BUSINESSEUROPE

SPEECH

25 September 2018
(Check against delivery)

WINDEUROPE 2018 CONFERENCE AT THE GLOBAL WIND SUMMIT
25 SEPTEMBER 2018, HAMBURG, GERMANY

BREAKING NEW GROUND: THE WIND INDUSTRY AND THE GLOBAL ENERGY TRANSITION

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Dear Commissioner, dear Minister, dear all,

I would like to thank you, Giles, for having me here today and giving me the opportunity to share a cross-industry perspective on the on-going energy transition. The program shows great quality. I am sure there will be fruitful discussions and interesting conclusions that will prove useful to many.

For those of you who don't know BusinessEurope well, we are the leading advocate for growth and competitiveness at European level, standing up for companies across the continent. We have direct members in 34 European countries: BDI and BDA here in Germany.

My intention for the next ten minutes is:

First, to discuss the energy transition in the EU through the lenses of different highly-exposed actors to see where we stand and how we can move forward.

Second, to look at the bigger picture: the outlook for EU manufacturing and exporting industries such as yours in a context of global competition and the recent developments in international trade.

<u>The energy transition in the EU: what it means to different sectors</u>

I would like to start by mentioning that the energy transition, very much driven by the need to combat climate change, is strongly discussed within my organization since many years, even decades. And it's not always an easy topic. I have witnessed frank discussions on various issues such as the ambition level, on how to position Europe towards main trading partners or specific policy instruments like the EU ETS or the role of support mechanisms to specific technologies, including the one we focus on here today - wind energy.

But I have also witnessed evolutions in positions within the business community, reflecting new market realities, technological developments and sometimes also public perception. And what I can say today is that European industry at large has clearly embraced the need to transition to low-carbon economy.

Does this mean that we still don't have a number of challenges to overcome? Does this mean that I will stop sending letters to Commissioner Arias Cañete raising concerns? Of course not, but I am convinced that our contributions to the discussions are more than ever constructive and solutions-oriented.

Some of you may have read media last week reporting on BusinessEurope and the CO_2 emissions reduction target by 2030. I'd like to take the opportunity of this public conference to make it crystal clear what our position is:

- Strong support for EU ambition on climate action. Equally important for major trading partners to be ambitious.
- Business across Europe always has and always will stand ready to provide solutions to tackle climate change, reduce emissions and build a strong EU economy.
- The 40% emissions reductions by 2030 is an ambitious target. The EU now has a solid set of policies in place to reach it. Therefore, the most important thing between now and 2030 is to focus on a successful implementation that gives investment certainty.
- If these existing policies allow us to go beyond 40%, this is a very positive outcome and it is a strong sign to the international community.

In that context, BusinessEurope is working on an energy and climate vision in view of next year's EU elections and the new political cycle. A strategy with a long-term thinking which will depict key opportunities and challenges for the EU business community looking ahead. We intend to guide the newly-elected decision-makers towards possible solutions to shift things into a better outlook for companies and society at large. We are implementing this project in close coordination with many sectors, including the wind industry that has shifted in a rather short period of time from a niche to a mainstream energy sources in Europe.

Let me turn now to what the energy transition means to different actors in this ecosystem and which factors need to be considered on our way forward:

The first one, this is you, the energy providers, be it electricity, gas or oil: you are going through huge transformations to bring more and more low-carbon energy to the market. It does not go without many challenges such as the progressive phasing-out of coal in many countries, the more and more decentralized energy production, infrastructure needs and public acceptance.

I see one response to many of these: more Europe. We have to make stronger progress towards the development of cross-border connections, the integration of electricity markets and the management of energy flows among countries. Unfortunately, we see how difficult negotiations are on the electricity market design package, in particular around Capacity Mechanisms and the role of Transmission Systems Operators.

In order to make our common electricity market more competitive, we see also the need to progressively phase out discriminatory practices that put certain energy providers ahead of others. We need to ensure a level playing field that will help every company to make their own success story out of this transition. The wind onshore industry is a good example of one that can now compete on equal footing with others *[according to the International Renewable Energy Agency: wind onshore projects commissioned in 2017 fell within the range of electricity costs generated by fossil fuels]*.

The second category of sector is the technology providers that belong to your wind industry as well. Here the energy transition is clearly an opportunity. European companies are pioneering and are well positioned in many different segments. The challenges come more from the outside, with an increasingly forceful global competition. I'll come back to this in a minute. Where EU decision-makers have to be extremely vigilant is to avoid picking winners at a too early stage. The range of technologies and fuels to reach a carbon-neutral society is so broad that policy should not restrict, but let them all play their market share.

In addition, given the early stages for many low-carbon technologies, it is key that business can count on a sound legislative outlook. Market penetration and scale-up take time and struggle in an environment of constant regulatory changes. We should be able to provide them with the momentum to grow, but also with the long-term stability required for that.

The third category is the energy intensive industries. These enabling materials industries are not only your clients but also your suppliers of chemicals, steel or concrete. Like you, they are deeply engaged in the transition. They have embraced the need to a low-carbon economy, but a number of things need to be fixed. Looking at the electrification of heat and of their production processes, it is by no means certain that sufficient, reliable and competitively priced, low-carbon electricity will be available.

Look for instance at the trend in regulatory costs. As just one example, taxes account for 43% of the electricity price for industrial users in the EU[1]. Industries should also be allowed to sign long-term electricity contracts e.g. through

[1] European Round Table of industrialists, Benchmarking Report 2017

renewable Power Purchase Agreements (PPAs) as it will help to address risks related to price volatility. Lastly, it is absolutely essential that they continue receiving protection against unfair international competition until global trading partners catch up with the EU's level of ambition.

The outlook: global competition and trade developments

Ladies and gentlemen,

In my final part, I would like to briefly touch on the global picture. The wind energy sector, as a manufacturing and exporting industry, is also confronted with a highly competitive and dynamic international environment.

The outlook remains challenging. While EU manufacturing keeps the highest share in global trade of manufactured goods *[~ 33% in 2016]*[2], we are losing global market share and export share *[-7% between 2004-2013]*[3]. Why is that?

I see several reasons, such as the high cost of doing business in the EU (tax burden, energy costs, labour markets, etc.), sometimes a risk-averse attitude hindering companies' ability to innovate, the sometimes-lacking capacity to bring new ideas and technologies from labs to market and of course aggressive strategies by competitors: "Made in China 2025", "Make in India" or "America First".

The picture is becoming even more blurry and a moving target as we are witnessing a disruption of the world trade order, and we find ourselves with a lot of doubts: is this the start of a new trading system? A system that goes against the existing business models?

One of the countries that was a traditional herald for free trade is now backtracking, and puts all of its previous convictions into questions.

Clearly the current situation is not ideal and if it continues to prolong in time, it will have an impact on companies' business models and investment decisions. If the US Administration goes ahead with its intention to put additional duties on all imports from China including goods relevant to your sector this could mean on one end, that European goods could become more competitive in the US vis-à-vis Chinese ones. But on the other end, if European companies are using Chinese intermediary products in their US production their competitiveness would decrease.

[2] World Bank Group
[3] European Commission, EU structural change, 2015

Up until now we have been working under the framework of the EU Trade for All Strategy, and our assessment is quite positive. It delivered new trade and investment opportunities through bilateral agreements such as Japan, Vietnam or CETA. The modernisation of older agreements with Mexico and Chile is underway and the bilateral negotiation agenda remains ambitious with Mercosur, Australia or New Zealand on the table.

However, it failed to deliver rules in key areas like data flows and the multilateral front is under existential threat even if the EU is doing everything to support the WTO-World Trade Organisation and the multilateral trading system. Last year we were on the verge of delivering liberalization in the area of Environmental Goods through the EGA-Environmental Goods Agreement. Something that would be positive also for your sector. This year we are struggling to keep the multilateral trading system alive and functional.

We must recognise that opening markets and free trade has become an increasingly daunting task. The rise in protectionism in developed economies has established a tendency to use trade as a scapegoat for the shortcomings in other policy areas. In parallel, trade is increasingly used as a tool to promote other policy objectives, e.g. environment and social standards, consumer rights, etc. This is not necessarily negative provided these objectives don´t undermine completely economic goals and ultimately endanger the ability of European companies to compete on equal footing in Europe and abroad.

It would be naïve to assume that the existing world trade order is perfect, it needs reform. Precisely for this, we need to collaborate and discuss where the shortcomings might be coming from. The turmoil created by the US and its most recent decisions could give a positive spin in contributing to improve the system. This will of course depend on other partners such as Japan or China, but also on us. We can be the key drivers for an improved world trade order if everyone acts responsively.

Ladies and gentlemen,

I am confident that our industries, that your industries, have the value required to success in this competitive global environment: 10 out of the 20 companies with the highest market capitalisation in the New Energy Global Innovation Index are European.

With a strong and modern EU industrial strategy, our companies will not only be capacity to maintain our competitive edge in face of others, but to improve it even further.

Thank you for your attention.