

The European Union's future climate change and energy policies to 2030 – what would be the most competitive direction?

Strategic paper prepared by the Non-Ferrous Metals sectors as a response to the debates on future climate change and energy policies – long-term perspective

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Dear Sir/Madam,

Eurometaux is the Brussels-based EU association of the non-ferrous metals industry, representing the main EU and international metals producers, EU and international metal commodity groups and national metal federations. The industry covers base metals (Al, Cu, Pb, Ni, Zn, Sn Sb), precious metals (Au, Ag, PGMs) and technical metals (e.g. Co, W, Cr, Mo, Mn, Si, FeS), manufactured from both primary and recycled raw materials.

Eurometaux hereby submits its reaction to the consultation paper on Consultative Communication on Green Paper "A 2030 framework for climate and energy policies" [COM(2013) 169]. Eurometaux is a registered organisation in the EU transparency register (n° 61650796093-48).

The document has two parts. In the first part, we focus on the main strategic directions for the non-ferrous metals sectors in the EU. This is supplemented by answers to the specific questions from the consultative communication, in the second part of the document.

1. INTRODUCTION

In March 2013, the European Commission launched a public debate on the future of European Energy and Climate Change policies with the publication of a Green Paper on a 2030 Framework for Energy and Climate Change Policies. There is no doubt that the conclusions resulting from these debates will have a long-term impact on the future of the European industry.

The non-ferrous metals sectors are not only **job providers and value creators**, but also key enablers in achieving European Climate and Energy ambitions through the materials and products they produce. On the other hand the survival of the sector in Europe is threatened by high energy costs, in most cases resulting from EU climate policies, which cannot be passed on to the final consumer as the commodity price is determined at global level (London Metal Exchange).

This strategic document provides a framework and priorities for the NFM sectors. It is the result of high-level engagement from experts in our sectors. It aims to develop new concepts for the future design of policies in the fields of competitiveness, climate change and energy, learning from experience so far.

2. MAIN CHALLENGES IN THE CURRENT LEGISLATIVE FRAMEWORK

Key message: *Inconsistencies between climate and energy policies must be solved as they adversely affect industrial competitiveness by way of further increasing energy costs.*

Major EU internal and international developments require Europe to re-balance its objectives. Firstly, the financial and economic crisis has heavily affected Europe and confirmed the important role that industry plays to drive growth, jobs and prosperity. Secondly, competing nations are benefiting from comparatively low energy prices, a good example of which is the US, with extraordinary progress having been achieved in the exploitation of shale gas. This puts the US economy, and in particular its energy-intensive sectors, in a stronger position to compete with Europe and to attract new industrial investment. Thirdly, Europe must take a critical look at the lessons learned from current energy and climate policy. European policymakers will have to consider the wider aspects of policy interactions when designing a new framework. The focus cannot simply be on climate change and energy alone; it should also cover industrial policy, competitiveness, taxes, trade, competition policy and innovation.

The three main challenges EU will have to solve when designing the new policy framework are:

- I. **High energy prices in the EU.** A reliable and competitive energy supply for industrial consumers is essential for maintaining competitive industrial sectors in Europe. Energy is a very important cost factor for our industries. Energy represents as much as 30 to 50% of the production costs of energy-intensive sectors such as aluminium, copper, zinc, nickel, etc.

In order to close the gap in energy prices between Europe and other global competitors, special focus needs to be placed on financial compensation mechanisms for energy-intensive trade exposed sectors and long-term market design delivering competitive prices for energy intensive sectors.

- II. **Fragmentation of the EU energy markets.** Although **interdependence** between Member States in the field of energy has never been so strong in political, economic and technical terms, the coordination of national energy policies remains **weak**. The energy mix remains a largely national matter. However, due to the ever-increasing interdependence of European energy markets, in particular with regard to electricity, national energy policies and measures implemented in one Member State have an impact on other EU countries.

Shale gas exploration is a good example; it shows the divergence among different approaches and does not facilitate a strong EU approach to drive energy prices down. While some Member States are further exploring the potential of shale gas, others have opted for a moratorium on this technology.

- III. **Lack of coherence of EU policies.** When designing new climate and energy policy there is a need for a better understanding of interactions between the instruments used to deliver the policy. For example, the cumulative effects of an ETS, a renewable generation target and an energy efficiency target may introduce conflicting incentives.

In order to improve the current situation, more investments and **common initiatives** are needed to drive to the target of a single energy market in the EU.

3. NEW 2030 ENERGY AND CLIMATE CHANGE POLICY FRAMEWORK DESIGN

Key message: Place industrial competitiveness on an *equal footing* with climate and energy goals and set as an energy policy objective the reduction of the gap between the energy costs paid by the energy-intensive trade exposed industries in the EU and their global competitors.

When designing new energy and climate change policies, the NFM sectors propose the following design elements:

GENERAL ELEMENTS

- A. When designing new energy and climate change policy framework, policy makers should consider the cumulative effect of all policies and legislation that impact the **global competitiveness** of the EU energy-intensive trade exposed (such as taxation, trade, competition or labour policies, etc.).
- B. Non-ferrous metals sectors can support long-term structural measures **if** at the same time they include measures to adequately protect Europe's industrial competitiveness.

TARGETS

Eurometaux proposes the following:

- A. Legally binding climate targets for CO2 emission reductions should be accompanied by legally binding compensation to carbon leakage exposed industries, arising from direct and indirect costs due to the EU/ETS, based on actual production.
- B. Additional costs for renewable production or energy efficiency should be accompanied by measures securing the competitiveness of carbon leakage exposed industries (support schemes, grid costs, etc.) State aid rules must be adjusted to allow for a general exemption of such costs for these industries.
- C. Binding measures for industrial competitiveness, to secure 20% of GDP in industrial activity by 2020, must be strengthened until a global level-playing field is achieved.

EMISSIONS TRADING SYSTEM

Eurometaux proposes the following:

- A. **ETS as the backbone.** Should the EU continue to price CO₂ emissions associated with industrial production then the ETS should be maintained as the primary, market-based incentive to reduce emissions for industry and other sectors concerned. To be effective, limit transition costs and provide a predictable investment framework, it is crucial for the EU ETS to have a stable predictable long-term cap.
- B. Setting long-term **transparent and predictable** governance structure. Such a structure could include market procedures or a new management body, and be carried through by means of a rapid legal procedure or in delegated power.
- C. Full (100%) EU-wide, free **allowance-based compensation for** industry with product prices determined by global exchange, for all **direct and indirect emissions integrated into the EU ETS, based on actual output** and subject to benchmarks until a level playing field is achieved. The quantity of these allowances for the post-2020 period should be agreed as a matter of priority. Only by these means will long-term investment predictability be ensured. This might even have positive short-term effects on the ETS.
- D. Ensuring a predictable long-term legislative framework with no interventions during the trading period – **we propose to extend the trading period to 10-15 years.**
- E. New policies for CO₂ reduction have to be linked with **equal commitments** from other global competitors in a form of an international binding agreement to provide **equivalent conditions** for companies competing globally. In the meantime, electro-intensive trade exposed industry in Europe should be shielded from the impact of EU policies that impact competitiveness.

ENERGY POLICY

Eurometaux proposes the following:

- A. **Ensure security of long-term energy supply at globally competitive costs for industrial consumers.** Regular monitoring for security of supply needs to be put in place, particularly in respect of electricity and gas, taking into account national (and sometimes even regional) circumstances and past political decisions (phase-out of nuclear in Germany). Investment decisions up to 2030 and 2050 are being made now, and predictability can be assured by introducing these mechanisms. Next to these, a much better designed market mechanism should be put in place, working towards an **interconnected** single EU energy market, and delivering competitive prices.
- B. The design of future energy policy should **progressively phase out all financial support for mature power generation technologies.** In the meantime, policy tools should be put in place to protect trade exposed industrial consumers against all cost burdens caused by RES. Renewables need to adapt to market competition and offer new and competitive solutions.
- C. Develop a long-term framework enabling **competitive long-term pricing.** The internal energy market has not provided long-term competitive sourcing for the competitiveness of industrial users. Furthermore, risks arising from climate policies reduce generators' interest in entering into new long-term contracts (risk factors such as ETS and back-up capacity payments). Policies should be developed to provide generators and consumers

with incentives to make long-term investment decisions. Restrictions on long-term contracts are particularly problematic for energy-intensive industries. Limiting the duration of long-term contracts or introducing reopeners diminishes the ability of the contract to provide a predictable electricity cost level in the long term.

- D. **Allow for the deployment** of all energy sources, enabling competitive prices.

ENSURING GLOBAL COMPETITIVENESS

Eurometaux proposes the following:

- A. **Acknowledge the global competitiveness** of energy-intensive trade exposed industries as being of common interest for the future of the EU.
- B. **Goals and effective mechanisms** must be put in place to address the loss of competitiveness caused by Europe's high energy costs and the impact of climate-related policy regulations. In this respect, the EU should carefully examine multiple energy prices (gas, electricity, carbon), focusing on the prices paid by industry, and compare these with major global competitors (same capital-intensive economies). It will be crucial to monitor the energy price differences between Europe and other parts of the world in order to achieve well-balanced energy policy objectives. Compensation mechanisms should be managed at EU level whenever possible.
- C. State aid policies should provide for the safeguarding of **European industry's global competitiveness** as an objective of common interest. In order to achieve this, the EU must use the current State Aid modernisation process to simplify the rules and oblige member states to exempt energy-intensive sectors (EU-wide) from fees and tariffs resulting from the impact of Renewables generation targets, and include a provision that clarifies that industries whose product prices are determined by global exchanges, and which are "price-takers" with no possibility to pass on these costs, are **automatically** cleared for exemption.
- D. **Consider** how industrial investments are made with long-term investment horizons for different sectors. Increased focus on industrial innovation with a **technology-neutral** approach which does not favour one specific solution to the problem should be taken; market-driven technology development (not policy-driven)
- E. **National taxation systems** weakening the internal and global playing field, imposing even more double regulations/burdens, should be avoided. The EU should ensure that a strong harmonized system is designed and that no additional national cost-related burdens are imposed on the specific national market(s).

4. CONCLUSIONS

Europe can show its global leadership **only** if the EU can ensure the competitiveness of its industry and at the same time achieve climate mitigation targets. If both elements are not ensured **at an equal level**, nobody will emulate the EU system or consider the EU as a leader in the debate. Leakage already starts when industry investments are stopped in Europe;

We encourage the policy makers to introduce the element of **investment cycles** when defining the timeframes for new targets or goals. If the EU wants to consider a low-carbon economy in 2050, all relevant investments need to be planned **now. In order to ensure new low-carbon**

investments in Europe, moreover, it is essential to ensure the economic viability of European plants by addressing policy inconsistencies.

We urge the policy-makers to start taking the competitive future of the European energy-intensive sectors to heart and to develop legislation accordingly. When designing the new policy framework, EU should consider a global approach (as climate problem is a global issue) and take into account the global effects of the relocation of energy-intensive industries outside Europe, and consequently the CO2 effects from imported goods.

The non-ferrous metals industry will continue to provide solutions for a low-carbon society. We can invest in facilities to reduce our energy consumption and be innovative to develop new products which reduce the consumers' energy consumption or provide improved products for the renewables industry, e.g. solar and wind. However, for our industry to make these investments we need competitive, predictable and long-term framework conditions.

**5. ANSWERS TO THE SPECIFIC QUESTIONS IN THE CONSULTATIVE COMMUNICATION
Green Paper "A 2030 framework for climate and energy policies" [COM(2013)
169]**

General

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

The main lessons and most important challenges that the EU will have to solve when designing a new policy framework are:

- a) Closing the gap between high energy prices in the EU and other global competitors*
- b) Avoiding further fragmentation of the EU energy markets and improving the level of coordination among Member States*
- c) Improving coherence among different policies by better understanding how different policies interact with each other*
- d) Today's carbon leakage mitigation measures are inadequate. Leaving compensation for increased electricity prices to Member States opens the door to differences within the internal market. Furthermore, growth in production is hampered by the fact that compensation is linked to historical, not actual output.*
- e) In order to make cost compensation or exemption for trade exposed industries more straightforward, the preservation of EU industrial competitiveness should be defined as an objective of common interest in the present revision of State Aid Guidelines.*

*In order to improve the current situation, more investments and **common initiatives** are needed to drive to the target of a single energy market in the EU.*

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?**
- a) Legally binding climate targets for CO₂ emission reductions should be accompanied by legally binding compensation to carbon leakage exposed industries arising from direct and indirect costs due to the EU/ETS, based on actual production.*
 - b) Additional costs for renewable production or energy efficiency should be accompanied by measures securing the competitiveness of industries exposed to carbon leakage (support schemes, grid costs, etc.) State aid rules must be adjusted to allow for the general exemption of such costs for these industries.*
 - c) Binding measures for industrial competitiveness, to secure 20% of GDP in industrial activity by 2020, must be strengthened until a global level-playing field is achieved.*

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

Yes, there were a lot of inconsistencies in respect of interactions between targets. Coherence can be ensured by putting climate targets on an equal footing with industrial competitiveness. A combination of targets as described in our previous answer would, in our view, work in much more harmonized and coherent way.

- **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?**

Targets for other sub-sectors depend on the individual characteristics of a specific subsector. The burden of avoiding global warming should be shared equally among all sectors. Renewable targets for transport are not essential.

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

This can be achieved by introducing the target concept as described above (see targets). The global competitiveness of European industry has to become the centre of attention. A stronger focus on the main targets, i.e. emission reduction, and less on secondary targets like renewable power generation, would improve the viability of the policy.

- **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?**

Mechanisms such as indicators for import (in)dependence (gas and oil) and short-term electricity balancing for intermittent generation could be introduced and monitored more closely, as these are two main elements in respect of security of supply.

Instruments

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

Yes. The design of future energy policy should progressively phase out all financial support for mature power generator technologies. In the meantime, policy tools should be put in place to protect trade exposed industrial consumers against all cost burdens caused by RES. Renewables need to adapt to market competition and offer new and competitive solutions.

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

This could be achieved by a combination of putting specific focus on the most effective tools for greenhouse gas reductions and the gradual phasing-out of all financial support for mature power generation technologies. ETS should be used as an umbrella instrument to secure the total cap.

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

Fragmentation can best be avoided by the establishment of a coherent, transparent and long-term oriented policy framework, ensuring certainty for investors in industry. The main reform requirement is thus related to EU ETS to ensure long-term competitive energy prices for industrial consumers.

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

All further energy savings could be achieved through investments; the EU therefore needs policies supporting industrial investments and growth. One important measure is the carbon leakage prevention system.

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

The best direct support could be stimulated by a very dedicated fund allocation to large-scale industrial demonstration schemes/projects. Good practices are public private partnerships.

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?**

The main elements when it comes to strengthening industrial competitiveness are:

- a) Acknowledgement of the global competitiveness of energy-intensive trade exposed industries as being of common interest for the future of the EU (State Aid rules)*
- b) Globally competitive energy prices, ensuring a global level playing field*
- c) Policy predictability*
- d) Compensation for direct and indirect emission costs integrated into ETS (based on actual production, given as allowances) within properly set benchmarks*
- e) Security of energy supply*
- f) Technology-neutral approach*

- **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?**

The European electricity market pricing automatically passes the carbon price into the electricity price, while most of the metal industry's product prices are set in global markets (London Metal Exchange, etc.). European costs can thus not be passed through into the product prices. Evidence of direct carbon leakage is very hard to identify and define. It is a slow long-term process and starts when investments stop. 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. The risk of carbon leakage is high, even at today's low allowance prices. The possibility that allowance prices later will be high at a later stage will prevent investment. In this respect, safeguarding (carbon leakage) mechanisms should be improved and 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. For the European non-ferrous metals sectors, energy costs represent 35-50% of total operating costs.

- **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?**

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

- **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)?**

Regulatory certainty can be achieved through:

- a) The structural reform of the ETS for the period after 2020*
- b) No “artificial” interventions in the system during the defined trading period*
- c) Extend the trading period to 10 years or more*
- d) The final amount of allowances should be based on actual output*

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

The EU can increase innovation capacity by a stable and predictable regulatory framework allowing for investments in new technologies and processes. This can be supported by EU funding mechanisms dedicated to industrial large-scale demonstration projects.

- **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?**

This can be achieved only by the focused and oriented definition of the EU's strategic priorities. If the EU wants to achieve a higher level of security of supply, and stable and competitive prices for consumers, it will have to allow (and take quick actions in respect of) exploration for alternative energy solutions accompanied by environmental sustainability.

- **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?**

At present, this seems to be a challenging task. The EU can best improve the security of supply by limiting direct support schemes to mature power generation technologies and more balanced and

integrated climate change and energy policies. Increased price responsiveness of industrial demand could provide balancing services from the energy-intensive industry at a cost that would compete favourably with supply side measures, and should be explored first.

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?**

The new framework needs to ensure stricter implementation of EU-wide harmonized policies in the Member States at equal levels to avoid internal market distortions.

- **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?**

EU-wide policies have to be implemented at an equal level in all Member States and should allow for exemptions only in very limited circumstances.

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

Not necessary new, but EU-wide and stricter implementation of some existing mechanisms could help to take the first steps, e.g. compensation for the indirect cost of electricity, state aid policies, and long-term energy contracts.