POSITION PAPER

BUSINESSEUROPE

6 February 2012

Reaction on the EU ENERGY ROADMAP 2050

KEY MESSAGES

1 **In order to maintain a global level playing field, more attention must be given to the global energy competitiveness of European industry.**

2 **The realization of the decoupling of energy consumption and economic growth must not be realized at the expense of the European industrial base.**

3 **Information on actual technology costs and cost developments need to be clarified in order to enhance planning reliability and investment security.**

KEY FACTS AND FIGURES

EU dependency on oil imports reached 83.5% in and 64.2% for gas (2009).	Energy costs are likely to rise from 10.5% of GDP (in 2005) to 15.1% in 2030 (up from) and 14.3% in 2050.	The EU-27 share in global CO_2 emissions (< 10%) will continuously decrease over the next decades.

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Reaction on the European Commission's "Energy Roadmap 2050"

On 15 December 2011, the Commission adopted the Energy Roadmap 2050 as part of the resource-efficient Europe flagship initiative. It follows the Low-Carbon Roadmap and the Roadmap on the Future of Transport, all proposing long term policy actions in the context of the target of an 80 - 95 % reduction in the EU in greenhouse gas emissions below 1990 levels by 2050.

BUSINESSEUROPE supports the EU's idea of establishing 2050 roadmaps as these may help to provide business with the much needed predictability on which to base post-2020 strategies and investments. With regard to the Energy Roadmap 2050, BUSINESSEUROPE especially appreciates the scenario approach taken, outlining several different possible pathways. Some of the conclusions drawn by the Commission within the Energy Roadmap 2050 go in the right direction. It is true that priority should be given to the implementation of the Energy 2020 goals and European efforts in R&D and technological innovation must be strengthened by boosting public and private investments. Moreover, a 2030 perspective needs to be developed to make further contributions to investment predictability. Nevertheless, the European business community has to convey a number of concerns with regard to some aspects of the Energy Roadmap 2050:

- **Ensuring energy competitiveness to maintain a level playing field**

BUSINESSEUROPE appreciates the Commission's ambition to explore the challenges of the European Union's decarbonization objective while ensuring security of supply and competitiveness. In view of this proclaimed effort, BUSINESSEUROPE believes that the competitiveness aspects of the Energy Roadmap should be strengthened. Energy production is fundamental to our economy and society and the development of energy prices is an important determining factor for industrial competitiveness. BUSINESSEUROPE thus urges to give more attention to the global energy competitiveness of European industry. Energy prices in Europe are higher than in many other major economic partner countries, thus weakening international competitiveness especially of European energy-intensive industry. In order to avoid the decline of Europe's industrial base it may be useful to set the energy price as performance indicator, based on the concept of levelised energy cost as used by e.g. the International Energy Agency (IEA).

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In order to evaluate the cumulative impact of legislation on industrial competitiveness it is necessary to carry out a thorough "competitiveness proofing" for all future EU energy policies emanating from the Energy Roadmap 2050 and all energy policies in general. BUSINESSEUROPE presses for building on the initiative by the Competitiveness Council, based on the EU flagship initiative "An industrial policy for the globalisation era" in order to install a thorough "competitiveness proofing". This is especially required as some of the 2050 roadmaps the European Commission has published earlier draw an ambiguous picture of the role industry should play in Europe by mid-century.

Global competitiveness is the essential basis for industrial operation and sustainable growth. European business needs a stable and predictable framework of regulations and investment conditions as the year 2050 is not far away in industrial investment terms and can have direct consequences for company strategies already today. BUSINESSEUROPE therefore calls on EU institutions to take into account the number of sectoral 2050 roadmap which have already been or are being developed.

- **Decoupling of energy consumption and economic growth**

Many countries (e.g. Japan, China) define energy efficiency as a function of energy productivity, i.e. the use of energy in relation to economic output indicators, whereas the EU works with energy efficiency targets in terms of absolute energy savings. The European Union's high political commitment to energy savings through energy efficiency must not endanger welfare and jobs by threatening Europe's strong and competitive industrial base.

On the one hand, it is stated that sectoral production levels remain the same in all scenarios (Impact Assessment part 1, p.26), whereas on the other hand "structural changes" are mentioned as contributor to increase energy efficiency and energy savings (Impact Assessment, part 2, p.10). In consideration of this fact, BUSINESSEUROPE is concerned whether the European Commission is ready to realize the energy savings through energy efficiency improvements modeled in the decarbonization scenarios at the expense of energy-intensive production in Europe. Such inconsistency creates uncertainty among stakeholders and further raises doubts whether the EU really wants to combat carbon leakage.

Moreover, the resulting average annual improvements in energy intensity of approximately 2.5% p.a. in all decarbonization scenarios (High Energy Efficiency Scenario: 2.7% p.a.) are very high. As the Commission rightly states, this means almost a doubling from historical trends (1990 -2005: 1.4% p.a., including the major efficiency raising restructuring in former centrally planned economies). The Commission outlined general decarbonization measures/policies as well as scenario-specific measures. In view of BUSINESSEUROPE, however, a number of them which

relating to energy efficiency are just described very vaguely and lack a concrete timeframe (e.g. speed of market penetration of smart meters and smart grids) up to 2050. This again nurtures concerns that the energy efficiency energy savings scenarios imply a weakening of the industrial base in Europe.

- **Ensuring appropriateness of models and plausibility of assumptions used**

BUSINESSEUROPE appreciates that the Commission has taken up calls to improve transparency of the PRIMES model and notes the effort by making the assumptions and technology costs explicit in the Impact Assessment and the attached Annexes. However, further clarification and discussion seems to be required on some of the assumptions made. The technology costs used in the PRIMES model differ from those used in studies from IEA and US DOE. Moreover, it is left in the unknown for which reasons the curves of technology cost development show rather poor improvements of cost efficiency. BUSINESSEUROPE calls on the Commission to provide more information in order to clarify these issues.

In this context, BUSINESSEUROPE also welcomes that the European Commission will regularly update the Energy Roadmap 2050 in order to take recent developments into account. In the context of capital costs and learning curves, we therefore claim that a regular consultation process of Member States and industry is launched in preparation for the Energy Roadmap's revision. In this way, transparency and traceability of the cost assumptions can be effectively enhanced.

- **Link to global climate action**

BUSINESSEUROPE is surprised that the finalizing of a global climate action has been set out as general assumption throughout all scenarios. We are aware of the European Union's pro-active role to find an agreement on a global climate deal. Nonetheless, to supplement the Energy Roadmap 2050 by adding scenarios that are not based in the assumption of a global climate action still provides the stakeholders with additional information and better evidence. Consequently, we think it is necessary to take up the Helm Group's[1] recommendation to address additional scenarios which take into account a delayed development of climate change policies in third countries, not least because of its crucial consequences for the issue of carbon leakage.

[1] In preparation of the Energy Roadmap 2050, Commissioner Oettinger set up an ad-hoc Advisory Group, chaired by Dieter Helm.

- **Tackling the financing challenge and keeping technology neutrality**

BUSINESSEUROPE notes that the Energy Roadmap 2050 evaluates the investments needed for the transformation of the energy systems at about 14 % of GDP. However, utilities' capacity is increasingly tightening. The investments requirements to keep up with more restrictive CO_2 regulation, ageing grids and generation capacity as well as the consolidation of the European market are extremely challenging for market participants. The current uncertainty in the financial market worsens the situation with increased costs of capital. BUSINESSEUROPE thus calls for financing models such as long-term contracts and power-user investments to be facilitated.

Moreover, it must be ensured that any legislative proposals deriving from the Energy Roadmap 2050 as well as throughout the regularly planned revisions, Europe must not be locked into specific technologies but remain technology- and fuel-neutral. By politically picking technology "winners" Europe could short sight itself and loose competitiveness globally.

- **Importance of communication and interaction with the public**

Given the profound changes, the planned energy transformation will imply for Europe's economy and society, and given the experience some Member States have made with public resistance to large energy infrastructure projects, resources should be foreseen to ensure an early and open communication and interaction with the European public on the possible implication of the energy roadmap 2050. Also the ad-hoc Advisory Group that was set out in preparation of the Energy Roadmap 2050 recommends putting more effort on transparently presenting the outcomes to the wider public to ensure full public engagement and understanding of the necessary tradeoffs between the three cornerstones competitiveness, security of supply and sustainability of EU Energy policy. Moreover, since household expenditure is estimated to rise in the short and medium term, it is crucial to get EU citizens consensus on the social costs that the transformation of the energy sector will imply.

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