

EUROMETAUX POLICY PAPER

Clean Energy Package for All Europeans

INTRODUCTION

Eurometaux, representing the European non-ferrous metals industry, welcomes the ‘Clean energy for all European’ legislative package published on November 2016. The non-ferrous metals industry offers low-carbon solutions to help Europe transit to a low-carbon, energy efficient region. Our products and innovative processes have a strong potential to enable greater energy efficiency and the wider deployment of renewables:

- We develop products and technologies that lead to lower greenhouse emissions across value chains.
- Non-ferrous metals industries are baseload consumers, with predictable uptake of electricity. We can therefore enable renewable electricity producers with stable income through long term power contracts.
- Industry can contribute by regulation of electricity consumption to help balancing the power system, given the right incentives and an adequate planning horizon.

With the production of non-ferrous metals an unavoidably energy-intensive process, energy costs are key for our sector. Indeed, power represents 30% to 50% of the overall operational costs of our sector’s installations with energy costs are the main localisation and investment factor. High energy costs act as a discouragement to investment in primary production.

From an energy perspective, the non-ferrous metals sector is in a position where our products are globally traded with a high degree of international competition. As we compete in a global market, we cannot pass on any unilateral regulatory costs not faced by our non EU competitors. It is thus essential, that regulations do not impose regulatory costs and requirements that our international competitors are not subject to. Our sector is unique with regards electricity intensity compared to other sectors. Indeed, for sectors such as aluminum, electricity accounts for about 40% of production costs. We therefore have the strongest incentives to be as energy efficient as possible.

Our key messages on the package

- **A greater emphasis on the competitiveness of European industry should be integrated into the Governance of the Energy Union. Globally competitive energy costs are needed to attract investments and sustain European industrial production.**
- **Ensure a predictable and transparent regulatory framework for electro-intensive industries.**
- **Allow voluntary demand response to play a key role in the power system in upcoming years.**
- **Focus energy efficiency efforts in the buildings and transport sectors.**
- **Long term power contracts will play a prominent role in the future system and should be incentivised.**



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It should be noted some of the key pieces of legislation which impact the EU Climate & Energy framework that we operate as not included in the Clean Energy Package proposals; 1) Compensation for indirect costs of the EU ETS and 2) Renewable energy surcharges as regulated in the State Aid Energy and Environment Guidelines 2014-2020. In order to ensure a coherent framework, it is imperative that alongside the package an adequate and stable post 2020 framework is developed by the European Commission in the form of State Aid Guidelines. These guidelines should be based on objective and transparent criteria and protect those industry's competitive at a global level that are most exposed to regulatory costs.

Key deliverables expected by specific legislative proposals

In summary, we support the following elements:

1. Innovation

- Enable innovation in sectors that deliver products and technologies leading to lower greenhouse emissions across value chains.

2. Market design

- A voluntary and incentive demand driven demand response regime without regulatory obstacles on flexibility.
- A technology neutral approach with all mature energy source should compete at a level playing field (No priority dispatch)
- A recognition of the important role that long term contracts will have in the future energy system
- Continuance of the current possibility to use congestion revenues to reduce grid tariffs
- No emissions performance standards in the capacity mechanisms
- Possibilities for TSOs to develop a market design that trigger as much flexibility as possible at lowest possible total costs.

3. Renewables

- A predictable and secure regime where renewables support is market-based and cost-efficient for innovative technologies.
- An assessment of cost efficiency of support schemes should include grid capacity.
- Preservation of industry's global competitiveness should be an integrated part of assessing financial support for energy production.
- The guarantees of origin scheme should be discontinued

4. Energy efficiency

- A focus on the non-ETS sectors which have the most potential to improve with energy efficiency (Buildings and transport)
- In order to prevent double regulation, sectors already covered by the EU ETS should be exempted from Article 7.

5. Governance

- Emphasis on the global competitiveness of European industry should be integrated in governance plans
- Member States should also have to report on the impact of the EU ETS indirect costs on electricity prices
- While we welcome to new governance framework, it should not be misused as a means to introduce energy efficiency or renewable energy targets through the backdoor.



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1. Promoting Innovation

The non-ferrous metals industry offers low-carbon solutions to help Europe transit to a low-carbon, energy efficient region. Our products and innovative processes have a strong potential to enable greater energy efficiency and the wider deployment of renewables. As a result, we welcome the Commission's effort to place a greater focus on innovation. Even though it is only a communication, it is expected to feed into all of the various EU financing mechanisms available, which will be of great benefit for all EU industry.

We would however like to underline the need for a balanced approach between blue sky research and innovations that, while not on the market as of yet, are much likelier to succeed. This is especially important considering the time horizon of the Clean Energy package as a whole is much more linked to 2030. The sectors, which are outlined in the Communication and that correspond to the principle legislative drivers of decarbonisation (e.g. buildings or transport), should receive wider focus as they have a greater potential to achieve better results in a shorter time.

There are many specific technologies unlocked by non-ferrous metals that will accelerate decarbonisation while also lowering the environmental footprint, such a rare-earth free solutions for electric mobility and wind power, while our innovative processes and new electrified loads can flexibly adapt to the changing conditions of the electricity grid with high penetration of renewables.

2. Market Design

Eurometaux supports the Commission's goal to establish a European wide electricity market, in order to facilitate competition between suppliers, unhindered flows of electricity across borders and thus give real choice to, and reduce costs for consumers in particular for electro intensive industries. The new electricity market design's top priority should be globally competitive energy prices. Moreover, in order to enforce the competitiveness of Europe's electro-intensity industry, it is absolutely essential that framework conditions remain predictable and secure in the short, medium and long term.

The increasing share of renewables in energy should be achieved cost-efficiently and not harm industry's competitiveness. We welcome that the proposals on the framework for national support for renewable energy production places increased emphasis on cost-efficiency and market based solutions. Elsewhere, capacity mechanisms represent a significant regulation intervention. As a result, it is essential that Member States and the European Commission work to ensure that other options are exhausted before capacity mechanisms are pursued.

Recommendations:

Demand response: Eurometaux is convinced that demand response will play a key role in the power system in the upcoming years. For this purpose, market rules should allow voluntary demand response to participate in all markets. As it should be the case with all technologies, demand response should only be triggered by market incentives.

- Promote a voluntary and incentive-driven demand response regime by defining proper criterion and removing existing barriers

Capacity mechanisms: Capacity mechanism should be a last resource tool and, when needed, it should be developed adequately to solve specific, temporary problems. The costs of these mechanisms and the subsequent impact on consumers' electricity bill shall also be taken into consideration.

Emissions Performance Standards: Market based mechanisms such as the EU ETS are the most cost-effective and efficient tool for mitigating GHG emissions. While we understand and welcome efforts to remove heavier polluting fossil fuels such as coal from power generation, introducing an EPS in capacity mechanisms would undermine the EU ETS,



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which is and should remain, the chief instrument to decarbonise Europe’s economy. In addition, an EPS could have unintended consequences on competitiveness and security of supply. Elsewhere, it should be noted that many of the potentially impacted plants (Coal, lignite and in some cases flexible gas fired power plants) play a crucial role ensuring security of supply and backing up renewables, run a few hours a year, and thus, have a limited contribution to CO₂ emissions. The CO₂ emissions performance standards for capacity mechanisms should therefore be removed from the Electricity Regulation.

- Strategic reserves in the form of interruptibility scheme may be an appropriate solution to fix a temporary adequacy risk, while developing a flexible demand at the same time.

Technology neutrality: All types of resources should be subject to the same network connection rules and operational market responsibilities. The Package should prevent priority dispatch from any mature energy source, including existing renewables.

Subsidies: Subsidies for the deployment of renewable energy production should be temporary, transparent and technology neutral.

- Any potential future (transitional) renewable support scheme should be accompanied with a full exemption for electro-intensive industries competing globally

TSOs: There should be the possibilities for TSOs to develop a market design that trigger as much flexibility as possible at lowest possible total costs.

Long term contracts: Long term contracts will play a prominent role in the future system. These contracts can benefit industrial consumers to hedge their energy contracting and investors to secure their asset decision. The ‘Package’ does not address their particular element, focusing only on transmission rights, and should better address a smart use of this contracting possibility. In promoting long term contracts additional financial tools are needed.

- The package should seek to address the financial challenges to promoting long term contracts

3. Renewable Energy Directive

The system of guarantees of origin is misleading customers. It gives a false impression of the actual energy sources in power consumption and can be used to ‘green wash’ energy use and industrial production based on fossil fuels. In addition, the scheme does not provide incentives to increase renewable energy production. The fundamental problems with the scheme does not change with the new proposed rules.

- **Guarantees of origin:** The guarantees of origin scheme should be discontinued

4. Energy Efficiency Measures (EED & EPBD)

With energy such a high share of our production costs, the non-ferrous metals industry has the highest incentive for energy incentives. As a result, we are pioneers in achieving energy savings; contributing to recovery waste in district energy and participating in demand response. Energy efficiency of many NFM companies is reaching its limit in terms of cost-effectiveness and available technology. Having made significant improvements our companies are reaching their energy savings potential limit. We have three policy asks on energy efficiency; 1) Ensure regulatory consistency, 2) do not place artificial limits on economic growth and 3) focus on where potential is greatest – i.e. untapped potentials in the residential, buildings, SME and transport sectors which experience market failure.



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Recommendations:

Targets: Non-binding targets provide more flexibility to Member States and do not limit growth for industrial sectors

Focus on buildings and transport (Not industry): Focus should be on the non-ETS sectors which have the most potential to improve with energy efficiency (Buildings and transport).

- In order to prevent double regulation, sectors already covered by the EU ETS should be exempted from Article 7

Primary Energy Factor (PEF): We are supportive of the Commission’s proposal to change the default coefficient of Electricity’s PEF profile from 2.5 to 2.0. Looking forward, regularly revisions are needed on a forward-looking electricity mix.

5. Governance

Eurometaux welcomes the legislative proposals on the Governance of the Energy Union. The proposals, if successfully designed, will bring together the existing scattered planning and reporting obligations from the main pieces of EU legislation, resulting in simplification. We particularly welcome the proposed integrated national energy and climate plans, which requires Member States to deliver on a regular basis “*national objections with regards to competitiveness*”.

Given the major impact that the indirect costs of the EU ETS have on electro-intensive industry, Member States should come forward with details on the specific measures that are adopting in order to lower the indirect carbon costs for sectors such as ours which are genuinely exposed to carbon leakage as a result of the significant indirect costs that are passed through in electricity prices.

- **Efforts to reduce impact of CO₂ costs on electricity costs:** Member States should report on their efforts to reduce the impact of the indirect costs of the EU ETS on sectors that are exposed to carbon leakage. Details on current and future indirect CO₂ compensation schemes should be provided.
- **Global competitiveness assessment:** An assessment of industrial global competitiveness should be integrated both in the Member State national reporting mechanisms and the annual ‘State of the Energy Union’ report released by the European Commission.

ABOUT EUROMETAUX

Eurometaux is the decisive voice of non-ferrous metals producers and recyclers in Europe. With an annual turnover of €120bn, our members represent an essential industry for European society that businesses in almost every sector depend on. Together, we are leading Europe towards a more circular future through the endlessly recyclable potential of metals.

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