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securing competitive energy for industry

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RESPONSE TO GREEN PAPER
A 2030 FRAMEWORK FOR CLIMATE AND ENERGY POLICIES

On 27 March 2013 European Commission (EC) took step towards developing a 2030 framework for EU climate change and energy policies. It adopted a Green Paper which launches a public consultation on the content of the 2030 framework. The Green Paper raises a set of questions e.g. relating to the main lessons learned from the 2020 framework; type, nature and level of climate and energy targets for 2030; coherence between different policy instruments; competitiveness and security of supply and distribution of efforts between Member States (MS). IFIEC Europe (IE) welcomes the opportunity to give its viewpoints on basis of the questions of the Green Paper concerning the development of a 2030 framework for climate and energy policies.

IE MAIN MESSAGES ARE:

- Reinforcing competitiveness of European industry and increasing the share of industry in the European GDP is of paramount importance. Therefore climate & energy policy must be linked with industrial policy and contribute to the “Industrial Renaissance” initiative.
- Establishing predictable and effective framework conditions promoting industrial investments with access to globally competitive energy prices should be main focus of reform.
- The EU will only represent 5 to 6% of global GHG emissions in the next decade. There-fore, before increasing the EU reduction target in an ambitious way, the main climate action goal should be to reach an international agreement involving the main emitters. This global climate agreement must include a global level playing field for climate costs.
- Reduction of greenhouse gas emissions should remain the core sustainability target. Other targets - assumed necessary until a global agreement and cost level playing field will be achieved - should be coordinated and aligned as much as possible with this core target.
- EU ETS should be the core instrument in climate policy but must be reformed to make it carbon leakage proof.
- Allocation for both direct and indirect emissions should be integrated in ETS based on actual industrial output. All carbon leakage mitigation measures should remain in place until enough other nations – reaching a critical mass of industry competing with European industry – implement a system with similar climate costs.
- In absence of a global agreement, the costs for RES, CCS and the EU ETS will be too high to keep European Energy Intensive Industry (EII) competitive on the global market and Europe will import products manufactured elsewhere with higher carbon emissions.
- The new long-term climate policy should be revised periodically through well-defined procedures and equipped with a governance system for major revisions. Ad-hoc interventions should be avoided.
- In particular, the ambitions for 2030 – including the EU ETS cap – should be revisited if a new global climate agreement is not effective by or shortly after 2020.
- The same monitoring process should apply to energy prices in order to enable energy intensive industry to remain competitive and to react more quickly to structural changes like the ones observed for gas and electricity over the past years. To be effective, the measures must address the total energy cost structure, including transport and taxes.

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- State aid policies should make the restoration of EU's industry global competitiveness an "objective of common interest".
- Avoiding to overburden industry with globally unbalanced carbon and energy costs is key to enable the European manufacturing industry to grow and increase its share of GDP, which is vital to create jobs and welfare in Europe.
- All policies and measures should be implemented in a cost effective manner.

SPECIFIC REMARKS:

4.1. General

• *Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?*

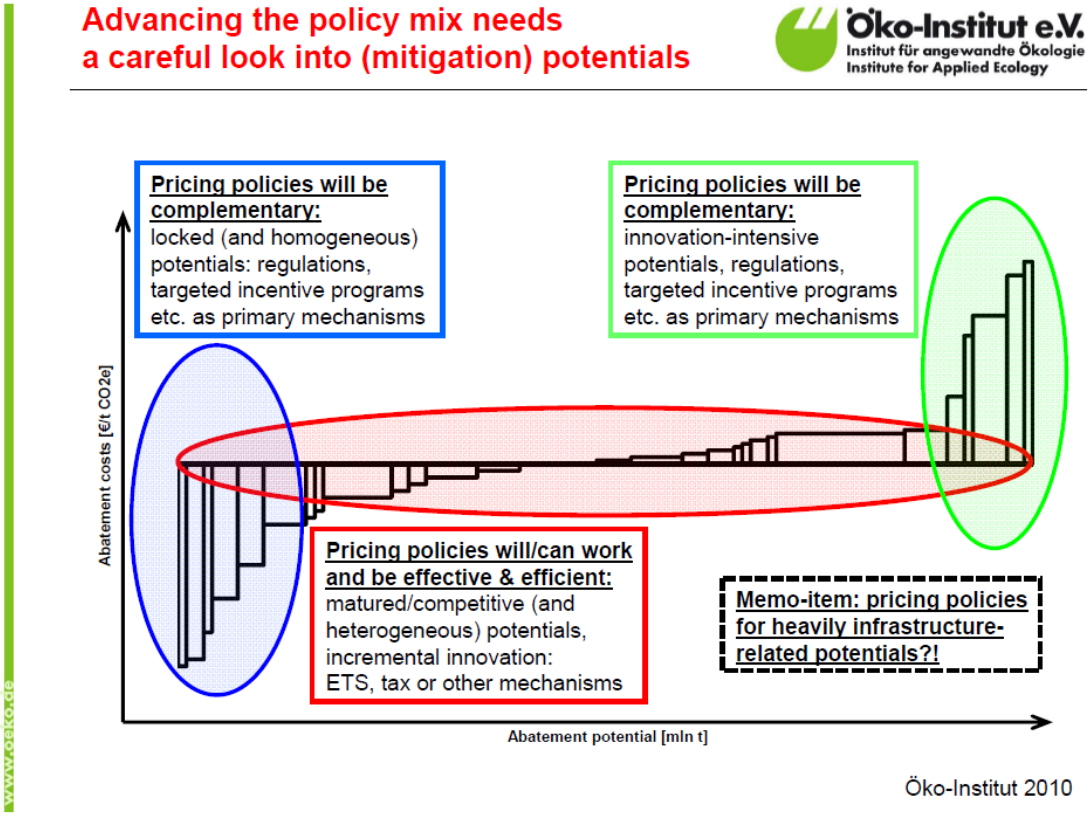
- EU energy and climate policy carries a cost burden that has a significant impact on EU competitiveness. Most of these are unilateral costs, attributable to the pioneering role of EU in climate change. As EU's leadership has found hardly any followers, the disparity to other parts of the world is growing. To restore competitiveness, further significant ***uni-lateral costs must be avoided.*** In addition, costs of the instruments must be in forefront.
- Present problems of ***maintaining and expanding a manufacturing base in Europe*** are also very much related to the prices for electricity, natural gas and feedstock in Europe:
  - The prices for natural gas and chemical feedstock are in important competing regions – Middle East, North America through unconventional (shale gas) – much lower than in Europe. Also in China unconventional gas has a high potential.
  - Electricity prices for industry are significantly higher compared to the major competing regions : two times higher than in the US, three times higher than in China.
- Europe needs to bring a better balance between its three climate and energy policy pillars: sustainability, security of supply, and competitiveness. ***Long term competitiveness of European industry and economic growth needs to be addressed at an EU level and be at the centre of EU policy.*** Europe needs to prioritise economic targets as well as policies that make investments in Europe attractive.
- The risk of long-term carbon leakage is high, even at today's low carbon prices. The risk that carbon prices will be high at a later stage will prevent investment in Energy Intensive Industries (EII). Hence there is a ***continued need for shield measures for exposed sectors in a post 2020 EU ETS***.
- EU State Aid Guidelines have a too narrow scope. ***In the present revision of State Aid Guidelines, preservation of EU competitiveness should be defined as an objective of common interest*** in order to make challenging climate and energy policies feasible.
- For industry ***we need policies that make investments in Europe attractive*** by incentivizing growth.

4.2. Targets

• *Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?*

- ***New targets*** primarily ***for sectors which have not been included so far*** in energy and climate policy (non EU ETS sectors). Extending targets to other sectors must not lead to an increase of burdens for EII.

- New targets set should have an economic character meaning ***IE opts for budgets rather than volume targets***. E.g. the RES target has to change from a pure volume target to one in a sense that renewable energy must be "x" % cheaper in "x" years compared to now. This will be the only way to help enlarge the application of these technologies in other relevant regions.
- After a new global climate agreement with equal carbon burdens for industry globally, ***there should be one target for ETS sectors only, which is a GHG target.*** However, in absence of such a new agreement there should be an intelligent (cost efficient) support for renewables in order to avoid the risk of exploding carbon prices.
- Therefore two situations should be foreseen, with and without a new global climate agreement. Without a new global climate agreement the present development of the EU ETS cap until 2030 with a decrease of 1.74% points per year should not be changed. We stress that the revision of the 1.74% factor was foreseen in the EU ETS Directive for after 2020 with a view to the adoption of a decision by 2025.
- If EU decides to have more than one target (carbon reduction), because we are still in absence of a new global climate agreement, these ***other targets must be intelligently aligned with the carbon target and there must be more modest and cost effective financial support,*** in order to avoid that the carbon price would explode to unmanageable levels..
- ***In absence of a global climate agreement***, abatement measures with extremely different abatement costs should not be driven by the EU ETS, the ***EU ETS should just remain as a flanking support for RES and CCS***.
  - The following picture presents an impression of the abatement curve. On the left side are cost effective measures with a negative CO_2 cost, such as insulation of buildings which still need stimulating policies. The EU ETS is in the middle area. On the right side are much more expensive abatement options such as RES (wind, solar) and also CCS.



Stakeholder meeting Structural Reform EU ETS on 19 April 2013, presentation by Dr. Felix Matthes of Öko-Institut

For the reasons as explained above, before a new Global Climate Agreement with equal burdens for industry globally is concluded a **more moderate combined RES-CCS target for 2030** should be adopted (preferably, on a budget basis). More moderate if compared to the 2020 RES target, which may not be achieved by many MSs.

• *Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?*

- ***ETS, the central instrument of the EU climate change,*** has been impacted supplementary instruments, e.g. support to development of RES-E.
- The lesson learned is firstly that all ***instruments aimed at the same target need to be well coordinated***. Secondly, the side effects from instruments at other targets should be well analysed and recognised upfront.
- ***Renewable policies has proven to be contradictory to the internal market objective*** by splitting up markets and in the different MS.
- ***Policies are needed that are scenario-proof*** meaning they have to avoid carbon leakage at different levels of carbon prices and independent of the conclusion of a global climate agreement.
- Different targets within climate change policy are piled up to an ***uncoordinated and conflicting mix of instruments*** being contra-productive to each other.
- The ***existing rules are overly complicated*** and ***too much bureaucracy*** is hampering.
- ***Flexibility is lacking*** while needed as the world changes constantly.
- Therefore ***targets should be rather relative and then absolute.***

• *Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?*

- IE favours ***legally binding effort sharing with other sectors***, with equally binding frameworks for sub-sectors.
- Adding multiple targets to single sectors would lead to sub-optimal solutions. In non-ETS sectors, focus should be on technical standards and technology development.
- ***All sectors should be involved in climate protection efforts.*** Therefore, targets and specific instruments for emission reduction in non-ETS sectors could be useful. Setting of these targets should be based on a bottom-up analysis of economic feasibility. Non-ETS sectors should gradually - and based on analysis of feasibility - be invited to join the EU ETS. The number of EUAs will have to be adjusted accordingly.

• *How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?*

- IE opts for ***cost targets***, meaning that targets should aim at the costs rather than on simple volumes.
- That way ***competitiveness would be put in the center of attention.***
- EU has a valuable experience in ***monitoring, reporting and verification (MRV)*** as well as in ***benchmark establishment*** and should share this with other regions. EU must find best practice examples and define rules that may reduce the extent of over-subsidisation and ensure the phase-out of support.

• *How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?*

- The increasing share of renewable generation has sharply increased the uncertainties in the supply. ***Sufficient generation capacity must be available*** to meet the current demand in any location at any time. Even in periods in which power supply is covered by renewables, a sufficient back-up capacity must be available. For this reason, generators of renewable electricity need to be responsible for imbalances caused by inability to deliver according to their commitments in the day-ahead and intra-day markets.
- The expansion of renewable energy has in some parts of Europe ***reduced the quality of power supply to an unacceptable level***. The security margin vis-à-vis black-outs as well as variations in frequency and voltage indicate a reduction in reliability. Indications are that the present development programs are inadequate and that these challenges will become more serious and spread to larger areas.
- The ***grid has to support security of supply***. Here, the regulatory framework must set clear objectives for power quality (frequency and voltage). It is insufficient to measure only supply interruptions usually of at least 3 minutes' duration. Already shorter disturbances and brief voltage fluctuations in the millisecond range can lead to loss of production with significant costs for industrial consumers.
- Plans to establish capacity mechanisms in order to secure adequate back-up capacity indicate that the pace at which we are moving is testing the ***limits of security of supply***. IE believes that EC and MS should first and foremost focus on the ***elimination of market distorting elements*** such as over-subsidizing renewable energy, the lack of balancing responsibility for intermittent generation such as solar and wind. The possibilities of demand response must be strengthened.

4.3. Instruments

• *Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?*

- In general, ***double regulation*** with more than one instrument, targeting the same economic units for the same objective, ***should be avoided***, meaning for example that ETS sectors should not be exposed to energy efficiency targets and instruments.
- ***EU ETS requires a comprehensive structural reform package*** to improve global competitiveness and thus to avoid carbon leakage.
- Furthermore changes are needed to other (interacting) policy instruments. Regarding ***RES policies***, the cost pass-through to industry exposed to the risk of carbon and energy leakage, because of the high costs for feedstock (e.g. shale gas), natural gas for firing and electricity in Europe, should be carefully mirrored to the same cost pass-through in the major competing regions and countries. Moreover, there should be EU-wide certainty about this principle, otherwise the investment behaviour is not influenced positively.
- The ***Energy Efficiency Directive*** (EED) is a double regulation for the sectors falling under the EU Emissions Trading Scheme (EU ETS).This leads to higher overall costs. Partly their objectives are conflicting. One dangerous interpretation of the EED is that EU should have an absolute energy cap, which would be in conflict with the EC objective to increase manufacturing output.
- As a matter of principle, ***support to RES-E should be phased out*** and the driver should be the EU ETS target, to achieve the lowest overall cost. For technologies not mature for the market but with high potential, preference should be given to supporting research & development rather than large-scale deployment.

- Any revision of the ***Energy Taxation Directive*** must ensure that the global competitiveness is kept in mind by allowing that energy tax levels are lowered in the context of e.g. local voluntary agreements, and that effective carbon leakage measures as for EU ETS are applied for CO2 taxation regimes.

• *How should specific measures at the EU and national level best be defined to mobilize cost-efficiency of meeting climate and energy objectives?*

- On each of the levels it is important to ***look for the most cost efficient solutions*** for achieving the challenging targets set at EU level. Whereas we see more and more that there is the ***trend to just adding measures*** and rules and requirements on each level (EU, member state, local and regional levels). ***Such additions***, however, do not bring any further advantages, but ***just add cost*** and often puzzle incentives set by double regulations. So it should be in the interest of all policy makers on each and every level to find simple and cost efficient solutions and measures and to observe ***avoiding double regulations***. The EU's role here should be primarily in identifying, communicating and incentivizing best practice solutions.
- Climate policy should firmly remain at a community level, securing the integrity of the internal market as well as avoiding national, supplementary measures.
- The regional nature of EU ETS has to be recognised by ***establishing appropriate carbon leakage mitigation.*** Allocation for both direct and indirect emission cost to industry strongly exposed to international competition should be integrated into the ETS system itself. Those measures should remain in place until international agreements have secured a global level playing field. In order to secure the industrial base and growth, allocation for direct and indirect costs must be based on actual and not on historical production.
- Full European ***harmonization of renewable support rules is today not achievable***. Natural and political conditions in Europe are too diverse for that. At least, the spreading of best practices between MS must be encouraged.
- The pace of introduction of intermittent generation should be adapted to the availability of grid and back-up capacity, avoiding that the stability of electricity supply is jeopardised. In addition, more storage facilities are also likely to be needed. Therefore, the economic features of all technologies applicable have to be improved.
- EU should focus on setting clearer principles for ***support to renewable generation***. The objectives would be to promote market compatible solutions, avoiding market distortion.

• *How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilize investment?*

Market integration must be accelerated and serves several purposes: more internal competition, a higher level of Security of Supply and reducing the overall cost of adapting the EU energy system to the new generation mix. More specifically, IFIEC Europe insists on

- ***Giving*** investors the necessary assurance about ***a stable regulatory framework to enable grid developments***;
- ***Adjusting the growth speed of intermittent RES-E*** to what TSOs and DSOs can manage without putting system stability at risk and implementing best practices in renewable energy support schemes in order to optimize costs and incentivize adequate market response;
- ***Using capacity mechanisms only as a last resort solution***, limited to the proven missing money, and only after promoting other measures such as voluntary demand response. EII can contribute in a cost and climate efficient way to reduce investment needs in additional generation and transport capacities provided the conditions are designed adequately;
- ***Developing a long term market based on transparent pricing mechanisms***: Electro-intensive industries do need long term power price visibility and contracts.

- ***Implementing measures to restore a globally level playing field*** with the following priorities:
  - address urgently the critical situation faced by gas intensive industries: no lever to alleviate this cost handicap should be excluded;
  - actively fight against "carbon leakage" by restoring trust for industrial growth;
  - limit the cost impact to industry of RES support schemes at a level which does not jeopardize industrial competitiveness
  - develop and implement a State aid policy that focuses on international competitiveness of the EU economy rather than on distortions between MS only.

• *Which measures could be envisaged to make further energy savings most cost-effectively?*

Energy efficiency is one of the key instruments to combat the disadvantages given by EU energy and climate policy. EU industry's track record in this respect is impressively successful: the EU industry has continuously been working to improve energy efficiency in order to improve international competitiveness. ***EU industry today is operating on a very high energy efficiency level.*** Further ***progress is limited to a level of about 0.8% per year or less in general***, which is much lower than the 1.74% points per year decrease of the EU ETS cap. In mature sectors the scope for improvement is much lower, e.g. for ammonia production. Some sectors work already close to the best achievable technology level. This makes further progress dependent on technological breakthroughs which can't be forced but influenced by pushing R&D. Long term predictable frameworks including carbon leakage measures and in addition aid from national resources will enable energy efficiency.

• *How can EU research and innovation policies best support the achievement of the 2030 framework?*

Competitive products are key for being successful in the global competition. That's why ***EU industry is working hard in driving innovation and in inventing efficient products***. Their success is seen in the export statistics. Strengthening this is the path of success for EU economic, energy and climate change policy.

4.4. Competitiveness and security of supply

• *Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?*

- We need an extensive ***monitoring of energy prices made available to industry in the regions of the world competing with Europe*** : the use of energy as a key production factor by competing economies is a fact that requires more anticipation; specific sectorial follow-ups will be needed
- To keep gas intensive industries, EU must continue to **diversify its sources of supply** in order to strengthen our negotiation power while discussing with our key partners:
  - Infrastructure development (LNG terminals, new supply routes) to make the IEM more competitive
  - Encourage indigenous production
- The same ***need for a long term vision applies to power intensive industries***:
  - Even a well functioning market cannot deliver competitive prices if the energy mix itself is not competitive; if, because of delayed international climate agreement, decarbonized power remains more costly than carbonized one, hardship regimes covering the whole cost structure shall be implemented.

- ***Exemption for exposed industries of extra cost related to European climate policies.***
  - The cost pass-through of subsidies for renewables and CCS to industry exposed to the risk of carbon and energy leakage **should be carefully mirrored** to the same cost pass-through in the major competing regions and countries.
  - With the present high prices for electricity, natural gas and feedstocks in the EU versus other major competing regions, this cost pass-through must be zero. This means that where there is now such cost pass-through, this should be ended.
  - Moreover, there should be EU-wide **certainty about this principle**, otherwise the investment behaviour is not influenced positively.
- On that sense, a ***growth proof ETS*** should be installed ***with full allocation of direct and indirect emission***, at least until ***globally equal carbon price*** burden for competing regions can be realized.
- ***Long-term stability and predictability*** in frame conditions for industrial investments.
- ***Simplification and modernisation of State aid rules*** (with international competitiveness as objective of common interest etc.)
- ***RES-E support scheme costs made cost-effective*** in order not to undermine the economy of the whole system.

• *What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?*

- Leakage is not only a concept to be acknowledged in connection with ETS as "carbon leakage", but ***leakage also stems from other climate change policy measures in the EU*** as a whole, so there is also something which we could call ***"energy leakage"*** caused e.g. by high power prices due to costly RES-E support schemes.
- Carbon leakage is the sum of the short-term and long-term effects of too high cost and too much uncertainty for industries compared to those of their international competitors. ***Economically marginal plants will***, regardless of European climate policies, ***have to close*** when there is a surplus in a market leading to reduced product prices. In Europe this effect has been aggravated by climate policies and electricity supply cost:
  - The phase-out of electricity supply contracts and tariffs due to market liberalisation and a more dynamic short-term pricing of electricity[1].
  - Strong increases in the short-term pricing due to ETS (50% in extreme cases).
  - Negative attitude from DG Competition to long-term electricity contracts as such.
  - Inability to establish new long-term electricity contracts due to too high risk level
- Carbon leakage is dependent on the carbon price. That means that relatively low carbon prices currently has helped avoid carbon leakage to a major extent. With the attempt to increase the prices with different measures foreseen (back-loading etc.), EU industry however had to learn that low carbon prices will not be accepted for the future even in times of severe economic crises. That means: ***for any future production and investment decisions higher carbon price scenarios will be the decisive ones. With carbon leakage becoming more and more a reality***.
- ***Leakage already starts when investments in Europe are stopped*** and not only when industrial sides will have left Europe totally.
- In order to remain at par with competitors related to consumer adaptation etc, industry must have access to capital and technology that allows them to make investment in new processes,

[1] Contracts entered into prior to EU ETS implementation in 2005 at prices without emission cost embedded in the price, will slow down the leakage process. Such contracts are of course no longer available.

new products and new localisations. Very few new plants have however been established in Europe recently in industries that are exposed to risk of carbon leakage. This is a worrying trend.

- Looking at investment leakage EU needs to learn that this ***includes*** - besides European companies taking investment decisions in non-EU-States - also ***non-EU-industries not investing in Europe***.
- The following ***examples give evidence that a number of industrial plants are being relocated and investments take place outside Europe*** due to the current economical circumstances:
  - Dow Chemical invests in a new tpy ethylene plant in Freeport, TX as part of a € 4 billion investment program in Texas and Louisiana.[2] – Production capacity: 3.3 billion pounds of ethylene p. a.; 414 permanent new jobs.[3]
  - INEOS investment to boost ethylene capacity in Chocolate Bayou, TX.[4]
  - Exxon Mobil expands its Baytown chemical plant[5] creating 350 additional jobs at the plant, 3,700 jobs in the area, and $ 870 million additional revenue.[6]
  - Sasol invests in two gas plants in Louisiana worth around $ 21 billion.[7]
  - ThyssenKrupp sales its Edelstahlsegment to Outokompu with the result of shutting down plants in Krefeld and Bochum / Germany, whereas investments take place in the US.[8]
  - Wacker investment in new chemical plant near Cleveland, Tennessee, worth € 1.1 billion, creating 650 permanent jobs.[9]
  - Royal Dutch Shell invests in a $ 2 billion petrochemical plant in Pennsylvania, near Pittsburgh[10] creating at least 400 additional jobs.[11]
  - Koch Nitrogen investment in a $ 1 billion fertilizer plant in Enid, OK.[12]
  - BASF has channeled since 2009 more than $5.7 billion into new investments in North America, including a formic acid plant under construction in Louisiana, where the company will manufacture a chemical used to de-ice runways, tan leather and preserve animal feed.[13]

[2] Wall Street Journal, Chemical Makers Ride Gas Boom, April 18, 2012, URL: http://online.wsj.com/article/SB10001424052702304331204577352161288275978.html#.
[3] Houston Business Journal, Billions of dollars of chemical plants planned in the Houston area, Jul 27, 2012, URL: http://www.bizjournals.com/houston/print-edition/2012/07/27/billions-of-dollars-of-chemical-plants.html?s=print.
[4] ICIS News, INEOS to raise Chocolate Bayou, Texas, ethylene capacity 6.5 %, January 28, 2012, URL: http://www.icis.com/Articles/2012/01/28/9527598/ineos-to-raise-chocolate-bayou-texas-ethylene-capacity-6.5.html.
[5] Fuelfix, Exxon Mobil plans multibillion-dollar Baytown plant expansion, March 5, 2013, URL: http://fuelfix.com/blog/2013/03/05/exxon-mobil-plans-multibillion-dollar-baytown-plant-expansion/.
[6] Bloomberg Businessweek, Exxon Mobil considering Baytown expansion, June 1, 2012, URL: http://www.businessweek.com/ap/2012-06/D9V4F0MG0.htm.
[7] Financial Times, Sasol to invest $21bn in US gas plants, December 4, 2012, URL: http://www.ft.com/cms/s/0/77ba75b6-3d80-11e2-9f35-00144feabdc0.html#axzz2TYOVdNiv.
[8] Westdeutsche Zeitung, ThyssenKrupp einigt sich mit Outokumpu – Aus für Krefelder Produktion bis 2013, January 31, 2012, URL: http://www.wz-newsline.de/lokales/krefeld/wirtschaft/thyssenkrupp-einigt-sich-mit-outokumpu-aus-fuer-krefelder-produktion-bis-ende-2013-1.890732.
[9] Handelsblatt, Wacker Chemie baut neue Fabrik in den USA, December 9, 2010, URL: http://www.handelsblatt.com/unternehmen/industrie/milliardeninvestition-wacker-chemie-baut-neue-fabrik-in-den-usa/3666258.html.
[10] Wall Street Journal, Pittsburgh Area to Get Shell Plant, March 15, 2012, URL: http://online.wsj.com/article/SB10001424052702304692804577283620419058872.html.
[11] TribLIVE News, Shell cautious about region's ethane supply, July 10, 2012, URL: http://triblive.com/news/2165133-74/shell-ethane-company-officials-pennsylvania-plant-chemicals-langin-tax-likely#axzz2TuhNKPaW.
[12] HIS Chemical Week, Koch Nitrogen to invest $ 1 billion in fertilizer complex at Enid, OK, May 20, 2013, URL: http://www.chemweek.com/home/projects/Koch-Nitrogen-to-invest-$1-billion-in-fertilizer-complex-at-Enid-OK_52162.html.
[13] http://articles.washingtonpost.com/2013-04-01/world/38182416_1_natural-gas-shale-gas-basf; http://www.smartbrief.com/04/02/13/basf-leads-european-interest-us-manufacturing-investment#.UZybcrUVNhg.

- SGL Carbon came up with a joint venture with BMW opening a carbon fibers production plant and invested 100 Mio. $ in Moses Lake, Washington with 80 new jobs and producing 1.500 tons carbon fibers each year[14]. Furthermore SGL Carbon invested in a "facility for the construction of new state-of-the-art graphitization" in Ozark, Arkansas with a volume of 26 Mio. $, securing further 90 jobs[15].

• *What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?*

- Assumptions that fossil fuel costs would increase significantly and make renewable generation profitable without support have not materialised. The period of significant ***cost disadvantages for the EU will last much longer than predicted***. The long-term viability of RES policy must thus be reassessed.
- Electricity costs are strongly influenced by EU ETS emission allowance cost; renewable support and grid expansions due to these policies.

• *How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?*

- We need to have ***targets and instruments which are flexible enough to react immediately*** to changes not only in Europe but also elsewhere in the world.
- Commitments made by other nations should have no influence on carbon leakage mitigation unless the net costs of a critical mass of industry competing with European industry are influenced.
- Regional cap-and-trade systems worldwide have better compensation system for industrial cost than EU ETS, e.g the Australian ETS includes an indirect allocation of 1.0 ton CO_2/MWh, based on actual production thus preventing under- and over-allocation. At some point in time, international, multilateral negotiations (similar to UNCTAD rounds etc.) will be necessary to reduce support reciprocally.

• *How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?*

- EU needs to ***stop making interventions*** into EU ETS and let the system develop and operate.
- ***Consistent policy is necessary.***

• *How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?*

- EU manufacturing industries are delivering if they have ***predictable and stable conditions***.
- The ***money from auctioning allowances should*** not be used to finance general state budget expenses but ***be dedicated to mitigation*** and where necessary to adaptation.

• *How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?*

- IE believes that ***shale gas development in Europe offers a number of benefits for MS***. Aside from the wider issue of significantly improving each countries trade balance (through

[14] http://www.finanzen.net/nachricht/aktien/SGL-CARBON-und-BMW-Joint-Venture-eroeffnet-neue-Produktionsanlage-1356122; http://www.finanzen.net/nachricht/zertifikate/Investment-Strategie-Grosse-Visionen-bei-SGL-Carbon-823844.
[15] http://www.sglgroup.com/cms/international/press-lounge/news/2013/04/04172013_p.html?locale=en.

reduced imports of gas), by exploiting its indigenous reserves, Europe can diversify and add security to its gas supply. This additional gas availability will increase competition and make the European gas market more globally competitive, which will turn into benefit for European industry and households.

- Furthermore, development of ***shale gas would also strengthen Europe's negotiating position against gas exporters***, such as Russia. We therefore welcome and encourage initiatives to safely explore the shale gas potential in various member states. In order to safeguard gas-intensive activities in the EU (like petrochemistry, chemistry, fertilizers,...) in terms of employment and environmental reasons an important focus on gas is key.

• *How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?*

- On the short term ***fast implementation of the 3rd Energy Package*** is needed. The target of implementation by 2014 should not be postponed. It needs close follow up by ACER and NRA's.
- Furthermore there is ***no logic anymore that gas price should be linked to oil***. Gas price should be defined by supply/demand balance and not by oil.
- In long term perspective ***exploration and production of shale gas*** should be encouraged in Europe.
- Furthermore ***construction of more pipelines and LNG terminals*** is necessary in order to secure gas from new sources.
- ***RES-E support schemes must be made much more cost-effective*** and RES-E should be integrated in the market as much as possible: priority access should be stopped and RES-E should be made responsible for their own imbalance costs.
- To ensure that sufficient flexible capacity is available maximum opportunities must be provided for efficient solutions, such as demand side response.

4.5. Capacity and distributional aspects

• *How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?*

- ***MS may have different potentials to improve***. This is already well taken into account in the ETS framework. Differentiation of burden is a must especially on the global scale.
- Using the ***EU ETS as the main climate policy instrument does not require national targets.*** The burden sharing is regulated through the distribution of auction incomes.

• *What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?*

- In climate policy, the ***main instrument to promote co-operation and effort sharing is the EU ETS***, a genuinely trans-national instrument, provided that the present problems linked to carbon leakage and lack of proper flexibility and governance are solved.
- ***Allocation for direct and indirect emission cost should be integrated into EU ETS***.

Brussels, 28 June 2013

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.