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EUROALLIAGES' RESPONSE TO THE GREEN PAPER "A 2030 FRAMEWORK FOR CLIMATE AND ENERGY POLICIES"

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On 27th March 2013, the European Commission took the first step towards developing a 2030 framework for EU climate change and energy policies by adopting a Green Paper which launches a public consultation on the content of the 2030 framework. The Green Paper raises a set of important questions on which EuroAlliages welcomes the opportunity to give its views.

EuroAlliages represents about 95% of the ferro-alloys and silicon sector in the EEA. Its members provide major industries with essential base materials: they supply the iron and steel industries, while representing the most efficient and economical way of introducing alloying elements into iron and steel melts in order to produce the required steel grades. It also provides to the electronic, chemical and solar industries with essential base materials for their products. All processes are energy-intensive.

EuroAlliages would like to underline the following priorities:

- **Reinforcing the competitiveness of European industry and increasing the share of industry in the European GDP** is of paramount importance. Therefore EU climate and energy policies must be linked with EU industrial policy and contribute to the "Industrial Renaissance" initiative[1];
- **Establishing predictable and effective framework conditions promoting industrial investments with access to globally competitive energy prices** should be the main focus of the current reform;
- The EU will only represent 5 to 6% of global GHG emissions in the next decade. Therefore, before increasing the EU reduction target in an ambitious way, the main climate action goal should be to **reach an international agreement involving the main emitters**. This global climate agreement must include a global level playing field for climate costs;
- The **reduction of global GHG emissions** should remain the core sustainability target;
- **Energy efficiency** must be promoted and supported after a thorough assessment of the potential of improvement;
- The **EU ETS** should remain the backbone of EU climate policy but must be reformed to make it carbon leakage proof;
- **Allocation for both direct and indirect emissions** should be integrated in the EU ETS **based on actual industrial output**;
- All carbon leakage mitigation measures should remain in place **until a global level playing field, based on equivalent commitments, is achieved**;
- In absence of a **global climate agreement**, the costs for RES, CCS and the EU ETS will be too high for the European ferro-alloys and silicon sector to be competitive on the global market and Europe risks importing more and more products manufactured outside Europe with higher carbon emissions;
- The new long-term climate policy should be revised periodically through well-defined procedures and equipped with a governance system for major revisions. ***Ad hoc*** **interventions should be avoided**;
- In particular, the ambitions for 2030 – including the EU ETS cap – should be revisited if a new **global climate agreement** is not effective by or shortly after 2020;
- The same monitoring process should apply to **energy prices** in order to enable the European energy intensive industries, such as the ferro-alloys and silicon sector, to remain competitive and to react more quickly to structural changes. To be effective, the measures must address the total energy cost structure, including transport and taxes;
- State Aid policies should institute the **reinstatement of EU's industry global competitiveness** as an "objective of common interest";
- **Avoiding overburdening the European industry with globally unbalanced carbon and energy costs** is key to enable the European manufacturing industry to grow and increase its share in EU GDP, which is vital to create jobs and welfare in Europe;
- All policies and measures should be implemented in a **cost-effective** manner.

[1] *As per* the Commission Communication of 10th October 2012.

4.1. General

• *Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?*

First of all, the **EU needs to reflect on its position in the world and should not move alone** in climate and energy policies if no other economical blocks take action into the same direction. The contrary would make neither economic nor environmental sense, especially if the EU only represents 5-6 % of GHG emissions worldwide by 2020[2].

EU's 2020 GHG emission reduction target was linked to the Kyoto Protocol. The discussions on the 2030 target must **take into account the current international framework**. The EU does not need to move alone in the absence of a global level playing field. On the contrary, doing so would further undermine the survival of industries such as the ferro-alloys and silicon sector in Europe.

In this context, EuroAlliages suggests the **introduction of a relative cap to industrial output for EU's GHG emission reduction**, and this until a true global level playing field is reached.

Europe needs to rethink its policy by **bringing into balance climate, energy and competitiveness**. The long-term competitiveness of European industry needs to be addressed at EU level. To this purpose, the EU needs to elaborate a real industrial policy, which would become the centre of all other policy areas. Such a policy structure would **make investments in Europe attractive** by incentivizing growth.

Moreover, it is necessary to **unite European industries** instead of dividing artificially industry into "grey" vs. "green". All industries must be seen as pursuing the same goals, and namely the creation of value, growth and jobs while moving to more sustainable production. The fact is that it is the **existence of complete value chains in Europe** which enable the European industry to create low carbon technologies and to move towards decarbonisation. These value chains must not be lost.

The EU should **promote Europe as the best place to invest into a greener future**, because the most environmentally-friendly action to take today is to invest and produce in Europe.

4.2. Targets

• *Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?*

The **GHG emission reduction target** must be at the centre of EU climate policy. However, until a global climate agreement installing a true level playing field based on equivalent commitments is implemented, the target for the EU must be **only relative**.

The system of cap and trade makes sense on a global basis since it is intended to limit climate change. However, if limited to Europe only, which emits less than 10% of total GHG, it should be replaced by a system targeting energy efficiency, hence EuroAlliages' proposal to take production level into account for allocations (please see below as well as EuroAlliages' contribution to the public consultation on the Carbon Market Report). This would be more "trade neutral" until a global carbon market is created.

EuroAlliages supports the **EU ETS as the backbone** of European climate policy. However, this instrument needs to be **structurally improved**. It must be made **truly carbon leakage-proof** and must incentivise growth instead of hindering it. To this purpose, it must be **based on actual industrial output** rather than on historical emissions.

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The targets should take into account the **limits of Best Available Technologies**.

In order to ensure that the whole society takes part in the achievement of EU's climate target, **all sectors must be included**.

Any other target should be sub-ordinated to the GHG emission reduction target and the only instrument applicable to industry should be a robust (carbon leakage proof) ETS. **Added value** must be the centre of all policy decisions, thereby ensuring the preservation of the European energy intensive industries, including the European ferro-alloys and silicon sector.

• *Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?*

The **impact** of the current climate and energy policy **on electricity markets has not been foreseen**. RES policies have proven to be contradictory to the internal market objective by splitting up markets, price diversity and stability, as well as Member State policy.

The EU needs **scenario-proof** policies. To this purpose, more flexible approaches and methodologies must be put in place. EuroAlliages has especially been promoting an approach to calculate the allocation of GHG emission allowances under the EU ETS based on actual production, which would allow the system to follow effectively the economic context and which would incentivise growth and environmental improvement instead of production decreases.

Increased flexibility is needed as the world changes constantly. Therefore **the targets should be relative to industrial output** and not absolute, at least until the appearance of truly binding global targets.

The current 2020 framework consists of different targets within a general climate change policy piled up to an **untuned mix of instruments**, being counter-productive to each other. The future decisions must be based on **prioritised goals**. In the view of EuroAlliages, **the "industrial renaissance" of Europe**, as described in the Commission Communication of 10th October 2012, must be at the top of these priorities.

One example of an inconsistency in the current framework is the fact that there are contradictions between the GHG emission reduction target and the energy efficiency target. Some plants are currently willing to invest in energy recovery but cannot do so because the financial balance of their operation and the projects is depressed due to the counter-effective incentives provided by Guidance n° 8 to the EU ETS .The existing rules are **overly complicated** and **too much bureaucracy** is hampering the achievement of the policy goals.

• *Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?*

EuroAlliages favours **legally binding effort sharing with other sectors**. The whole society must take part in the achievement of commonly agreed policy goals.

Respective targets for each sector of the economy should take into account the potential of the applicable BATs, which will require a qualified assessment.

• *How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?*

In general targets should be **technology neutral**, allowing for market-driven technology growth. A strong focus on the (paramount) GHG emission reduction target and on improving the incentives

in the ETS system (by allocation free allowances based on actual production, for instance) would improve climate policy effectiveness.

• *How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?*

A market for demand flexibility is an option which provides security of supply by allowing the industrial plants to take part in the energy supply market. EuroAlliages supports such a solution and encourages the relevant authorities to put in place the conditions necessary to its realisation.

The increasing share of renewable generation has sharply increased the uncertainties in the supply. **Sufficient generation capacity** must be available to meet the current demand in any location at any time. Even in periods in which power supply is covered by renewables, a sufficient back-up capacity must be available. For this reason, generators of renewable electricity need to be responsible for imbalances caused by inability to deliver according to their commitments in the day-ahead and intra-day markets.

The **expansion of renewable energy** has in some parts of Europe reduced the quality of power supply to an unacceptable level. The security margin vis-à-vis black-outs as well as variations in frequency and voltage indicate a reduction in reliability. Indications are that the present development programs are inadequate and that these challenges will become more serious and spread to larger areas.

4.3. Instruments

• *Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?*

In general, **double regulation**, with more than one instrument targeting the same economic units for the same objective, **must be avoided** (e.g. ETS sectors should not be exposed to binding energy efficiency targets and instruments).

Long-term predictability (10-15 years) of any instrument is paramount in order for industry to be able to make investment decisions in Europe. For international companies, perceived unpredictability in the policy environment hinders decisions being made in favour of European locations, thus creating carbon leakage.

The EU ETS requires a comprehensive structural reform package to improve global competitiveness and thus to **avoid carbon leakage**. The GHG emission reduction target and the EU ETS should be the only targets/instruments facing industry and the EU ETS must be made carbon leakage proof by preventing for instance cost pass-through of RES.

Any revision of the **Energy Taxation Directive** must ensure that the global competitiveness is kept in mind by allowing that energy tax levels are lowered in the context of e.g. local voluntary agreements, that double taxation for the sectors covered by the EU ETS is avoided, and that effective carbon leakage measures (as should be put in place for EU ETS) are applied for CO_2 taxation regimes.

• *How should specific measures at the EU and national level best be defined to mobilize cost-efficiency of meeting climate and energy objectives?*

At each level, it is important to choose **the most cost-efficient solutions** to achieve the challenging targets set at EU level. Whereas we see more and more a **trend to simply adding**

measures and rules and requirements at each level (EU, Member State, local and regional levels), there is a clear need for a **real industrial policy as a global framework**, under which the consistency of policies and measures would be ensured.

Such additions of new goals, however, do not bring any further advantages and **only add costs** and often trouble incentives set by double regulations. The EU's role here should be primarily in identifying, communicating and incentivising best practice solutions.

• *How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilize investment?*

The acceleration of market integration is necessary for several purposes, such as internal competition, security of supply and reducing the overall cost of adapting the EU energy system to the new generation mix. More specifically, EuroAlliages insists on:

- Giving the investors the necessary assurance about **a stable regulatory framework**;
- **Developing a long-term market based on transparent pricing mechanisms**: energy intensive industries do need long term contracts and power price visibility;
- **Adjusting the growth speed of intermittent RES** to what TSOs can manage without putting system stability at risk and implementing best practices in renewable energy support schemes in order to optimise costs and incentivize adequate market response;
- **Using capacity mechanisms only as a last resort solution** and only after promoting other measures such as voluntary demand response. The energy intensive industries can contribute in a cost- and climate-efficient way to reducing investment needs in additional generation and transport capacities, provided that the conditions are designed adequately;
- Implementing measures to **create a global level playing field** with the following priorities:
  - Actively **fighting against carbon leakage**, a.o. by restoring trust for industrial growth in Europe;
  - Limiting the **cost impact of RES support schemes** faced by industry at a level which does not jeopardize industrial competitiveness;
  - Putting in place a **State Aid policy** that focuses on international competitiveness of the EU economy rather than only on distortions between Member States.

• *Which measures could be envisaged to make further energy savings most cost-effectively?*

Energy efficiency, where its implementation is technically and economically possible, is an instrument which could be used by EU industry. The European industry's track record in this respect is impressively successful. The European ferro-alloys and silicon industry today is operating at a **high energy efficiency level**. A natural incentive for this is the fact that this sector is energy-intensive.

In general, it is crucial to **assess the cost-efficiency** of any measure on the path to achieving EU climate and energy policy targets. In the ferro-alloys and silicon sector, the cost-efficiency balance of energy saving measures is positive provided that investment capacity is available.

However, **financing remains the main hurdle** in the energy efficiency field. There is a need to put in place and promote measures allowing the economic viability of energy efficiency projects at industrial plant. State Aid measures are one solution, but given the current inability of Member States to ensure budget lines for such issues, other alternative financing means must be ensured. The funding of energy savings must be on par with funding for RES, measures in aid/kWh.

• *How can EU research and innovation policies best support the achievement of the 2030 framework?*

Strengthening the support to energy efficiency is the path of success for EU economic, energy and climate change policy. However, the R&D&I policies must **cover until the demonstration and market roll-out phases**. When a technology is mature, investments in production capacities in Europe are key.

4.4. Competitiveness and security of supply

• *Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?*

A **growth-proof ETS**, based on **actual industrial output** should be installed **with full allocation of direct and indirect emissions**, at least until a **globally equal carbon price burden** for competing regions can be ensured.

• *What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?*

All current analyses can only be based on past evaluations, as the first EU-wide (obligatory) emissions trading system only started in 2013. In the previous trading systems all allowances were given for free and distributed nationally. Consequently, evidence of direct carbon leakage is very hard to identify and define.

On the other hand, due to the very unpredictable policy framework for the period 2013-2020 and the negative effects of the economic crisis, the last big investments in industry date back to 10-15 years, and investment leakage became a reality in the EU, combined with closures of plants in the EU. **Leakage already starts when investments in Europe are stopped** and not only when the industry is leaving Europe.

Carbon leakage is dependent on the **carbon price** but also on uncertainties regarding future prices. The attempt to increase the carbon price with different measures foreseen (back-loading, etc.), **will** mean that companies must factor in higher carbon prices in any investment decisions, thus making it less and less likely that investment decisions will favour European locations, with carbon leakage becoming more and more a reality.

In this respect, **safeguarding carbon leakage mechanisms should remain in place also towards 2030**, where additional elements, such as overall global competitiveness indicators, could be introduced.

• *What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?*

The main driver for high energy costs in Europe is **the current policy setting, global fuel prices, the ETS and RES policies, national taxes and the development of electricity grids and interconnectors**. For the European ferro-alloys and silicon sector, energy costs represent on average around 35% of total operating costs.

Subsidies for RES must be phased out as technologies become mature to limit the rise in electricity prices.

• *How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?*

We need to have **targets and instruments which are flexible enough to react immediately** to changes happening not only in Europe but also elsewhere in the world.

Commitments made by other nations should have no influence on carbon leakage mitigation unless the net costs of a critical mass of industry competing with European industry are influenced.

Regional cap-and-trade systems worldwide have **better compensation systems** for industrial cost than EU ETS, e.g. the Australian ETS includes an indirect allocation of 1.0 ton CO_2/MWh, based on actual production thus preventing under- and over-allocation.

At some point in time, **international, multilateral negotiations** (similar to UNCTAD rounds, etc.) will be necessary to reduce support reciprocally.

• *How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?*

Interventions in the EU ETS market undermine certainty for business and must therefore not take place.

New policies have to be linked with **equal commitments from other global competitors** to provide equivalent conditions for companies competing globally. In the meantime, energy-intensive trade exposed industry in Europe should be shielded from the impact of EU policies on their competitiveness.

• *How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?*

EU manufacturing industries are delivering if they have **predictable and stable conditions**.

The **EU ETS revenues** should not be used to finance general State budget expenses but should be dedicated to mitigation and, where necessary, to adaptation to climate change.

Basing the allocation of allowances on **actual industrial output** encourages innovation.

• *How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?*

No answer.

• *How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?*

In the short term, the fast implementation of the 3rd Energy Package is needed. The target of implementation by 2014 should not be postponed.

Also, RES support schemes must be made much more cost-effective and RES should be integrated in the market as much as possible.

4.5. Capacity and distributional aspects

• *How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?*

Member States may have **different potentials to improve**. This is already well taken into account in the EU ETS framework. The differentiation of burden must be pursued.

• *What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?*

In climate policy, the main instrument to promote co-operation and effort sharing is **the EU ETS**, a genuinely trans-national instrument, provided that the present problems linked to carbon leakage and lack of proper flexibility and governance are solved.

Allocation for direct and indirect emission cost should be integrated to the EU ETS.

• *Are new financing instruments or arrangements required to support the new 2030 framework?*

The compensation for the indirect costs under the EU ETS, State aid policies and long-term energy contracts must be included in the future 2030 framework.

For further information, please contact:
Iva GANEV, European Energy Policy Manager
EUROALLIAGES
Tel.: +32 2 775 63 08
E-mail: ganev@euroalliages.be