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COMMUNICATION FROM THE COMMISSION

STRENGTHENING ENVIRONMENTAL INTEGRATION WITHIN COMMUNITY ENERGY POLICY

INTRODUCTION

0.1 Energy is essential for achieving economic growth and social welfare, but energy production and use have at the same time a great impact on the environment. In line with the growing environmental concerns of European citizens, policy makers increasingly recognize the environmental dimension of energy. measures. One major challenge for energy policy is thus to integrate the environment within its policy objectives and actions.

0.2 The challenge of the global issue of climate change is such that the Community's political commitment to limit greenhouse gas emissions cannot realistically be achieved by continuing "business as usual" without making changes in energy policy and taking measures for internalising the external costs of energy production and consumption. The Energy Council of 11 May 1998 discussed the links between Energy and Environment policies, highlighted the role the energy sector should play in meeting the Kyoto commitments and underlined the need for closer collaboration between energy and environment colleagues.

0.3 At Cardiff, the European Council reaffirmed this key role of energy by inviting the Energy Council – along with the Agriculture and Transport Councils – to start the process of establishing their own strategies for giving effect to Environmental Integration and Sustainable Development within their respective policy areas. The European Council at Vienna will take stock of progress. The Energy Council will address this request at its meeting of 13 November 1998 and the Presidency has invited the Commission to provide input for the Council discussion.

0.4 Accordingly, the present Communication reviews overall progress and suggests actions for further integrating environmental considerations in Energy Policy, within the context of Sustainable Development.

CHAPTER 1: THE CHALLENGE OF INTEGRATING THE ENVIRONMENTAL DIMENSION IN ENERGY POLICY

I. Adapting energy policy for sustainability

1.1 The energy sector plays a major role as regards the environment. Indeed, as highlighted in the Commission Communication "An overall view of Energy Policy and actions"[1], the production, transport and use of energy have impacts, in most cases, on our environment. These impacts may be local, when they concern air quality in towns, waste disposal or noise; they may cover several regions or states and thus have continental dimensions, as with acidification, safe nuclear operation and nuclear waste disposal; climate change has an impact at global level. The impact of energy on the environment is substantial and wide-ranging, given the strategic role of energy in helping to meet society's needs for mobility, heating, cooking, social, industrial and commercial activities.

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[1] An overall view of Energy Policy and actions, COM(97) 167 final of 23.4.1997

1.2 Integrating energy and environment has been a major component of Energy Policy developments in the 1990's. The Single Act set closer integration of environmental policy and the Community's other policies as one of the principles of the Treaty and this was explored in the Commission's Communication of 1989 (COM 89/369 final). Simultaneously climate change emerged as a major challenge in environmental policy, supplementing traditional energy/environmental concerns.

1.3 The joint Energy and Environment Councils of October 1990, December 1991 and April 1993 have been important in developing a comprehensive range of policy actions. This work complemented progress in developing the Community Energy Policy priorities as reflected in the Energy Policy White Paper[2]. Based on wide-ranging consultations with stakeholders, the Council, Parliament and other bodies, environment, competitiveness and security of supply were confirmed as the three pillars of Energy Policy contributing to Sustainable Development.

1.4 Following the Commission Communication cited in paragraph 1.1, the Council and Parliament are presently considering the Commission's proposals for a Community Energy Framework Programme[3]. A priority of this programme is to contribute to Sustainable Development through improving competitiveness, securing energy supplies and achieving higher environmental quality. The 5th Framework Programme on Research, Technological Development and Demonstration supports the achievement of these objectives.

1.5 Both the Maastricht and Amsterdam Treaties have provisions of direct significance to Energy: Sustainable Development and rational use of resources are Treaty obligations, the attainment of which requires a substantial changes in energy policy .

1.6 Given the important impact of energy on the environment, environmental integration cannot be achieved without adapting energy policy to take into account environmental objectives. The challenge is to develop a sustainable energy policy "Business as usual" is no longer an option, in particular in the post-Kyoto context, which requires substantial measures to reduce greenhouse gas emissions.

It is essential to adopt sustainability as a general principle in developing future Energy Policy and this Communication seeks to support this approach. It is nonetheless important to ensure that energy policy is balanced, realistic and flexible A long-lasting balance needs to be found between the need to protect the environment and the economic and social needs of human beings.

II. Taking Action towards integration

1.7 For the Community - through various programmes but particularly SAVE - energy efficiency is an important element in the Union's efforts towards sustainability in energy policy; first to limit the Community's external fuel dependency and secondly to reduce the impact on environment.

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2 An Energy Policy for the European Union – White Paper of the European Commission, COM(95)682final, 13.12.1995

3 Proposal for a Council Decision adopting a multiannual framework programme for actions in the energy sector (1998-2002) COM (97) 550 final of 18.11.97 and Proposal for a Council decision adopting a multiannual programme of studies, analyses, forecasts and other related work in the energy sector (1998-2002) (ETAP Programme), COM(98)423 final of 15.07.98.

Its importance was confirmed once more in the Energy Council of the 11th May 1998, when substantial improvement in present levels of efficiency was agreed as a key policy objective.

This will help address the recent slowing down of efficiency improvement. While energy intensity improved by 0.6% p.a. from 1990 to 1997, the economic potential for improvement is far from being reached. A renewed effort and commitment is needed, as highlighted in the recent Commission Communication on Energy Efficiency.[4] An important means to achieve higher efficiencies is to ensure, as far as possible, that prices reflect full social costs of energy production and consumption, including external costs. In a period of increasing liberalisation such progress will be particularly important.

1.8 Particular attention has recently been given by the European Community to the development of combined generation of heat and electricity (co-generation) which can increase the efficiency of fuel use from 30% - 40% to 70% - 80%. A Communication[5] which seeks to double the use of co-generation from the current 9% to 18% by 2010 has been adopted by the Commission with a strategy for action and was endorsed by Council and Parliament.

1.9 The promotion of cleaner energy has for more than 20 years been a major issue of energy policy. Supporting the development of the renewable energies is a key objective of energy policy. Development of technology is being supported by the RTD Framework Programmes; promotional activities for higher market penetration are being supported by the ALTENER Programme.

Currently a high priority is given to the contribution of renewable energies to the energy balance with the objective of doubling their contribution from 6 % to 12%by 2010. A full strategy has been presented in the White Paper "Renewable energy: Energy for the Future" adopted by the Commission and endorsed by Council and Parliament.[6]

1.10 Simultaneously, and with the support of the JOULE-THERMIE Programme substantial improvement has been achieved in the cleaner use of fossil fuels particularly in coal combustion. This has contributed to real improvements in of local emissions.

In parallel, in relation to solid fuels and state aids, Council decision 93/3632 of 28 December 1993 established the obligation of decreasing state aid to coal, allowing state aid to be authorised by the Commission if it facilitates adapting the coal industry to environmental protection standards.

1.11 Energy Research, Technology and Development Policy remains a key strategy of the EC to improve our environment. Technologies for energy production have been progressing rapidly, so that considerable efficiency improvements and cleaner environment have resulted and will continue to improve through the deployment of best available technology. Such advanced technologies also offer advantages in terms of cost-effectiveness.

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4 Energy Efficiency in the European Community – towards a strategy for the rational use of energy - COM(98)246 final, 29.4.1998.

5 A Community strategy to promote combined heat and power (CHP) and to dismantle barriers to its development COM(97)514 final, 15.10.1997.

6 Energy for the future – renewable sources of energy: White Paper. COM(97)599 final, 26.11.1997.

Close and continuous co-ordination of RTD and energy policy is essential. Clean technologies can make a positive contribution, the results of which are lasting. In the working programmes of the new Fifth Framework Programme on Research, Development and Demonstration, presently being developed, the Commission will give priority to environmental objectives.

1.12 With the emergence of the acid rain problem in the 1980's, the need to address local and regional emissions and in particular sulphur dioxide and nitrous gases became a major energy-environment concern. Acidification at first and then air quality have been prominent themes with considerable benefits in reducing leading pollutants like sulphur dioxide (SO_2), nitrogen oxides NO_X), carbon monoxide (CO), volatile organic compounds (VOC) and selected particulates. Community legislation and technology have contributed to improve the local environmental standards and to increase the well being of the European citizen.

In this context, the adoption of the Large Combustion Plant Directive in 1988[7] has resulted in a major reduction of SO_2 and NOx these last years, due in part to substantial environment – oriented investment but also due to changes in fuel mix. To further reduce the emissions leading to acidification and ozone formation, the Commission has recently proposed a revision of the 1988 Directive[8] by enlarging its scope to include gas turbines and by updating emission limit values for new plants put into operation from 1 January 2000. In addition, the revision encourages use of combined heat and power generation in new Large Combustion Plants as well as the use of biomass as a fuel.

In early 1999 the Commission will put forward a proposal for a directive on national emission ceilings for acidifying pollutants and ozone precursors (SO_2, NO_X, VOC and NH_3, ammoniac). These ceilings will create global constraints for these emissions and complying with them will be an additional important challenge for the energy sector.

1.13 The recently concluded negotiations to reduce emissions from motor vehicles through car technology improvements and use of cleaner fuels (as a result of the Auto-Oil Programme) are important in terms both of reducing emissions, particularly in urban areas and of developing a co-operative framework between different economic actors. This co-operation is being extended to other domains, in negotiations with car manufacturers (ACEA) for a voluntary agreement on CO_2 emissions reduction from cars interalia through improved fuel efficiency e.g. limiting CO2 emissions to 140 gr/km..

1.14 As part of the international effort to integrate environmental concerns in oil and gas exploration activities and avoid waste disposal at sea, the Commission adopted in February 1998 a Communication Removal and Disposal of Disused Offshore Oil and Gas Installations[9] calling for Community action to provide appropriate protection for the marine environment when decommissioning some 600 offshore installations in Community waters.

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7 Council Directive 88/609/EEC of 24 November 1988 on the limitation of emissions of certain pollutants into the air from large combustion plants OJ L 336, 7.2.1988 p. 1-13.

8 Proposal for a Council Directive amending Directive 88/609/EEC on the limitation of emissions of certain pollutants into the air from large combustion plants, COM(98)415 final , 8.7.1998.

9 Communication from the Commission to the Council and the European Parliament on removal and disposal of disused offshore oil and gas installations, COM(1998) 49 final, 18.2.98.

In July 1998 the Commission successfully negotiated a Decision for the Community within the OSPAR[10] Convention which, with few exceptions, provided for the prohibition of dumping at sea. The Decision calls for further RTD, exchange of information and co-operation between the Convention parties and industrial sectors to improve protection. The Commission will continue to work with Member States and the sectors involved. It will also consider how best to implement the OSPAR Decision at Community level and extend the protection to those Member States outside the OSPAR Convention."

1.15 The generation and disposal of waste is an important environment issue. In line with the strategy for waste adopted in 1996[11] promoting both the prevention and recycling of waste and limiting landfill, the Commission has recently proposed a Directive on waste incineration[12] . When waste with a combustible component is generated and needs to be disposed of, burning waste with energy recovery can be a cost efficient option for dealing with the environmental problem, at the same time saving other fuel provided emissions are minimized and the energy is used efficiently.

1.16 In May 1997 the Commission adopted the Communication "Energy dimension of the Climate Change"[13], which reviewed in time for the Kyoto Conference the special links between energy and climate change. This developed on earlier policy initiatives to help achieve the Rio commitment on CO2.

The commitment to reduce emissions of greenhouse gases has offered a new challenge to those concerned with producing, supplying and consuming energy given that energy related greenhouse gas emissions represent some 80% of the total.

1.17 Looking to the decade of the 1990s and on present trends to 2000 Carbon dioxide (CO_2) is expected to stabilise in 2000 at 1990 levels. Energy related emissions of methane (CH_4) and nitrogen oxide (NO_X) are expected to decline by 20%. However, energy related nitrous oxides (N_20) seem set to increase by 60% - an increase due essentially to emissions linked with transportation.

This illustrates the multi-dimensional aspects which energy policy has to take into account and demonstrates the complexity of the environmental dimension and the need to develop an overall approach supporting and complementing policy actions in other domains. In this example the need is for close co-operation between transport, energy and environmental policy.

1.18 The Commission believes that the Kyoto targets pose a challenge to the European Community that has to be faced with concerted efforts and co-ordinated strategies. In addition to Member States' efforts, common and co-ordinated policies and measures will need to be defined.

III Ensuring a successful approach

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10 Convention for the Protection of the Marine Environment of the North East Atlantic (1992).

11 Communication from the Commission on the review of the Community Strategy for Waste Management, COM(96)399 final, 30.7.1996.

12 Proposal for a Council Directive on incineration of waste COM(98) 558 endg.

13 The Energy Dimension of Climate Change, COM(97) 196 final, 14.5.1997.

1.19 The integration of environment objectives within energy policy needs to be implemented in a balanced way by taking into account all energy policy priority objectives. These include – in addition to the environment – the objectives of competitiveness and security of supply. Member States and the Community will need to ensure coherence and complementarity between these objectives.

1.20 The integration of environment within energy policy needs to be realistic, i.e. based on facts and analysis. It is essential to ensure the link between environmental considerations and their economic and social consequences. The energy system is capital- intensive and is part of the economy's infrastructure and can be changed only over time. A cost-effective policy has to respect a longer timeframe for innovation and investment in the energy sector.

1.21 The integration of environment within energy policy should be flexible. Energy markets are changing rapidly and thus provide opportunities for developing energy and other demand side services. Experience shows that a maximum of flexibility can be provided by early and close involvement of all interested parties (covering both supply and demand sides, in particular, industry and consumers).

CHAPTER 2: FURTHER ACTION TO STRENGTHEN ENVIRONMENTAL INTEGRATION WITHIN ENERGY POLICY

2.0 While a considerable effort towards environmental integration in energy policy has been made, further action must be taken at all levels – local, regional, national, Community – and by all authorities and institutions involved, each according to its role but working together: the Member States, the Commission, the European Parliament, the Council of Ministers.

For successful integration of sustainability in our everyday life, all decision-makers need to be mobilised. In the Community energy policy framework Member States have a central role to play. But, in the internal market context, some decisions are taken most efficiently on the Community level, thus guaranteeing conformity with other Community objectives.

A number of priority areas of action are identified here as a basis for strengthening environmental integration within energy policy, in particular (but not exclusively) in the light of the EC's commitments undertaken under the Framework Convention on Climate Change. This is not intended to be an exhaustive list of possible actions but indications aiming to provide elements for a strategy.

I. MEMBER STATES NEED TO ACT

2.1 In line with the subsidiarity principle, Member States have the primary responsibility to act. Since most energy policy measures are taken by Member States, they need to put in place their strategies for integrating the environmental dimension into their energy policies.

For instance, in the context of climate change, the Kyoto protocol illustrates the magnitude of the challenge Member States face and each will need to produce a clear plan of action as to how it foresees meeting the Kyoto target. Such a plan, resulting from close co-operation between energy and environment, will be an important practical example of integration.

2.2 Member States have a certain degree of freedom as to the choice of means to achieve the integration of the environmental dimension within their energy policy within a Community context. In devising measures in this field, Member States will need to take into account their specific energy needs and energy policy choices.

There are a number of important areas where immediate action is required from Member States who will need to adopt national strategies and measures, as a result of Council decisions. Specific examples are the follow up needed to the White Paper on renewables and the Communications on Energy Efficiency and Co-generation of Heat and Electricity.

2.3 The challenge of environmental integration needs to involve more actors than in the past. Regional and Local authorities are key actors which need to be encouraged in developing the local dimension of integrating environment and energy policy. As political authorities and as economic actors and energy users, they can play a leading role in energy management and services. The United Nation's Framework Convention on Climate Change (UNFCCC) recognises the role of these authorities particularly in the field of education and of raising public awareness.

They also play a decisive role, particularly in public transport policy, housing policy and land use planning. The Commission is facilitating the involvement of regional and local authorities in promoting renewable energies and energy efficiency through the establishing of local and regional energy agencies within the SAVE programme. Some 170 agencies have already been promoted in the Community.

II. THE EUROPEAN COMMUNITY HAS AN IMPORTANT COMPLEMENTARY ROLE

2.4 While Member States have the major responsibility for integrating the environment within their energy policy, they have a clear interest in closer co-operation in this field. The Commission is prepared to facilitate this co-operation and to help Member States in achieving this goal in the most cost-effective way, while taking fully into account the other Community objectives such as the internal market and sustainable growth.

2.5. Along these lines, the Commission proposes to continue and strengthen a range of complementary actions, focussing on measures at Community level. They must complement the actions Member States are developing in this field for which they have the major responsibility.

2.6. The specific "environmental" objectives of Community Energy Policy for integrating the environmental dimension are threefold:

- to promote energy efficiency/saving;
- to increase the share of production and use of cleaner energy sources;
- to reduce the environmental impact of the production and use of energy sources.

2.7. To contribute to the achievement of these objectives, action in the following areas is proposed:

A. facilitating co-operation between Member States and relevant parties;
B. promoting specific energy policy actions;
C. ensuring closer co-ordination with other Community policy measures in the field of energy;
D. developing the energy policy response to climate change;

E.developing the external dimension of energy policy;
F. monitoring and indicators.

All Community actions envisaged which have potential consequences for budgetary or human resources are already covered by programmes proposed by the Commission or adopted by the legislative authority.

2.8. The proposed range of actions is clarified in a table in Annex 1 which also indicates who is mainly responsible for taking action and gives an estimated timetable. There are areas for action where the Council and Parliament need to act on proposals before them. The Commission can reinforce current efforts, regularly monitoring progress and proposing new actions as appropriate. Council and Parliament endorsement is needed for certain new initiatives.

Perhaps most importantly, in the context of the follow-up to the Cardiff summit, the Council needs to agree upon a clear strategy with priorities as to how it intends to promote further integration of environmental concerns into energy policy, and needs to establish a mechanism for monitoring progress.

III. STRENGTHENING COMMISSION ACTION

A Facilitating Co-operation between Member States and Relevant Parties

2.9. There is a need for close co-operation between Member States for shared analyses in order to analyse the situation of energy markets and of future developments at both Community and global levels also taking into account environmental objectives. The ETAP Programme in the proposed Energy Framework Programme is designed to foster shared analysis as a basis for a consensus on future policy directions, and for the further integration of environmental and energy objectives. The Commission will support this co-operation between Member States and other relevant parties.

2.10 Member States will need to inform each other within a Community setting if they are to benefit from the synergy and impetus emerging from the Single Market and develop sustainable policies. Such sharing of experience ensures an added value from such common and co-ordinated actions. The Commission will give priority to actions on information, dissemination of best practice and exchange of experience related to energy policy including environmental integration in close co-operation with Member States.

2.11 Greater participation of different levels of public authorities in energy planning is important if we are to move from the "business as usual" attitude. The Commission has promoted decentralised energy management, focussing on the promotion of renewable energy sources and energy efficiency, through supporting the establishment of over 140 local and regional Energy agencies under the SAVE programme, and this network can be used to further environmental integration. Member States need to ensure close co-operation between the national, regional and local authorities if sustainable local development is to be achieved.

2.12 Economic actors have proposed that greater emphasis on negotiated environment agreements is both a flexible and cost effective means of attaining the desired environment objectives. The

Commission will give priority to developing contacts with interested energy sectors, including electricity supply and distribution, coal, gas, oil (including refineries) and renewables in order to adopt environmental agreements at an appropriate level.

2.13 The Commission expects that the recently established Energy Consultative Committee will facilitate co-operation with industry on Community energy matters, including environmental issues. The need for environmental integration will be emphasised to this Committee.

B. Promoting specific energy policy priorities

2.14 The Commission is committed to promoting the penetration of renewable energy sources in the market, as outlined in its recent White Paper on Renewables. A significant increase in the use of renewable energy sources in Europe will make an important contribution in achieving the EC's Kyoto commitment to reduce greenhouse gas emissions, while at the same time contributing to the security of energy supplies and the development of a new high-technology industrial sector. Member States need to develop their own strategies to promote the wide use of renewable energies.

The Commission will continue to support research and demonstration activities for technologies exploiting renewable energy sources and promoting their market development. Several technologies have now been fully demonstrated and need assistance to overcome the initial barriers to mass-market penetration. The "campaign for take-off" outlined in the White Paper on Renewables, aims at assisting and facilitating the access of renewable technologies to the market over the coming years, with the objective of doubling their share by 2010. The full support of Member States and their commitment to action is needed in order to launch the campaign, and find the necessary resources.

While the recent liberalisation directives for electricity and gas include specific provisions on the environment, these are to be completed by a proposal for the promotion of electricity generation from renewables. The Commission intends to present by the end of 1998 a Proposal for a Parliament and Council Directive facilitating the development of renewables within the internal electricity market, as part of its follow-up action to the White Paper.

2.15 Higher energy efficiency provides an economic way of meeting the environmental requirements for reduced emissions of all pollutants, including CO_2. Energy saved can be considered as an additional energy source, increasing security of supply, reducing the need for additional electricity generation and transmission investments, and at the same time contributing to environmental protection. Even though action must be taken mainly by Member States, there is a Community role and added value in Community action, as outlined in the Commission's recent Communication on Energy Efficiency. Although energy saving makes economic sense and cost-effective technologies are available, the Commission considers that its potential is far from fully exploited and a renewed drive for energy saving should be a top priority, especially in the light of the Kyoto commitments. Policies which aim at ensuring that economic agents receive clear price signals regarding their use of energy can contribute to this objective. The Commission will pursue the appropriate follow-up action to the Communication.

2.16 The Commission is working towards greater use of co-generation in the Community and will take the follow-up action necessary, outlined in its strategy in the recent Communication on

Cogeneration. The commitment and co-operation of the industry as well as of the Member States is crucial for the success of this endeavour since cogeneration can make a significant contribution to achieving the Kyoto target by reducing emissions.

C. Ensuring closer co-ordination with other community policy measures in the field of energy

2.17 Research activities in the field of energy and environment will continue to be supported within the Community's 5th Framework Programme for Research, Technology and Development under the thematic programme called "Preserving the Ecosystem". The Commission will ensure close co-ordination between energy and research policies in its implementation.

2.18 Trans-European Energy Networks link gas and electricity systems both within and beyond the Community, reducing the need for new electricity generating capacity and enabling gas to replace less environmentally desirable fuels, with corresponding reductions in emissions. The Commission is assisting the development of the TENs, taking fully into account environmental considerations.

2.19 The Structural Funds and agricultural policy are being reformed in the context of Agenda 2000. The Commission will look to strengthening actions in promoting renewables (e.g. biomass) and energy efficiency, but Member States must also give these actions priority.

D. Developing the energy policy response to climate change

2.20 The Commission, following the 4th Conference of the Parties to the Framework Convention on Climate Change in Buenos Aires in Nov 1998, will update the analysis it offered the Council during its meeting on 11 May 1998. [14]This review will also permit the evolving world economic situation to be taken into account. Such trends may have significance for both managing the external dimension of climate change and for potential of the use of the Kyoto flexibility instruments. In the context of the Commission's overall response to the decisions taken in Buenos Aires, specific proposals will be made in relation to energy policy and the implementation of the Kyoto commitments.

E. Developing the external dimension of energy policy

2.21 Energy and Environment are global issues. In the context of climate change, the necessary reduction of CO_2 and other greenhouse gases can only be achieved in close co-operation with other nations, both industrialised and developing countries. The Commission needs to develop the dialogue with external energy producers ensuring full co-operation in achieving the EC energy objectives. For ACP countries the Commission will continue financing sustainable energy projects under the Environmental Budget Line and the European Development Fund.

2.22 It will be important to strengthen the external dimension of energy policy as it relates to environmental integration, with Central and Eastern Europe and the countries of the NIS and, with the Mediterranean region . Opportunities to promote sustainable energy systems and sources will be actively pursued by the Commission under the TACIS and MEDA programmes.

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[14] Energy Policy Options for responding to the Climate Change Challenge: Towards the definition of a "Post -Kyoto energy policy startegy" SEC(98) 615,27.3.1998

2.23 The consequences of enlargement for energy and the environmental impact of enlargement are strategic questions which the Commission is addressing as a priority in the current accession process. Achieving a sustainable energy policy in an enlarged Community has to be one of the major objectives of the enlargement process.

F. Monitoring and Indicators

2.24 There is a need to monitor progress in environmental integration and suitable indicators must be identified. At present there is a range of energy/environment indicators available. These will be reviewed by the Commission, in cooperation with Member States, to ensure their adequacy as the integration process strengthens. The shared analysis programme will, among other actions, address this need. It is proposed to establish a permanent monitoring system based on all available information. Shared analysis and the official statistics provided by Eurostat will form an important part of this process. Regular reports will be presented in particular to the Energy Council and Parliament and made publicly available. On the occasion of these reports to Council on progress in integrating the environment into other policies, and on the basis of its monitoring, the Commission will identify further areas for priority action.

2.25 The effect of legislative measures on the environment will also be monitored. In this context, the environmental impacts of the Directives on the internal electricity market and the internal gas market will be evaluated over time alongside other effects, as part of the follow-up of the implementation process.

IV. ACTION NEEDED BY COUNCIL AND PARLIAMENT

2.26 The Cardiff European Council placed a particular emphasis on the need for action at Council level by inviting the relevant formations of Council, including Energy Council, to outline their strategies for integrating sustainability and monitoring progress.

It is clearly for the Council and the Parliament as co-decision makers, to establish a clear strategy for environmental integration in energy policy, identify priorities for action, and allocate the necessary budgetary resources to enable the effective implementation of the measures selected.

Given that there are inter-institutional interactions and policy action links, and in order to facilitate the debate, the Commission has outlined below a range of actions it considers important to be pursued in order to promote environmental integration in energy policy and move towards a sustainable energy policy.

A. Support for energy policy actions

2.27 The Council and Parliament are expected to adopt the Commission's proposals for structuring the Community Energy Framework Programme (1998-2002) as soon as possible. This will provide both the policy and analytical basis supporting further environmental integration Energy Policy since it encompasses Community instruments which bear directly and indirectly on the production and use of energy. The Programme's underlying philosophy is that of sustainability,

and it places a particular emphasis on Energy efficiency (SAVE Programme) and the development of renewables (ALTENER).

2.28 The financial support offered by these programmes plays an important catalytic role in promoting renewables and energy efficiency in the Member States. The Council needs to ensure that adequate resources are allocated to these policies since it has declared them important for sustainable development. The Commission has proposed a budgetary allocation of 213 MECU over 5 years. The final amounts decided upon by the budgetary authority will also be an indication of the European Union's level of ambition as regards the proportion of environmentally sustainable energy options.

2.29 The Community legislative framework for energy needs also to be adapted in order to integrate the environmental objectives, especially if specific gaps are identified or if further assessment and experience indicates potential negative effects. Specifically in the context of the gradual opening of the electricity market, particular legislative measures will need to be adopted by Council and Parliament, on the basis of a Commission proposal to be presented in 1998, in order to ensure that the development of renewables-generated electricity is promoted in the new liberalized markets and that no new obstacles are created.

2.30 Legislative measures in the energy field favouring environmental integration must be rapidly processed and adopted by Council and Parliament. Regrettably, decision on the draft Directive promoting Rational Planning Technologies in the electricity and gas sectors (also known as the IRP Directive) has been pending for over 2 years, even though this is a useful tool for promoting energy efficiency, and could contribute to achieving the emissions reductions agreed in Kyoto.

2.31 Further action also needs to be taken to promote the rational use of energy. If the Commission's Communication and its proposals are endorsed, the Commission will propose an Action Plan for the Rational Use of Energy, to be implemented jointly with Member States.

B Ensuring co-ordination with other Community policy measures

2.32 A co-ordinated policy is required to ensure that the various environmental objectives are duly taken into account in the actions developed under the various Community policies in the energy field.[15] This priority is clearly established in the proposed Energy Framework Programme.

In line with the Commission's efforts in this fields, the Council needs to take action to ensure closer co-operation with other policy areas which have a direct impact on energy's capacity to contribute to meeting the environmental objectives. These policy areas include agriculture, transport, industry, regional development, taxation, research and technology, development aid, external relations and the EU enlargement.

2.33 The interaction between agricultural policy and the environmental dimension of energy policy is clear when one looks to the important role, for example, that biomass can play in achieving significant penetration of renewables. Close co-operation between the three policy domains will be required as agenda 2000 is implemented.

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[15] See 1997 Communication on an overall view of energy policy and actions; 1998 Communication on financial actions in the energy field; 1998 decision establishing network of Directors general

2.34 The developing regional dimension and the reform of the Structural Funds will contribute to improving the environmental efficiency of energy. The Commission proposed cleaner energy as one of the priorities for the new structural programme (2000-2006) within the context of Agenda 2000. Member States and Regional and Local authorities will play an important role in promoting Sustainable Development if they make use of this priority.

2.35 The Commission's Proposal for the taxation of energy products[16] offers Member States a number of options enabling them to pursue more ambitious environmental policies. This flexibility is entirely consistent with the environmental objectives agreed by the European Community and the United Nations Framework Convention on climate Change. It provides Member States with a framework for ensuring that tax policies are integrated into overall energy policy and provides a means of internalising external environmental costs. Agreement in Council needs to be reached and would provide an important first step in developing economic and fiscal instruments to meet the EU's challenging environmental commitments.

C. Developing the energy policy response to climate change

2.36 In its debate on 11 May 1998, the Energy Council concluded that energy and environment policies are closely linked. The Council outlined three specific fields of action that could contribute to a sustainable Community energy policy, and called for actions through specific measures. The Council will need to follow up its conclusion when defining its policy response to climate change. It will also need to establish clear strategic objectives backed by appropriate Member State and Community policies and measures, and monitor the progress. In doing so, the role of flexibility in supporting cost-efficiency needs to be defined.

2.37 The Energy Council also asked for close collaboration between energy and environment Ministers in the context of the follow-up negotiations to Kyoto, including progress on outstanding issues such as the operation of flexible mechanisms, for example emissions trading, joint implementation and clean development mechanism, which have a particular relevance for the energy sector. The relevant follow-up is required.

2.38 The Kyoto protocol is only a first step in addressing climate change. The Council will also need to develop responses that will enable the energy sector to contribute to commitments beyond 2012.

D Towards a Strategy for a Sustainable energy policy

2.39 Even though Member States have an important role to play in developing sustainable energy policies, there is a role for the Community in adopting policies and measures adding value to the individual actions of Member States . It is also important for the Council and Parliament to give the right political signals and to also provide a framework for action. In this context, A specific strategy needs to be developed, as called for by the Cardiff European Summit, with clear objectives and priorities, and a timetable for action.

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[16] Proposal for a Council Directive Restructuring the Community Framework for the Taxation of Energy Products COM(97)30 final, 12.3.1997

In addition, endorsement or approval as appropriate, of actions proposed by the Commission will ensure the continuity of on-going activity.

2.40 As recognised by the Cardiff Summit, monitoring is an indispensable element of environmental integration, and will be greatly facilitated by the further development of appropriate indicators. Adoption of a clear working programme towards this end, with precise objectives and targeted activity, will facilitate the process.

In addition to indicators, the establishment of appropriate mechanisms for monitoring is important, and the Cardiff Summit's invitation to the Council needs to be followed up.

THE WAY FORWARD

1. The environmental challenges of the 21st century and the need to fulfil the Kyoto commitments on emissions reduction make it imperative for the European Union to develop and implement a sustainable energy policy. "Business as usual" is no longer an option.

2. This Communication looks to reinforcing greater integration of environmental objectives within Community energy policy and proposes a range of actions to this end. It is also intended to facilitate the Energy Council's discussions in response to the European Council's June invitation to all relevant formations of the Council to establish their own strategies for giving effect to environmental integration and sustainable development. The Vienna European Council will take stock of progress.

3. The Commission is committed to integrating the environmental dimensions in energy policy and to taking action promoting environmentally sustainable energy measures It undertakes to strengthen its own contribution and invites the Council and Parliament to endorse or adopt a number of key proposals in the energy field.

4. As Member States have the primary responsibility for energy policy, they need to act to integrate the environmental dimension into their energy policy including at local and regional level. Co-operation between Member States at Community level will enhance the effectiveness of policy actions.

5. The Community has a complementary role in facilitating co-operation between Member States and in ensuring coherent and cost effective action at Community level. When integrating the environmental dimension into energy policy, a balanced and flexible approach is necessary, making the link between environmental considerations and their economic and social effects. It is particularly important to take into account the other energy policy priority objectives of security of supply and competitiveness in promoting sustainability.

6. The Council and Parliament are invited to support the integration of environmental concerns into energy policy also by decisions affecting energy taken in the framework of other policies. In this context, particular attention needs to be given to the general objective of internalisation of external cost, and the role to be played by fiscal measures.

7. Following the 4th Conference of the Parties of the Framework Convention on Climate Change in Buenos Aires, the Commission will respond to the decisions taken. It is however urgent and important for the Energy Council to decide on the policies and measures it believes are needed in the energy field to face the Kyoto challenge effectively.

8. The Commission will do its utmost to strengthen integration and to facilitate Member State co-operation, in particular through closer monitoring on the basis of indicators. It will regularly report to the Council, European Parliament and other bodies on further steps towards the integration of the environmental dimension into energy policy, contributing to the overall objective of sustainable development. The Commission looks to the Council and Parliament for support in these endeavours.

9. The Council is invited to establish its own strategy for sustainable energy policy and in turn invite Member States to put in place their strategies for integrating the environment into their energy policies.

10. The Council is invited to establish a Work Programme for the further development of indicators and the establishment of monitoring mechanisms for environmental integration.

Annex I
Indicative Table of Actions to Strengthen Environmental Integration within Energy Policy

definition of action	*Current status and timing*	*action by*
A. facilitating co-operation between Member States and relevant parties		
Shared analyses supports energy objectives, focusing on defining an appropriate post-Kyoto response strategy	Ongoing	Member States and Commission
Major Energy Review of the challenges of energy markets to 2020, drawing on the analytical work of shared analyses	Final preparation following Buenos Aires Conference (COP4); report end '99	Commission
Energy Consultative Committee assisting the Commission in developing energy policy	Established in July '98; October meeting addresses energy and environment integration and climate change	Commission
Dialogue with industry and voluntary agreements	Work underway; review summer '99	Commission
Dialogue with electricity supply industry, gas supply industry and oil industry(including refineries) for sustainability actions	Work underway; review summer '99	Commission
Expansion of the SAVE regional and local energy management agencies and the scope of their actions	Expansion of the number of agencies; call for tender in spring '99 to further expand the network	Member States and Commission
B. strengthening specific energy policy actions		
Energy Framework Programme seeks to create a coherent and effective environment for all major energy programmes, and includes shared actions towards sustainable development	Under discussion in Community institutions; proposal made by the Commission, negotiations on formal adoption during autumn '98	Parliament, Council and Commission
Energy efficiency: *- SAVE II Programme* - pilot actions and studies - legislative programme, including: Directives on minimum efficiency standards, negotiated agreements and labelling programmes - Other SAVE actions (CHP, third party financing technology procurement programme, buildings) *- strategy and action plan* *- Integrated rational planning techniques directive*	– Work underway – Work underway; Action Plan foreseen for '99 – Discussion on amended proposal	Member States, Council and Commission Council
Renewables: – ALTENER II programme (pilot and targeted actions and studies) – Renewables strategy: implementation of the action plan, including campaign for take-off	– Project selection underway; award of contracts by the end of '98 – Work underway; results from '99 on	Member States and Commission
Solid fuels: Carnot –programme of cleaner solid fuel technologies	Project preparation and start-up; to be launched in '98	Commission
Oil: *cleaner fuel specifications (Auto-Oil programme)* *Air quality improvements* *Decommissioning of oil and gas platforms*	– Auto-Oil I conciliation completed; Auto-Oil II revised programme ready in '99 – Common position on directive covering NO_x, SO_2, particulate matter and lead; final adoption in the 1st quarter '99 – A decision for the Community within OSPAR negotiated; extension to Member States outside the convention under consideration	Parliament, Council and Commission

definition of action	*Current status and timing*	*action by*
Large combustion plant directive	Proposal amending the 1988 directive adopted in July 1998	Parliament, Council and Commission
Implementation of electricity and gas directives: contributing to more open markets and opening up a potential for production with less environmental impact Monitoring of impact including environmental effects	Directive adopted by the Community; Member States must adapt their legislation by early '99 and mid-2000 Follow up of implementation and monitoring on going.	Member States, Commission
Directive on common rules for renewable electricity	Proposal underway; proposal ready by the end of '98	Parliament, Council and Commission
Trans-European Network actions strengthen energy connections	Identification and promotion of projects; updating by end '98	Council and Commission
C. ensuring closer co-ordination with other Community policy measures in the field of energy		
Fifth Framework Programme of the European Community for research, technological development and demonstration activities	– Adoption of the FP and specific programmes; last quarter of '98 – Elaboration of work programme; last quarter of '98 – Implementation of the 5th FP; '99	Parliament, Council and Commission
Agriculture: - report on "Non-food and renewable energies" - reform of agricultural policy – Agenda 2000	Under discussion; by the end of '98 Proposals under debate	Commission Parliament and Council
Structural Funds	Reform proposals under debate	Parliament and Council
Energy taxation directive proposing an extension of the tax system to all heating and motor fuels	Under discussion in Community institutions	Parliament and Council
Transport – Integration	Under discussion	Council
Industry – Integration	Document under preparation – Ready mid '99	Commission
D. developing the energy policy response to climate change		
Definition of a post-Kyoto energy strategy	Ongoing; Communication in '99	Commission
The main focus of *non-CO2 actions* is on methane; gas leakage, waste combustion and methane recovery	Action under consideration and preparation (strategy adopted in '96)	Commission
E. developing the external dimension of energy policy		
Energy co-operation with accession countries: consequences for energy trends and the environmental impact of enlargement	Work underway; interim report summer '99	Commission
Energy co-operation with third countries facilitate sharing views and provides support for sustainable energy projects (Synergy)	To be developed with appropriate DGs	Commission
Energy cooperation with ACP countries - Strategy for cooperation - Sustainable Energy projects	 Under preparaton Financed by the European Development Fund and the Environment budget line	Parliament, Council and Commission
Opening of SAVE II and ALTENER II to Associated non-member countries	SAVE opened '98; ALTENER to open '99	Parliament, Council and Commission
F. monitoring and indicators		
Monitoring energy trends in co-operation with Member States	– Energy economists' expert group, – Emission monitoring mechanism	Member States and Commission
Publication of Annual Energy Review, reporting energy market trends and leading indicators	Annual publication; report each autumn	Commission
Preparation of energy sustainability indicators with Eurostat and EPA	Planning underway; spring '99	Commission

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