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Energy Union: Making the EU Energy and Climate Policy Fit for Competitiveness and Sustainable Growth

The EU is confronted with manifold challenges in the energy field. Energy costs have risen sharply in the EU, leading to a huge price differential compared to a number of competing countries such as the United States. Import dependency is expected to increase from 50% of total EU consumption today to 65% in 2030 with higher reliance on gas and oil imports. And the goal is to at least halve global greenhouse gas emissions by 2050 compared with 1990 levels in order to limit global warming below 2°C. This means nothing less than revolutionising the way the world produces and uses energy.

Action is key. It must be ensured that investments are made to set the EU on the right course towards long-term goals while at the same time strengthening the competitiveness of the industrial sectors that are crucial for Europe's growth and jobs.

The *Energy Union* strategy that is being shaped by EU leaders needs to give a new impetus to make the EU's energy and climate policy fit with its industrial ambitions. For doing so, BUSINESSEUROPE strongly supports the development of a coherent European strategy which is truly based on the three cornerstones: energy competitiveness, security of supply and low-carbon economy.

BUSINESSEUROPE welcomes the strategy recently published by the European Commission as an important step to balance the EU's energy, climate and industrial challenges better than in the past. The commitment to revitalise energy policy and to strengthen the EU's ability to act in this field is positive. But important trade-offs will have to be addressed in the implementation of the strategy. BUSINESSEUROPE wants to draw the attention of EU policy-makers on the following main aspects:

1. Give more attention to the global energy competitiveness of industry

European industry keeps facing high energy prices that affects its cost-competitiveness towards main industrial competitors. Industrial electricity prices in the EU are more than twice those in the US and Russia and 20% higher than in China. As of today, EU industry still pays 2 to 3 times higher gas prices than US, Indian or Russian companies. The competitiveness of EU companies on the global market of energy technologies will also depend on its capacity to invest in research and innovation activities. Emerging economies like China are rapidly catching up. Public and private investments needs to be translated into industrial gains.

A targeted approach to energy cost-competitiveness

A biennial monitoring of energy prices evolution in the EU, including a comparison of prices with major non-EU competing countries, is important and should lead to concrete recommendations to Member States. But it is not enough, the energy prices



gap is a matter of fact as of today. Action is needed urgently to address the cumulative cost impact of policies such as carbon pricing, taxes and levies for industry. BUSINESSEUROPE therefore asks that the energy cost-competitiveness issue receive the necessary attention by implementing a coherent and targeted approach to this problematic in order to make the Energy Union strategy fit with Europe's industrial ambitions.

Improve the framework for investment and research in low-carbon technologies

European companies have impressive track records for reducing their greenhouse gas emissions and, more importantly, for enabling emission reductions across European society and across the world through innovative products and solutions. To support these innovative industrial activities, the EU should pursue energy technology innovation through “push” (R&I support) and “pull” (market development) policies as well as a market design that is able to provide long-term price signals. Funding to bring low-carbon technologies forward is crucial, but care must be taken not to direct resource into specific technologies too early. “Pull” policies should be based on the principle of technology and fuel neutrality to guarantee its cost-effectiveness. Both Member States and the European Commission should go beyond Horizon 2020 and use more new financing instruments such as access to venture capital and private equity. Public/private instrument such as the new Investment Package need to play a role in de-risking and leveraging capital.

2. Make the internal energy market work better

Although the interdependence among Member States in the field of energy has never been so strong in political, economic and technical terms, the EU is still far from an efficient internal energy market. The fragmentation of national energy policies would not be cost effective and detrimental to the competitiveness of industry. Progress towards an increased cooperation between Member States are urgently needed and several fronts must be addressed:

Governance towards stronger coordination

Coordination between national energy policies needs to be improved. A Member State should not engage in major changes of its energy system without prior consultation of its partners and without analyzing the potential consequences on their systems. Equally important, the full and consistent implementation of the Third Energy Package throughout all Member States must be a top priority of the new European Commission. A strong attention also needs to be paid on phasing-out costly and distortive national support schemes for mature renewable energy technologies. Member States need to switch to more efficient support schemes that minimize costs and the European Commission needs to be assertive to ensure the State Aid Guidelines for Energy and Environment are respected.

Regional approaches

Given the physical connections and market coupling, the cross-border implications of national energy policies are becoming more evident at regional levels. Approaches taking into account regional specificities offer interesting perspectives which should be explored while making sure that a certain level of EU-wide convergence is guaranteed.

**Market design**

Well-functioning and well-designed energy markets will deliver supply security and the necessary infrastructure investments. However, in Europe there is a tendency towards strong government intervention in the power generation and gas sectors, leading to costs and uncertainty for investors. The vicious circle of different state interventions should be addressed to restore free competition within the single market. At the same time, under the current market conditions, there will be very few market-driven investments in any technologies, let alone low-carbon ones. Most of investment decisions taken today are backed up by dedicated support mechanisms. Therefore a thorough analysis, with all concerned stakeholders, including the future “prosumers”, on the design of new energy market rules need to be engaged.

Infrastructures

Key infrastructures and interconnection projects need to be prioritized better and implemented faster in order to allow energy to flow freely in response to market needs and to eliminate energy islands and bottlenecks. Europe needs to connect better the East with the West and the South with the North also through reverse flow capacities. The creation of an effective European interconnected energy system would also allow for a more flexible and responsive approach to resolving any malfunctions as well as boosting and promoting trade and enhancing price reliability.

The timely implementation of EU legislations (e.g. Trans-European Energy Networks, Connecting Europe Facility, etc.), including the revision of Projects of Common Interest, is of primary importance as it can greatly contribute to streamline administrative and regulatory procedures, which is key to accelerate the construction of major energy infrastructure projects.

3. Set up a clear diversification strategy

Access to secure, sustainable and competitive energy sources is in Europe’s strategic interest. The recent political developments in some of the EU’s major energy suppliers highlighted the urgency of broadening sources of supply to enhance EU energy security. The EU needs to define a clear and consistent cost-effective strategy to diversify its energy sources both domestically and internationally.

Domestically

For decades, the EU energy mix will continue to rely on a range of energy sources – oil, gas, coal, nuclear and renewable energy sources.

Renewable energy is an increasingly important element of the EU energy mix, which implies that grid infrastructure must cater for stronger use of intermittent energy sources. At the same time it must be acknowledged that energy prices have risen significantly in some Member States due to renewable energy support.

Domestic resources such as conventional and non-conventional oil and gas should also be better recognized as a key contributor to the EU’s security of supply. Barriers to the exploration, development and production of such indigenous resources, including



shale gas, should be removed while fully respecting EU's environmental and safety standards.

Internationally

The geopolitics of energy are changing with more reliable suppliers entering the global energy market. While strengthening the energy partnership with long-standing suppliers such as Norway, Russia or Algeria, the EU needs to develop a more assertive and coherent external energy policy in order to seize these new opportunities. This is key because the EU will always rely on trade relationships with third countries in the field of energy and energy services.

In this context bilateral trade agreements are a good platform to establish a more open, stable, predictable, sustainable, transparent and non-discriminatory framework in the area of energy. This should improve overall market conditions between the signing partners giving economic operators wider and more competitive options and in the medium to longer term serve as platform to implement shared geo-strategic and political goals.

For instance, Europe has an opportunity to diversify gas and oil supply in the West. The EU and the US have developed similar approaches to address export restrictions by major trade partners in the context of WTO (e.g. China on rare earths). TTIP intends to be an ambitious and far reaching agreement that should set high standards in a number of areas including export restrictions. Therefore, TTIP should secure the lifting of existing export restrictions to allow US LNG and crude oil to reach the global market.

On the East, the EU should intensify its efforts to ensure reliable and long-standing relationships with existing suppliers at the same time developing relations with new suppliers and routes. Projects should be developed to bring gas from new regions - such as the Black Sea and the Caspian Sea - and to set up new gas hubs in central Europe, the Baltic countries, the Mediterranean or Turkey¹ as well as to optimize the use of existing LNG terminals and, when appropriate, to facilitate the construction of new terminals.

While it is necessary to make the EU more coherent and consistent in its negotiations vis-à-vis third countries, the envisaged concept of common gas purchasing raises concern as it could prevent the functioning of the internal energy market, reduce competition and might not be compatible with WTO rules. Equally important, the European Commission's intention to review the Intergovernmental Agreements Decision in the field on energy cannot be at the expense of commercial interests and protection of confidential business information must absolutely be safeguarded.

4. Encourage energy efficiency in a cost-effective way

There is still large potential in Europe to increase energy efficiency, through behavioral changes and through cost-effective technologies, many of which are already available

¹ Strengthening EU-Turkey cooperation in Energy and progress in the accession process would be positive



or being developed. In particular, the building sector has considerable untapped possibilities. Buildings, accounting for about 40% of EU energy use, have a high potential for energy savings and should thus be the focus of cost-efficient measures to tackle energy efficiency, particularly because this sector is little reactive to economic and market signals.

Cost-efficiency and technology-neutrality of measures should also be the focus in the transport sector. Increased efficiency of each mode as well as intermodality are the keys to meeting the transport demand of the future.

Financing energy efficiency initiatives should be the main focus in reducing both the cost of promoting energy efficiency and also its potentially unsustainable impact on energy bills. Obstacles such as limited access to finance, high upfront costs or competing priorities for property owners needs to be addressed in a coherent way.

5. Pursue a low-carbon energy strategy for Europe

The EU ETS as the cornerstone

As a market-based and technology neutral policy instrument, the EU Emissions Trading Scheme (ETS) has the best potential to reduce GHG emissions cost-efficiently, and constitutes the market signal to drive low-carbon investment across Europe. The on-going process of reforming the scheme will have to ensure that it can work for every sector and business. This is true for the energy sector, which expects a carbon price signal that is relevant to companies' operational and capital investment decisions today. This is equally important for the other covered industrial sectors, in particular energy-intensive and trade-exposed industries, which invest and manufacture products for a low carbon economy, but are also exposed to more and more aggressive global competition. As the carbon market price is expected to rise with the proposed 2030 GHG objective, direct carbon costs from ETS allowances as well as indirect costs, from the power sector's passed-through carbon costs in power prices will increase substantially. Direct and indirect emission costs must be tackled to ensure that these industries will not induce to relocate production facilities in non-EU countries and continue to provide the investment in the jobs and growth that the European economy needs.

A global response to a global challenge

An important element of the EU's climate strategy is to work towards the conclusion of a global legally-binding climate agreement in 2015, committing all major economies to the measurement, monitoring, reporting, control and reduction of greenhouse gas emissions. Climate change can only be tackled globally. The EU's engagement in diplomatic actions aimed to achieve such an agreement is extremely important and the European business community is committed to give its support wherever it is necessary. Until such agreement is reached and such level playing field is established, the competitiveness of the EU industry must be protected with effective EU-wide measures covered in the Energy Union.

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