



Concurrences seminar
CompetitionRx/White and Case
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State Aid, Energy and the Environment

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Disclaimer (EN): the views expressed are those of the author and cannot be regarded as stating an official position of the European Commission

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Overview

- Energy and climate change policies: interplay
- Issues for EAG/GBER review

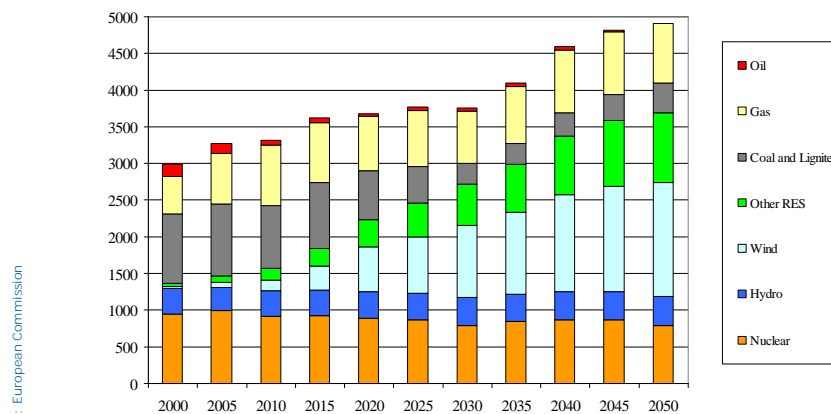
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Energy and environmental policies

- Important adjustments needed to the energy system to meet climate and energy targets
 - EU Climate and Energy package: "20-20-20" targets for 2020
 - 20% reduction in EU GHG from 1990 levels
 - 20% energy consumption from renewable sources (• 33% for electricity)
 - 20% improvement in the EU's energy efficiency

Electricity generation (projections)

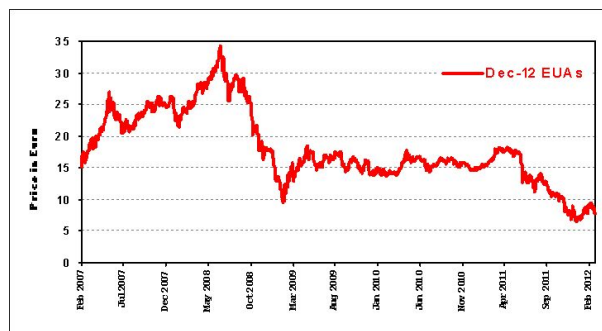


Primary instrument: ETS

- ETS:
 - o Market-based mechanism (cap and trade) for large emitters
 - Price signals drive abatement effort (i.e. investment and production choices)
 - Technologically neutral
 - o Cap à 2020 target will be reached!
 - The fact that CO2 prices have dropped recently does not change this

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Carbon prices



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Primary instrument: ETS (cont'd)

- What role for other mechanisms?
 - ETS only covers part of the economy. Other parts (i.e. smaller emitters, other sectors, users) also to be incentivised
 - ETS will achieve the specific target set for 2020, but what then?

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A tale of two market failures

- Market failure: a direct source of inefficiency in the economy
 - Example: Externalities, driving a wedge between private returns and social returns
- If the only market failure were that (large) emitters do not internalise the climate cost of emissions, setting up e.g. ETS would be sufficient
- However, there may be additional market failures, in the (pace of) development of new forms of low-carbon technologies

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Bringing innovation forward

- In the presence of positive spill-overs in innovation it may be optimal to complement ETS with policies fostering technological change
 - Cf. Acemoglu, Aghion, Bursztyn, Hemous (2012)
- Intertemporal perspective (weights given to present and future) matters
- Support can take the form of subsidies for R&D ('push') and deployment ('pull'), e.g. quotas or feed-in tariffs. Difficult to well target/calibrate, however (trade-off with technological neutrality)

Diverse support schemes for RES

Main RES-E support instruments in the EU-27

Red	Quota obligation
Blue	Feed-in tariff
Yellow	Feed-in premium
Green	Other instruments than the above

Notes:
 1) The patterned colours represent a combination of instruments
 2) Investments grants, tax exemptions and fiscal incentives are not included in this picture.





E(E)AG: Issues

- Support of low carbon energy sources: what role for State aid?
 - Context: ETS has increased the competitiveness of RES.
- How to bring forward innovation, while avoiding undue distortions in technology choices (principle of technological neutrality) and ETS?
- How to promote the further integration of the internal market for energy? (avoid fragmentation of support mechanisms)

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E(E)AG: Issues (cont'd)

- When/how to promote the construction of energy infrastructure?
- RES and intermittency: how to best ensure system stability? (e.g. black-out risk)
- How to best ensure security of supply?
- How to ensure a coordinated approach to energy tax exemptions? (Ch. 4 EAG)

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Conceptual framework

- State Aid Modernisation: development of common principles for the assessment of state aid. For aid to be compatible, it needs to
 - Contribute to a common EU objective
 - Correct proven market failure/address equity concern
 - Be an appropriate instrument
 - Ensure an incentive effect
 - Be proportional/limited to the minimum
 - Avoid undue distortions of competition and trade
- Implementation of principles in GBER and Guidelines

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Thank you for your attention

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