

'CLIMATE-ENERGY-INDUSTRY' WORKING GROUP

2nd Meeting
29 January 2014

Summary

The second meeting of *Friends of Europe's* Climate-Energy-Industry Working Group, held one week after the European Commission published its proposals for a 2030 climate and energy package, focused on energy prices and economic competitiveness.

EU energy/climate package

A brief presentation from the Commission on the package, which was accompanied by a thorough impact assessment, highlighted that the background in which it was released (ongoing climate negotiations, EU-US gas and electricity prices gap and two parallel concerns: sustainability and competitiveness), was different to when the Commission published its 2020 proposals in 2007.

The presentation underlined the increased focus on flexibility for member states in deciding how to meet the targets of at least 27% for renewable energy in the EU by 2030 and a reduction in GHG emissions of 40% compared to 1990 levels. National energy plans should help member states to achieve their targets at the lowest possible cost. Hand in hand with this flexibility is a new governance structure to help member states meet their targets.

The importance of indicators that will be monitored systematically in order to assess progress towards all aspects of 2030 objectives was also stressed. They will shed light on the price differential between the EU and the US, the diversification of resources and supplies, deployment of grids and interconnections, competition, technological innovation, etc., and will support future policy intervention and priority areas for research and innovation.

To meet the GHG emissions reduction target, it is estimated that the ETS will need to encourage an annual linear reduction of carbon emissions by 2.2%, up from 1.74% today. In addition to the temporary measure of backloading, which still needs to be implemented, the Commission has made a legal proposal to put in place a market stability reserve (applying to phase IV) to make the market more robust. The unchanged system of free allocation of allowances will continue until 2020 as a measure to help prevent carbon leakage. Yet, as of 2020 there might be a reform to the 'carbon leakage' list, which is considered as a reason of concern for some industrial sectors.

There was praise for the Commission's attempts to combine the sustainability and competitiveness concerns, for giving more flexibility to member states, and for giving clear signals to the investment community, whose investments are estimated at around

€200 billion per year. However, the lack of an energy efficiency target and of a greater importance given to innovation were criticised by some members, especially in a context of a broader international perspective, with Europe's main international competitors such as the U.S. putting greater emphasis on energy efficiency, innovation and a balanced energy mix. Moreover, it was suggested that the EU-level target for renewables might negatively affect the further support and investment in low-carbon technologies at the national level. On the other hand, some members considered the 27% target as superfluous as it threatens to undermine the ETS and to distort the internal energy market. Finally, it was pointed out that the 40% target can only be realistic if there is a universally binding climate deal, with a similar level of shared efforts.

Energy prices

The main message of the European Commission's report on energy prices and costs in Europe was that the wholesale energy prices for electricity and for gas have been relatively stable in the last 8-10 years, comparable to those in the US. The price differentials with other markets are mainly the result of the rise in retail prices, driven mainly by the taxes and levies component which includes support for renewable energy. There are also considerable disparities among member states.

It was pointed out that gas prices have diverged, due to the shale gas revolution, and not oil prices: the average oil price over the past decade was of \$50 per barrel and has been above \$100 for the last three years in all parts of the world. The IEA expects the gas price differentials to continue, but there is no indication that it is going to widen, as the current prices in the US are not sustainable. A shale gas revolution occurring elsewhere is uncertain and is unlikely to occur with the same low prices.

In response to comments that an increase in carbon prices would have serious consequences for industry, it was indicated that the carbon price – currently at around €5 per tonne – accounts for 3% of electricity prices. If the price were to rise to €20, the share would only rise to 4%, so it would not have a serious impact on energy price differentials. However, the industrial sectors that are operating on small margins pointed out that even a small difference counts.

The renewables subsidies were criticised as inefficient and responsible for high energy bills. However, it was pointed out that the Commission's analysis on the cost of renewables is "already out of date" because it uses two-year-old figures and the cost of some of the renewable energy technologies is falling extremely quickly.

Who pays?

The question of "who should pay" for the energy transition, in order to reduce the negative impact on EU industrial competitiveness and the risk of intra-EU distortions, gained particular attention.

Some industry representatives were adamant that they should not have to bear the extra costs of higher energy prices, the costs of higher prices should be shared by society. One member said that it was impossible for his sector to reduce emissions beyond the 2020 targets and therefore the sector must be 100% compensated for electricity price rises, otherwise the companies will massively relocate – it was stressed that the industry is mobile unlike the consumers.

In some markets, industry gets off lightly compared to consumers – in Germany, heavy industry pays just €0.05 per kWh while consumers pay €0.28 per kWh. This is a model that many industry figures would like to see adopted elsewhere in order to avoid distortions between EU member states and between Europe and the rest of the world, although it was said that this could not be politically feasible.

However, research on the environmental tax reform suggests that exemptions for industry tend to be more generous than needed and can limit the positive impact of energy and carbon taxes, meaning that the design of any tax and compensation scheme is fundamentally important. Moreover, such practices may benefit certain companies, sectors and countries, but be harmful to other.

The difference between high prices and high costs also links back to the importance of energy efficiency as a “silver bullet” to reduce energy costs. Bottom-up drive of energy efficiency to help consumers and incentives for industry to become more energy efficient are needed.

Finally, one way to ease the burden on industry, and to a certain extent on consumers’ energy bills, is to shift the burden on to the general taxation system, which would enable the system to make allowances for poor people and struggling companies. There is also great potential in monetary mechanisms such as green bonds, a tool already used in the United States and that could be issued by the European Central Bank. It could have a vital role because renewable energy technologies tend to demand lots of upfront capital, while operating expenditures are minimal.

Winners and Losers

It was pointed out that there will be winners as well as losers from the EU’s policies, the winners being not only clean technology companies, but also any industrial groups, including those energy-intensive, that improve their energy efficiency and boost innovation via breakthrough technologies.

It is therefore important for the EU to preserve its leadership in the low-carbon and energy efficient technologies, but there “is a danger of the Commission being lobbied to death by special interests who want to safeguard their position”. That is why a wider interpretation of competitiveness is key, as there is a difference between the competitiveness issues for individual industries and for the economy as a whole. An example is the recent DG ECFIN study that shows that renewables in 2010 led to €10 billion savings benefiting economic competitiveness.

One member, citing OECD research, pointed out the need to look at competitiveness on three levels: firm, sector and national. At the firm level, competitiveness should be seen as “being able to produce products or provide services that are either cheaper or better in terms of quality than those of other firms”, measured in sales within global markets and trade. A product can be more expensive and still be competitive; it is therefore important to differentiate between competitiveness and profitability, and note that while carbon-energy taxes affect profitability, they might not have any effect on competitiveness. At the sector level, competitiveness, which is driven by skills and capital investment, translates into maintaining or expanding market share at either the national or international level. Competitiveness at the national level, linked to the balance of payment and people’s income, can be seen “as the equivalent to the ability to

produce goods and services in internationally competitive markets and have a sustainable rise in standards of living and low levels of involuntary employment”.

There are ways to mitigate the impact of climate and energy policies on energy-intensive industries, including compensation for rises in electricity prices and free ETS allowances for the best performers. There is a good potential in synergies of at least €70 billion from better-co-ordinated national energy policies. Another approach could be to explore global agreements for specific high-emitting sectors such as cement and steel, and the current EU-US trade agreement negotiations.

Climate Concerns

It is important to retain the longer-term perspective on why the EU is acting to cut its emissions – the threat of climate change, which often gets forgotten in the arguments over who pays for what. The extent to which tackling climate change can be a trade-off for protecting European industry was questioned. “The dialogue over the last few years has been about the impact of climate protection on industry. But we need to understand the difference between the needs of particular industries and the needs of the economy as a whole,” it was suggested.

It was pointed out that, according to the IPCC report, if the world is to limit temperature rises to less than 2°C, global net emissions need to fall to zero well before the end of the century. In terms of tackling climate change “the house is on fire, so what is needed is fire-fighting. These discussions on who pays the bill are very interesting but while that discussion takes place, the fire is developing.” The costs of actions to tackle climate change have to be balanced against the costs of not acting, as the effects of recent floods show, i.e. a potential flood of the river Meuse in Wallonia would cost €2 billion. These costs are borne by everyone, including business.

The meeting closed with a suggestion that participants come up with a brief diagnosis of main challenges their sectors are facing, 2-3 indicators that should be monitored, along with 2-3 solutions for Europe to go forward, to be submitted by 17 February. The next meeting was scheduled for 26 March.

ANNEX 1: AGENDA

12.00 - 12.20 Registration of participants and lunch

12.20 - 14.20 Welcome by **Giles Merritt**, Secretary General of *Friends of Europe*

Debate on European economic competitiveness, co-moderated by **Giles Merritt**, Secretary General of *Friends of Europe*, and **Mark Lewis**, Independent Energy Analyst

PART I:
(20 min)

IMPLICATIONS OF THE NEW ENERGY/CLIMATE PACKAGE

Short presentation by **Mechthild Wörsdörfer**, Director for Energy Policy at the European Commission Directorate General for Energy
Reactions by **Laura Cozzi**, Deputy Head of the Global Energy Economics Directorate at the International Energy Agency (IEA), **Mogens Peter Carl**, Chair of the Working Group, and other group members

How well does the new energy/climate package of proposals address climate, energy and competitiveness concerns? What does it mean for national energy strategies and, in particular, country-based support for renewables? What conclusions should we draw from the Commission's report on energy prices and costs in Europe?

PART II:
(90 min)

NEXT STEPS: IDENTIFYING SOLUTIONS

1. Reducing the negative impact of national energy decisions on energy costs
The gap in energy prices between Europe and its international competitors is widening due to a combination of external factors and policies, and a rise in energy prices in Europe driven mainly by taxes/levies and network costs. How can we cut energy costs and reduce the negative impact of some national policies and strategies on energy prices? Who should bear the financial burden of the energy transition? Should we change our taxation and state aid policy?
2. Mitigating international competitiveness distortions
How can Europe avoid carbon leakage and maintain domestic production in energy-intensive goods if the energy price differentials persist in the future? To what extent can we overcome competitiveness and price distortions via trade and climate negotiations? What is Europe's comparative advantage and how can we utilise our strengths to remain an economic leader?
3. Helping vulnerable industries adapt to the low-carbon future
Who are the national, sectorial and corporate winners and losers of the energy transition and in which category do energy-intensive industries fit? How can we compensate vulnerable industries and help them adapt to the low-carbon future and take advantage of new opportunities the transition offers?

14.20 – 14.30 Wrap up and next steps

14.30 End of the meeting

ANNEX 2: LIST OF PARTICIPANTS

<i>Name/Position</i>	<i>Company/Organisation</i>
Juan Alario Associate Director and Head of the Division Energy Efficiency & Renewables	European Investment Bank (EIB)
Jason Anderson Head of EU Climate & Energy Policy	World Wide Fund for Nature (WWF) European Policy Office
Chris Beddoes Director General	EUROPIA: Representing the European Petroleum Industry
Krzysztof Bolesta Principal Advisor on Energy to the Minister of Environment	Ministry of the Environment, Poland
David Buchan Senior Research Fellow	Oxford Institute for Energy Studies
Mogens Peter Carl former Director General	European Commission: Directorate General for the Environment
Maria Da Graça Carvalho Member	European Parliament Committee on Industry, Research and Energy I
Arnaud Chaperon Senior Vice President New Energies Division	Total
Laura Cozzi Deputy Head, Directorate of Global Energy Economics	International Energy Agency (IEA)
Chris Davies Member	European Parliament Committee on the Environment, Public Health and Food Safety
Fernand Felzinger President	International Federation of Industrial Energy Consumers (IFIIEC) Europe
Monica Frassoni President	European Alliance to Save Energy (EUASE)
Nathalie Furrer Director	Friends of Europe Les Amis de l'Europe
William Garcia Executive Director Energy HSE & Logistics	European Chemical Industry Council (CEFIC)
Thérèse Jérôme Senior Adviser European Affairs	GDF Suez
Michel Matheu Director of the EU Affairs	Electricité de France (EDF)
Giles Merritt Secretary General	Friends of Europe Les Amis de l'Europe

Russel Mills

Head of Brussels Office and Global Director
Energy & Climate Change Policy

Dow

Gordon Moffat

Director General

European Confederation of Iron and Steel
Industries (EUROFER)

Arne Mogren

Programme Director, Power

European Climate Foundation

Andrzej Rudka

Adviser to the Deputy Director General

European Commission:
Directorate General for Enterprise and Industry

Mike Scott

Strategic Adviser, Greening Europe Programme

Friends of Europe
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Yvon Slingenberg

Head of Unit, Implementation of ETS

European Commission:
Directorate General for Climate Action

Patrick Ten Brink

Senior Fellow and Head of Office

Institute for European Environmental Policy
(IEEP)
Brussels Office

Jean-Pascal van Ypersele de Strihou

Vice Chair

Intergovernmental Panel on Climate Change
(IPCC)

Mechtild Wörsdörfer

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European Commission
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