pressures by EU energy policy, while keeping up the general low carbon economy agenda.
- 2.6 The EU's objective is to reduce CO₂ emissions by 2050 by 80 to 95% compared to 1990. The Commission estimates that every year an extra 1.5% of European GDP should be invested in the transition to a low carbon economy in order to achieve that goal. If nothing is done, the Commission estimates the cost at EUR 50 billion per year. However, for the tens of millions of EU citizens now unemployed or suffering reduced living standards these "future costs" are far less real than their present difficulties. Unless this apparent tension can be resolved, achieving the objective may cost considerably more time and money.
- 2.7 Ambition and regulations consist mainly of words; policy is founded upon deeds. In the context of the goals, there has not been enough action. There are many reasons for this: the financial crisis, lack of action by Member States, policy reversion by Member States and opposition from the Oil and Gas industry. But in addition there are genuine uncertainties and adjustments caused by the unforeseen impact of new developments or events, for example the rapid development of US shale gas and Fukushima. The resulting stop-and-go policies do not provide the necessary stable and predictable framework. To continue the transition process without delay we need to balance policy flexibility with the necessary commitment to long-term investment and a range of supporting MBIs. This requires an intensive dialogue between all the stakeholders in the energy chain; the European institutions, Member States, industry and the general public.
- 2.8 Like all markets the market for energy responds to price signals within the prevailing regulatory framework. If the energy market is not delivering the energy mix foreseen in the transition plan, the price signals are wrong. The signals can be changed but it must be ensured that economic and social stakeholders are not seriously disadvantaged.
- 2.9 The shift to a low carbon economy must take the social impacts into account, in particular on employment. The Commission stated that job growth in the green economy has been positive

throughout the recession and is forecasted to remain quite strong. The energy efficiency and renewable energy sectors alone could create 5 million jobs by 2020⁶.

A just transition needs active employment policies in order to ensure decent jobs. Key to this is an economic renaissance with its associated requirements in terms of energy policy, infrastructure and markets. Impacts on low-income households and energy prices have to be carefully considered. Moreover, in the energy market, the true costs of the different energy sources are often not reflected correctly in energy prices. Unlike the cost of renewables, a lot of the costs of conventional power are not separately reported in power prices and paid in power bills; instead they are subsumed in governmental budgets in the form of subsidies and hidden in the form of the external costs of adverse effects on health and the environment.

- 2.10 The complex area of energy prices and the impact of costs on both domestic and industrial consumers has been reviewed in the Commission communication on Energy Prices and Costs in Europe⁷. One of the conclusions is that the measures financed by "the energy policy levy and tax component of prices", the area which has seen the greatest rise in recent years, must be applied as cost-effectively as possible.

3. **Market-based instruments**

3.1 **General remarks**

- 3.1.1 Much EU regulation has been designed to achieve a reduction in carbon emissions. A regulatory framework alone does not do the trick; financial and economic incentives based on the carrot-and-stick principle are needed to underpin the transition. There is an important role in that process for market-based instruments (MBIs) such as environmental taxes, emissions trading and subsidy reform⁸.
- 3.1.2 These instruments can modify the outcome of market activity because they improve the system of price signals by internalising external costs and offer more flexibility and support for businesses to achieve objectives and encourage efficiency and innovation.
- 3.1.3 The EU and the Member States have developed certain tools such as environmental tax reform, phasing out harmful subsidies, emissions trading, promoting renewable energy and green procurement. The available instruments can do the job in principle. The problem is the implementation into legislation, proper application, control and enforcement and doing this citizen support needs to be assured. If that chain is insufficiently developed there is a real risk of the instruments not working properly, leading to substandard results while inflicting excess

⁶ Communication "Towards a job rich recovery" (COM (2012) 173 final).

⁷ Communication "Energy prices and costs in Europe" (COM (2014) 21 final).

⁸ Green Paper on market-based instruments for environment (COM(2007) 140 final).

costs on households and industry. As a measure of this incoherence, the differences in energy costs between Member States are striking.

- 3.1.4 If the EU wants to achieve its low carbon goals it must speed up the process and win over public opinion. We need to boost energy saving and replace fossil fuel-based energy supply with renewable energy – both key factors in the transition to a green economy. In the transition from carbon to renewable energy, provision must also be made for back up fuels and interim stages using, for example, gas or nuclear. The way the Member States apply the available instruments does not provide a sufficiently strong stimulus for the market to perform better. Important instruments such as environmental taxes are not used on an appropriate scale.

To a large extent this is because the energy mix available to each Member State varies considerably in line with geography, climate, natural resources and history. Member State action plans for CO₂ reduction and their use of MBIs vary accordingly.

- 3.1.5 In the view of the Committee, renewable energy must be part of the mix and prioritised in a way that ensures that energy policies support both economic development and the transition to a low carbon economy. Even so, although Member State circumstances differ, the EESC is anxious to see trans-European energy grids completed as soon as possible. These connections can add a valuable extra resource to every national strategy.
- 3.1.6 Environmental policy should be closely linked to other policy fields. Decentralised generation of electricity in rural areas can create many additional jobs. By linking environmental policy to regional policy, with their funds, the quality of life in rural areas can be improved significantly.

3.2 **Environmental taxes**

- 3.2.1 The idea behind such taxes is to put a price on environmentally polluting economic activities to reveal the true costs of production and consumption not reflected in market prices, in accordance with the "polluter-pays principle". This is the case for instance in Poland, where polluting businesses have to pay into a National Fund for Environmental Protection and Water Management and out of this Fund incentives are paid for sustainability programs. The right to impose direct and indirect taxes in the EU rests with the Member States. Only a limited number of Member States have specific environmental taxes; there are some good examples (i.e. in Finland, Sweden, Denmark, the Netherlands, Germany, United Kingdom, Slovenia and Estonia). The scale of tax shifts varies between Member States; the total amount of money involved is estimated at over EUR 25 billion per year⁹.

⁹ Institute for European Environmental Policy (IEEP), Reforming environmental taxes and harmful subsidies: challenges and opportunities, p. 6.

3.2.2 Despite the success of environmental taxes in some Member States, ETR does not live up to its full potential of bringing a broad change in fiscal policies. It should be stressed that ETR offers enormous opportunities, particularly as part of measures to recover employment. If Commissioner Hedegaard's motto "Tax what you burn, not what you earn" is put into practice, and the tax burden shifts from labour to resource use, labour costs for employers will be reduced and the creation of new jobs will be facilitated, not only in "green niches" but throughout many economic sectors. ETR should be a cornerstone of the necessary general restructuring of government finances aiming at fiscal consolidation. Of course a reform of this kind must not increase the overall tax burden and should be cost effective and eco efficient. Energy cost increases exceeding the scope for cost saving through efficiency should be avoided.

3.2.3 ETR can also help in recovery from fiscal deficits. Environmental taxes can contribute to fiscal consolidation while having a less negative impact on economic growth and employment than other direct or indirect taxes such as income tax or VAT¹⁰. The Commission should step up its approach to consider the benefits of environmental tax reforms in the Annual Growth Survey and in the European Semester.

3.3 **Phasing out harmful subsidies**

3.3.1 The EU aims to phase out environmentally harmful subsidies (EHS) by 2020¹¹. The Commission promised this in 2006 and in 2009. Also in 2009, the G-20 Summit agreed to start phasing out "inefficient fossil fuel subsidies that encourage wasteful consumption". This commitment has also been included in the framework of Asia-Pacific Economic Cooperation and in the Rio+20 conference outcome. Despite all these promises, not enough has been done.

3.3.2 On a global level the OECD has reported on EHS in member countries: direct budget support plus tax concessions for fossil fuels stands at a total of 55 to 90 billion dollars per year¹². The IEA calculates that subsidies for fossil fuels worldwide amount to USD 523 billion and calls these subsidies "public enemy number one"¹³. The World Bank estimates the annual subsidies for fossil fuels at up to USD 775 billion per year. If policies are not changed, subsidies for fossil fuel will rise sky high within a few years and cause a lot of extra problems. A gradual phasing out of subsidies to 2020 will reduce the demand for energy substantially and reduce CO₂ emissions by 1.7 gigatonnes, while raising additional revenues for governments.

10 Vivid Economics, Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits, report prepared for the European Climate Foundation and Green Budget Europe, May 2012.

11 Decision 1386/2013/EU of the European Parliament and of the Council of 20 November 2013 on a General Union Environment Action Programme to 2020.

12 OECD, Fossil fuel subsidies: billions up in smoke?, 2013.

13 European Wind Energy Association, press release, 4.2.2013.

- 3.3.3 There are no comprehensive data on fossil fuel subsidies in the EU so far; figures from various sources differ. The general picture is that they are heavily subsidised. On the EU level fossil fuels are subsidised by up to EUR 68.8 billion annually, including EUR 26 billion in direct subsidies and up to 42.8 billion that Member States and citizens have to pay to compensate for the negative social and health impacts¹⁴. Environmentally harmful subsidies were not put in place to deliberately harm health or the environment and had other positive goals such as the provision of cheap energy from local sources or creating employment. The EESC urges Member States to assess whether they still want to support those goals and if so, how that can be done in an environmentally friendly way. A starting point would be an EU inventory giving an overview of these subsidies.
- 3.3.4 On top of the direct subsidies from public budgets and external health costs, further costs of adverse effects of fossil fuel combustion on the environment have to be taken into account, such as follow-up costs of environmental damages and of heavy storms and flooding caused by climate warming. These "external costs" are the consequence of an insufficient implementation of the "polluter pays principle". The German Federal Environmental Agency estimates the external environmental costs of carbon generation at EUR 80 per ton CO₂ emission¹⁵ with an extra burden of € 290 billion based on the fact that 3.652 billion tonnes of CO₂ emissions are caused by fuel combustion activities¹⁶. Nuclear power plants receive total subsidies of EUR 35 billion in the EU, not including the costs of covering accident risks and disposal of waste. Renewable energy receives EUR 30 billion in direct subsidies annually.
- 3.3.5 Despite these inequalities, renewable energy technology is developing quickly; the price of renewable energy has declined rapidly in recent years (the price of solar panels has fallen by 85%) and the sector has created a lot of jobs while the price of fossil energy invariably remains high. In October 2013 vested interests in the energy sector called for a stop to the subsidising of renewable energy and for an increase in subsidies for nuclear power. If that happens, renewable energy will not be able to compete with other energy supply systems because of the absence of a level playing field.
- 3.3.6 Not all subsidies are harmful. In situations where new technologies need to be developed to support the more sustainable economy of the future, it can be helpful to provide subsidies to support initial research, development and infrastructure until the new technologies can hold their own in the market place. Such support has been crucial to the early stages of development of renewables and will need to be continued until renewables are fully established as competitive sources of energy for the future.

14 The figures on direct subsidies were drawn from OECD (2013), Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels 2013, OECD and from IVM Institute for Environmental Studies (2013), 'Budgetary support and tax expenditures for fossil fuels: an inventory for six non-OECD EU countries'; the figures on health impacts were drawn from a report from HEAL (Health and Environment Alliance), The unpaid health bill – how coal power plants make us sick, Report published in 2013; see also article in Süddeutsche Zeitung from 14.10.13 <http://www.sueddeutsche.de/wirtschaft/foerderung-der-energiebranche-oettinger-schoent-subventionsbericht-1.1793957>.

15 Federal Environmental Agency, Schätzung der Umweltkosten in den Bereichen Energie und Verkehr, 2012.

16 Source: EU energy in figures – statistical pocketbook 2013.

3.3.7 According to the Roadmap to a Resource Efficient Europe, Member States should have identified the most significant EHS by means of established methodologies by 2012 and prepared plans and timetables for phasing out EHS and reported on this as part of their National Reform Programmes. These steps have not been implemented sufficiently. A study by DG ENV in 2012 provides an overview of grants and other types of subsidy¹⁷ awarded to EHS in the EU and proposes a roadmap for the review of such grants. The Commission should consider this tool in the current European Semester.

3.4 Emissions Trading System

3.4.1 The EU Emissions Trading System (EU ETS) is Europe's main economic instrument based on the cap-and-trade principle and aimed at reducing greenhouse gas emissions. The system is meant to give companies a strong incentive to invest in greenhouse gas prevention, leaving them the flexibility to do this in the most efficient way.

3.4.2 The EU ETS currently faces a supply demand imbalance that results in a price incentive that is insufficient to the necessary investment in low carbon technologies. The surplus in the supply of emissions allowances is largely the result of the unexpectedly severe economic crisis and a large use of international credits. A structural reform of the ETS is urgently needed in order to make the ETS a strong incentive for low carbon investment. The surplus of allowances needs to be taken off the market and the remaining rights must be linked to future CO₂ emission reduction targets, which will be necessary to achieve the EU's goal of a low carbon economy in 2050. Such a reform should also take into account the technological feasibility and the economic viability for industries and carefully consider the potential for future unintended consequences.

3.5 Border carbon adjustment

3.5.1 Further steps have to be taken to deal with "carbon leakage", such as border carbon adjustment, a system aimed at reducing CO₂ emissions while ensuring a level playing field. Under this system, the price of imported goods will be increased at the border on the basis of a calculation of the mass emissions for those goods. Models in a recent study¹⁸ show that border carbon adjustment can reduce carbon leakage in relevant sectors substantially.

3.5.2 However, border carbon adjustments in the form currently being discussed are not welcomed by some of Europe's major trading partners. This issue has to be negotiated in the WTO. The treaty allows the consideration of such "non-trade" issues. The difficulty of doing this in the absence of a global agreement on carbon pricing should not be underestimated. The concerns

¹⁷ Institute for European Environmental Policy, Study supporting the phasing-out of environmental harmful subsidies, October 2012.

¹⁸ Vivid Economics, Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits, report prepared for the European Climate Foundation and Green Budget Europe, May 2012.

may be addressed through better BCA design. The bottom line is that border carbon tax adjustment is not an anti-dumping tool but a contribution to a worldwide sustainable climate policy, if well designed.

3.6 **Promoting sustainable energy**

3.6.1 Promoting renewable energy is one of the essential elements in the transition to a low carbon economy; MBIs can play an important role here. The introduction of these instruments is a matter for the Member States; a number of them have opted for different instruments for subsidising renewable power: investment support and operational support including a pricing system for return delivery. Experiences in several Member States show this latter system led to the highest increase in the production of renewable energy, often by providing guaranteed and generous rates of return on investment.

3.6.2 It is important, however, that feed-in tariffs to encourage the installation of renewable forms of energy should not be financed solely by increasing energy prices generally or they risk provoking a public backlash against the tariff and the renewables themselves. Unfortunately, however, this has happened in many places, and the backlash is very real. Urgent corrective action is needed to consolidate citizens' support for the green revolution.

3.6.3 The fact that the Member States have different support schemes contributes to the fragmentation of the European energy market. The Committee advocates the use of MBIs that favour the integration of national schemes in a European energy market. The use of cooperation mechanisms as defined in the Renewable Energy Directive 2009 is also paramount to making more use of the EU synergies through the electricity market¹⁹.

3.7 **MBIs in the automotive sector**

3.7.1 In general, the automotive sector has been a good example of the successful application of MBIs. The transition goal is to reduce and finally eliminate the use of hydrocarbon fuels in the sector. The strategy comprises four elements: regulation, technology, infrastructure and MBIs. Regulation is used to improve the fuel efficiency and reduce the emissions of new internal combustion vehicles (ICVs). Technology makes it possible to comply with hydrocarbon regulations and develop electric vehicles (EVs). As EVs become more widely used, an infrastructure involving metered charging points, battery exchange, etc., will be needed to replicate and, finally, replace the existing hydrocarbon supply infrastructure. As regulation, technology and infrastructure progress, MBIs can play a decisive role in the transition.

3.7.2 The most obvious MBI application has been the escalation of taxes on hydrocarbon fuels. This has had the effect of moving ICV owners to smaller, more fuel efficient vehicles, to

¹⁹ SWD(2012) 164 final.

public transport and bicycles. ICV taxation has also been adapted to encourage the purchase and use of fuel-efficient vehicles, whether by taxes on purchase prices or by annual taxes on vehicle use. The same system of differential vehicle taxation is being used to favour EVs, although there remain many other barriers to widespread EV uptake.

3.8 **Green procurement**

3.8.1 With 16% of the EU's GDP, public procurement is a big market player. Green public procurement is therefore an important instrument for promoting green products and services. With the Action Plan on sustainable production and consumption and a Communication on green public procurement, the Commission has in recent years worked towards a comprehensive system of guidance and support. On the basis of an evaluation of performance by the Member States, the Commission set the indicative goal that by 2010 50% of all spending should be green. This goal is far from being achieved and should receive a higher priority in Member States' action plans.

3.9 **Investments by the private sector**

3.9.1 The transformation to a more sustainable pattern of production and consumption in the energy and other sectors implies a fundamental restructuring of the economy. Governments and Government policies alone cannot achieve this. It requires a society-wide engagement with the issues and a vast collaborative dialogue with all the interests involved, to build consensus and commitment to the changes that are needed. According to the Roadmap to a Low Carbon Economy, the private and the public sectors have to invest an additional EUR 270 billion per year for the next 4 decades. A third of these investments can be financed with public money; the rest must be raised by the private sector. These are long-term investments; the Commission sees this investment as a central challenge in order to move the EU in the direction of a smart, sustainable and inclusive economy again, for example through long-term European investment funds (ELTIFs) and the Connecting Europe Facility (CEF).

3.9.2 As recommended by the OECD in an Environment Working Paper from 2012, to enable investment in low carbon climate resilient infrastructure and green growth, governments should develop comprehensive strategic infrastructure plans, strongly coupled with national climate change goals. The Commission should also seek opportunities to create such an investment climate for ELTIFs in relation to a sustainable future. In this respect the investment priorities of the CEF and the ELTIFs should be consistent with the objectives of the EU 2050 Low Carbon and Energy Roadmaps, the Adaptation strategy and the 2030 climate and energy package under discussion.

3.9.3 Such funds could make this type of investment easier. Because the long-term maturity of assets to be financed is aligned with the liability of institutional investors, these kinds of funds can also be conducive to attracting resources from the capital market. The condition is of course that these investments are attractive because risks – particularly regulatory risks – are

limited, because there is a prospect for a sufficient return and because the projects invested in are financially and technically sound.

- 3.9.4 Innovative funds and financial instruments to attract capital market resources are welcomed. However, the banking sector will keep financing a large part of the European economy with traditional debt instruments. Greening banking standards is therefore an essential requirement to shift private financing from conventional toward low carbon and climate resilient investments. To meet climate and energy objectives, innovative financial instruments need to catalyse private finance for investments that would not otherwise happen.

Brussels, 25 March 2014.

The President
of the
European Economic and Social Committee

Henri Malosse
