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European policies: the challenge of economic efficiency

EPRG Winter Seminar 2012

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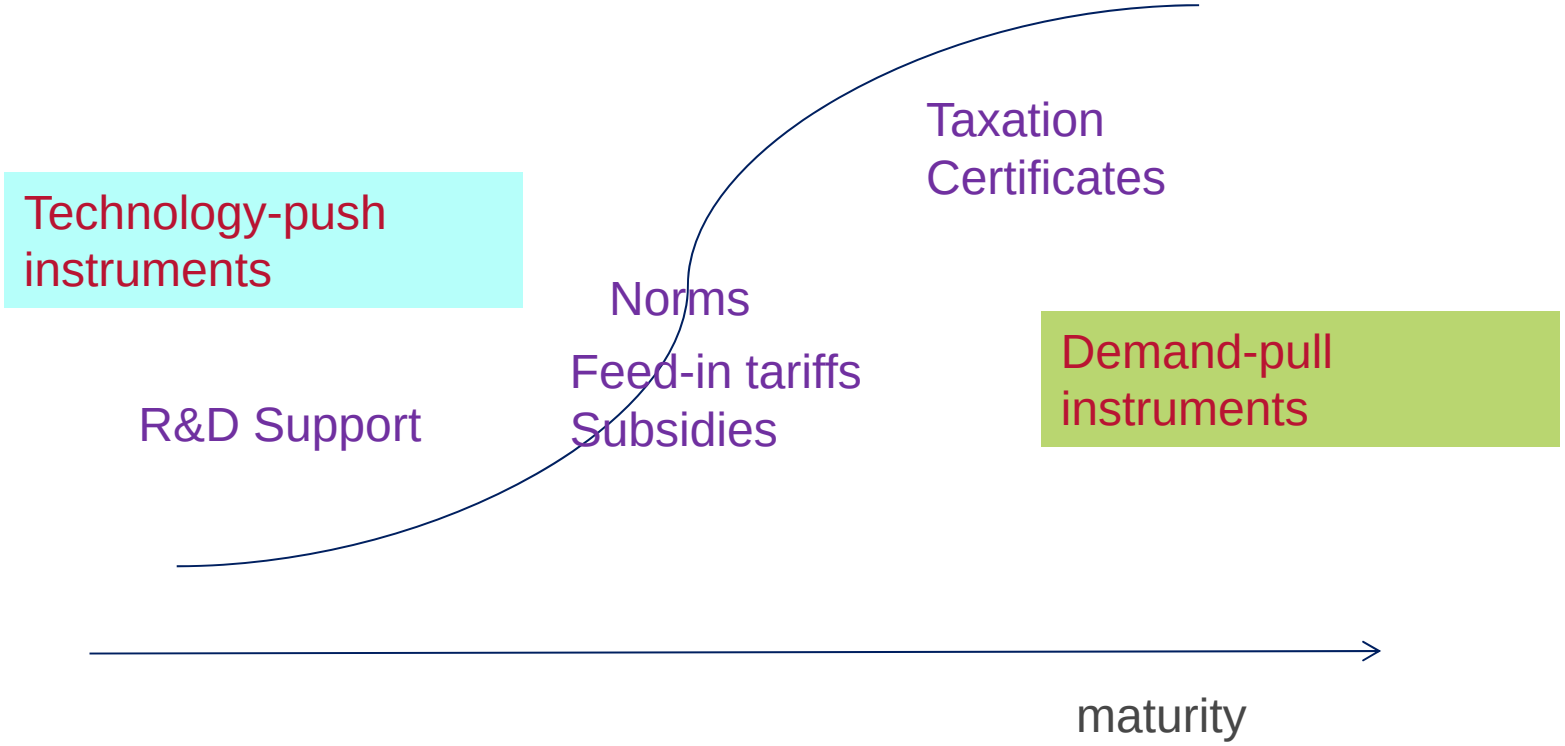
December 7th, 2012

The policy instruments

A broad set of instruments are used to support the environment friendly European energy policy. The selection of which to use should in principle depend on the maturity stage of the underlying technology.



The challenge of managing the transition

Managing the transition towards an environment friendly energy environment may be a challenging task

- Carbon Capture and Storage: Support which should focus on large scale deployment and cost-effectiveness is hampered by lack of social acceptance
- Efficiency measures: Institutional problems prevent flexible interplay between electricity markets and energy efficiency measures
- Wind on-shore and photovoltaic: The success of feed-in tariffs has generated booms in some countries which are now forced to adapt their policy abruptly and review it on a rather continuous and dynamic basis. This boom also puts out of the merit order gas capacities which are necessary for coping with intermittent sources, which questions the functioning of markets as they are organized today
- EU-ETS: The combination of unfavourable economic context and lack of credible concrete (international) medium-term commitments lead to quite low CO_2 prices, which does not favour market driven investments in green technologies

The efficiency of the whole approach

Efficiency of the whole approach is at stake with some analyses already pointing to interesting conclusions and questions

- On European technological competitiveness (Midttun et al, *Energy Policy* 48 (2012)): Institutional pluralism challenges scalability. Europe needs to cleverly manage this balance if it does not want to be put out of the game
- On European employment (Lehr et al, *Energy policy* 47 (2012)): Positive net employment effects of RES policy strongly depend on further growth of global markets and on export competitiveness
- On European growth (Marques et al; *Energy Polic*y 46 (2012): RE seems to be deployed in a rather counterproductive effect, resulting in inefficiencies and high cost of energy. Focus should be shifted to the promotion of R&D, patenting and incentives for the export of technology
- On the cost effectiveness of the instruments used (Lopez-Pena et al, Energy Policy 50 (2012): Instruments are not called up in the economic merit order
- On the combination of different type of instruments (Kitzing zt al, *Energy Policy* 51 (2012)): The trend observed in Europe to apply multiple support instruments (eg tax incentives combined with feed-in tariffs) can potentially produce overlapping and distorting effects
- On oil price resilience (Maisonnave et al, *Energy Policy* 47 (2012)): Climate policy makes the EU economy more resilient to oil price rises