BUSINESSEUROPE

POSITION PAPER

GO FOR GROWTH
AN AGENDA FOR THE EU IN 2010-2014

August 2010

FINAL BUSINESSEUROPE COMMENTS ON THE EUROPEAN COMMISSION'S STOCK-TAKING DOCUMENT (MAY 2010)

"TOWARDS A NEW ENERGY STRATEGY FOR EUROPE 2011-2020"

A. General Comments

BUSINESSEUROPE advocates a new Energy Strategy for Europe based on security of supply, decarbonisation, and energy competitiveness. These three key issues must be the cornerstones of the new energy policy to put in place.

We support the efforts made to start the decarbonisation of the EU economy and to improve its supply security, but we regret that the energy competitiveness issue is receiving much too little attention in the Commission consultation document. That is why BUSINESSEUROPE calls for a renewed European energy strategy, which also focuses on the international energy competitiveness of European industry. This need arises of a number of facts, which are recalled in chapter B.

Further, BUSINESSEUROPE wishes to reiterate the importance of establishing a truly functional internal energy market as a tool of energy competitiveness, sufficient investments in cross-border infrastructures and the need to facilitate innovation in cost-efficient low-carbon energy technologies. In order to achieve a low-carbon transformation of the energy system the EU should learn from economic partners like the US or China and focus stronger on technology incentives. Further comments on key issues identified in the stock-taking document are put forward in chapter C.

BUSINESSEUROPE plans to issue shortly a detailed contribution on the integration of EU policies for climate, energy and industry.

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B International energy competitiveness of European industry

a) The fast changing global industrial landscape calls for EU policies in favour of industrial competitiveness

Between 2000 and 2009, developing countries' industrial output grew from 32% to 52% of worldwide industrial output, showing a relative decline of Europe and the USA. Studies show that this decline is mainly due to a lack of attention to the framework conditions needed to maintain a strong industrial base.

Europe cannot afford to keep this low level of strategic attention for its industrial base. It is now urgent to turn the tide and to develop a pro-active EU policy strongly integrating the industrial competitiveness dimension in all EU policies, including EU energy and climate policies[1].

Why is it so important to make a leap forward in integrating the industrial competitiveness dimension in all the components of the EU agenda?

The reasons are connected to the strong economic and societal relevance of European industry. The macroeconomic importance of European industry can be assessed through various indicators:

- manufacturing industry contributed some 17% to EU GDP in 2007 and accounted for some 23 million jobs;
- the wider cluster of manufacturing, power generation, construction, and associated business services, contributed about 37% to EU GDP in 2007.

Industry in the broad sense, the specialised services on which industry depends and the services which depend on industry (transport, communications, financial services, real estate, etc.) constitute together a very broad economic ensemble, accounting for close to half of EU GDP (around 47%) (source: European Commission).

Industry is also developing powerful specific contributions to make growth more dynamic across the entire economy:

- Europe needs growth created by increased productivity. Industry is important in that respect because it makes the biggest contribution to productivity increase;
- manufacturing provides about three-quarters of EU exports;
- finally, industry is key for technological progress. Over 80% of EU private sector R&D expenditures is spent in manufacturing.

This makes industry the backbone of the European economy. It plays the role of engine for growth, jobs and prosperity.

[1] See BUSINESSEUROPE's position paper « An Integrated Industrial Policy for Europe – BUSINESSEUROPE main recommendations" – 16 June 2010

Industry is also a key solution provider for societal challenges in areas such as:

- Demographic change and ageing population
- Climate protection
- Sustainable use of energy and resources
- Access to energy at affordable prices
- Mobility
- Participation in the knowledge and digital society.

To provide these solutions, know-how from a wide range of industrial sectors is needed. European industry is a world leader in “green" technology, but it is and has to be much more than that.

If European companies are to continue to play their full role as an engine for growth and solution provider, preserving and enhancing their competitiveness is key.

b) ***BUSINESSEUROPE’s fundamental expectations regarding the new European energy strategy***

In view of the above, it is vital that the objective of ensuring internationally competitive energy supplies for manufacturing industry becomes an explicit and fully recognised cornerstone of the future EU energy strategy.

BUSINESSEUROPE insists that this consideration should have a more central position in the future energy strategy than is currently the case in the Commission May 2010 consultation document.

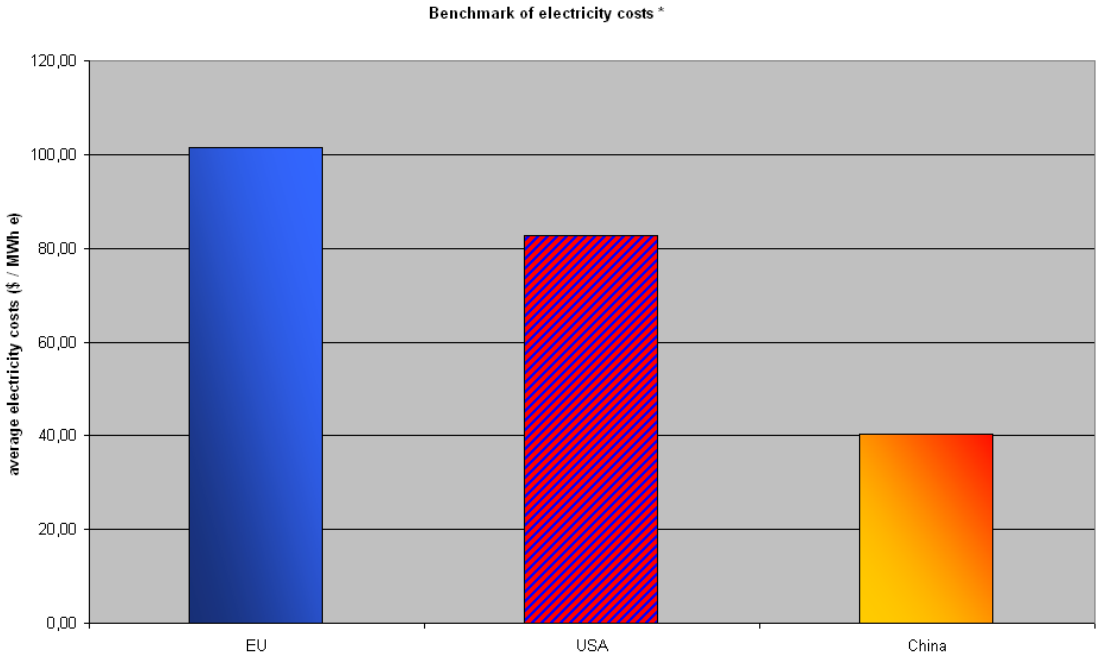
When summarising European energy policy objectives as aiming at “safe, secure, and affordable energy for all”, the consultation paper partly captures the importance of industrial competitiveness but not in a sufficiently focused and operational way.

The same types of statement have been repeatedly found in earlier Commission documents dating from 2000. Experience shows that this way of defining strategic objectives cannot prevent the introduction of poorly designed national or Community energy- and climate-related measures that run counter to the competitiveness of the EU manufacturing base.

By way of example, the impact of EU/national renewable policies in terms of extra costs to be borne by energy-intensive industry is a case in point here. To solve this problem, the energy-intensive sectors which are submitted to the EU Emission Trading Scheme should be exempted from additional costs such as those indirectly imposed by renewable energy support schemes.

c) ***Since energy is an important cost factor for industry, energy competitiveness is a key driver of industry competitiveness – Europe is in a bad position on the world stage for energy costs***

On average, electricity in Europe is 23% more expensive than in the USA and 2,5 times more expensive than in China:



* Based on the 2007 IEA data, the chart above displays the benchmarks of the levelised costs of electricity (LCOE) with a discount rate of 10%. The electricity cost presented here is calculated on a weighted average mix nuclear, coal and gas.

B. Comments on the key issues identified for the New Energy Strategy

a) ***Creating an effective internal energy market as a tool of energy competitiveness (comments on consultation document point 2.2.1)***

Regarding completion of the internal energy market, BUSINESSEUROPE has always advocated an approach based on two pillars:

1. effective unbundling and improved governance
2. other market-based measures including long-term contracts freely negotiated between energy suppliers and users.

Past EU legislative and other initiatives have focused mostly on the first pillar. It is highly important to advance on both pillars, and to ensure that Member States actually implement adopted EU legislation.

BUSINESSEUROPE has always stressed the vital economic importance of energy liberalisation for the EU, and therefore fully shares the Commission's assessment that the current state of implementation of the European energy liberalisation legislation is poor overall. The second liberalisation package has not been adequately implemented in several EU Member States, which represents a serious obstacle in both delivering quality services and realising responsible development strategies. Moreover, there is a lack of efficient enforcement tools for ensuring appropriate implementation of legislation put in place in a number of Member States. An **effective enforcement approach** should not be missing in any new EU strategy for energy policy.

Action should continue with a view to removing all obstacles which seriously harm realisation of the internal energy market. In particular, methodologies and practices concerning **cross-border fees** in the electricity area should be reviewed (including regarding congestion fees) and addressed where appropriate.

To enable the creation of a better functioning and single European internal energy market, **market coupling** is an essential tool that needs to be implemented in the areas of gas and electricity. Coupling of national and transnational markets needs to make progress. The draft Strategy should therefore provide a stable platform for activities leading to closer and more efficient cooperation between markets, resulting in the medium term in their integration into one single European transparent energy market, with more aligned price-fixing approaches.

b) *Fully integrating the energy strategy within a long-term perspective (comments on consultation document point 2.2.2)*

BUSINESSEUROPE supports the initiative of launching a project on "Decarbonisation of Energy Roadmap to 2050", aiming at exploring different possible development paths for energy production and use in Europe. The low-carbon path 2050 outlined in the Commission staff working document is not necessarily the most cost-efficient path. A **discussion with stakeholders** needs to take place on pathways taking into account industrial investment cycles and the state of commercialisation of new low-carbon technologies.

c) *Priority areas for the future strategy (consultation document point 2.2.3)*

1) Moving toward integrated and modernised energy networks

BUSINESSEUROPE welcomes the Commission's intention to propose a new Energy Infrastructure Package by end-2010. Sufficiently investing in **cross-border interconnection** infrastructure is crucial, particularly for interconnections of European long-term economic interest. The Presidency Conclusions of the European Council of May 2007 stated that achieving at least 10% gas interconnection capacity use, compared with total gas demand, will be vital. Everything must be done to let market forces play their role in this respect. In some specific cases, obstacles might however impede market-driven investments in infrastructure. In these cases the Commission

should conduct an analysis of such obstacles and propose specific measures to remove them. Creating adequate incentives for investments in **smart grids** should also be an important aim of the European energy strategy.

Particular focus should be placed on:

- Strengthening **cooperation at EU level** of energy network operators (ENTSO-E), in particular with the aim of strengthening **cross-border interconnections and capacities.** This is important to optimise renewable resources integration and use.
- **Accelerating infrastructure project authorisation procedures.**
- Improving **framework conditions for investments.**
- Rolling out **smart grids.**

2) **Making progress in reaching a competitive low-carbon energy system**

In the shift towards a competitive low-carbon energy system particular focus should be put on:

- The new **EU Energy Efficiency Action Plan** which needs to become the backbone of reducing greenhouse gas emissions and improving energy security. Energy efficiency presents an important market opportunity as world-class solutions to reduce energy consumption often come from European companies.

- **An EU Emission Trading Scheme (ETS)** which sets a clear direction for companies and supports long-term confidence in the value of low-carbon investments, especially in the power sector, but at the same time protects the international competitiveness of industry.

- An energy mix with **nuclear energy** as one essential energy source to achieve the transition towards a low-carbon society. Renewable energy is an increasingly important element of the EU energy mix, but the additional costs for energy-intensive industries must be addressed. In the long term, **renewable energy support schemes** must be **harmonised** to ensure investment in renewable energy where it is economically and environmentally most efficient.

- Taking initiatives for promoting best practice in terms of long-term contracts between energy suppliers and users, co-investment models and other risk-sharing models (Exeltium model). These **long-term commercial arrangements** can facilitate investment decisions, e.g. in new nuclear build, while giving visibility of the economic conditions for future electricity supplies, an element which is important for industrial energy consumers.

- Pursuing the target of timely replacement of ageing power generation capacity under the flag of a low-carbon energy future, it is vital that a consistent flow of transparent, clear and correct signals generated by the internal market reaches investors in order to provide a stable ground for effective investment decisions. **The market electricity price should remain the key indicator for every investment decision.** Assessment of any European or national support schemes for investment needs to be made with that in mind.

3) Facilitating innovation in cost-efficient clean technologies

We welcome the focus of the document on implementing the **Strategic Energy Technologies (SET-) Plan**, and on the need to increase the level of private and public spending on research and development drastically.

Ways to fund low-carbon energy R&D:

- The **EU budget** should be refocused on innovation, with a special priority on climate and energy technologies
- **Financing means** for low-carbon technology projects at the European Investment Bank must be expanded, especially for energy efficiency.
- Article 10 of the revised EU ETS Directive calls for a high percentage of the **revenue from auctioning** to be earmarked for financing the development of new energy technologies.

4) Developing a strong and coordinated external energy policy

As regards external energy relations, BUSINESSEUROPE expects the EU to **develop a more coherent framework** to develop effective and properly financed policies to diversify energy imports, to reduce the over-reliance of some Member States on single gas suppliers and to engage in constructive dialogues with key producer countries on security of supply issues and with major consumer countries to cooperate on energy efficiency matters.

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