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IFIEC Europe

Documents- Electricity

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European Industry Needs a Coherent, Stable and Realistic Energy Policy

**IFIEC Europe is the federation of European industrial energy consumers ;
Union of the Electricity Industry - EURELECTRIC is the sector association
of the European electricity industry.**

Both organisations support the ongoing process of liberalisation of the European energy markets, though their points of view and priorities on this issue do not always converge. Both associations are, however, increasingly concerned about the business and investment climate in Europe for energy-intensive industries. In that respect, they have decided to address policy-makers with this joint statement.

The Lisbon objective...

In March 2000, the European Council in Lisbon set out "a ten-year strategy to make the EU the world's most dynamic and competitive economy. Under the strategy, a stronger economy will drive job creation alongside social and environmental policies that ensure sustainable development and social inclusion". Since then, competitive market driven energy prices have been identified repeatedly as an important component for ensuring the overall competitiveness of Europe's industry. IFIEC Europe and EURELECTRIC strongly support this view, and call upon the European Commission, Parliament and Council and upon national authorities and energy regulators to take the necessary measures to realise this goal.

... and reality ?

In reality, the cost reductions the electricity sector has achieved in preparing for market liberalisation have often been more than offset by the economic impact of new policy and regulatory measures, and have thus not always translated into price cuts for consumers. With present policies this trend is expected to further deteriorate. Measures that will directly or indirectly increasingly add to the competitive burden for industrial energy customers include :

- Additional energy taxation and the introduction of surcharges by several Member States directly lead to electricity price rises. Whilst in

some cases, exemptions or reductions for energy-intensive industries are provided for, these exemptions often involve increased cost burden, e.g. through the implementation of voluntary or negotiated agreements, thus contributing indirectly to higher energy costs.

- While IFIEC Europe and EURELECTRIC fully support the development of new energy-generating technologies, especially renewable energy, they insist on :

- o Technically and economically realistic objectives at European or national level for renewable energy as a percentage of total electricity supplied;
- o The use of market-based support mechanisms for new technologies at the lowest possible cost ;
- o Leaving open all available energy options. Efficient technologies based on the use of coal, hydropower, other renewables, natural gas and nuclear energy, together with energy efficiency on the demand side, are all necessary in relation to economic, environmental and security of supply objectives.

Introducing renewable energy unavoidably leads to higher electricity prices. Not only are production costs substantially higher than for conventional energy, but in the case of intermittent energy sources like wind energy, grid extensions and additional balancing and back-up capacity to ensure security of supply imply costs which add considerably to the end price for the final consumer. Reducing CO₂ by promoting renewable energy can thus become extremely expensive for consumers, and will put substantial pressure on their international competitive position.

- A unilateral European approach to curbing greenhouse gas emissions will lead to further market distortions and loss of competitiveness with the "non-Kyoto" world. Though electricity generators and energy-intensive industry principally support market-based mechanisms as a means of reducing global GHG emissions, they would like to point out the following problems:

- o Restrictions on the use of flexible mechanisms, such as the European Commission intends to impose, would prohibit industry from making full use of a market mechanism that would lead to emission reductions at the lowest possible cost;
- o Efficiency, both in generating electricity and in the use of electricity by energy-intensive industry, is in Europe already at a standard among the highest in the world. The margin for further progress through technological progress is limited and emission reductions can only be attained either through substantial costs or through a brake on capacity extensions. Plans in several member states to phase out nuclear energy – one of the few CO₂ free energy sources available to Europe – will exacerbate the issue. Economic reality will unavoidably drive energy-intensive industry to invest outside Europe, or even to close down existing plants within the EU.

IFIEC Europe and EURELECTRIC are therefore deeply concerned about the consequences for industrial competitiveness of Europe “going it alone” and call for a new approach which seeks a more coherent worldwide approach to climate change issues.

- A series of other regulations in place or under consideration today are based on economically inefficient approaches which would have a further negative impact on the competitiveness of electricity : present proposals would allow for non- market support mechanisms for combined heat and power, non-market security of supply obligations, non-economic based objectives for transmission expansion, non market energy efficiency support, reduction of hydro power - all of these proposals made without thorough economic impact assessment to check whether the underlying environmental or security of supply objectives are being reached at minimum and reasonable economic cost.

The electricity industry, especially generators, is increasingly squeezed between the legitimate expectations of energy consumers for competitive prices and the increasing burdens public authorities are putting directly or indirectly on electricity use. This, together with regulatory inconsistency and uncertainty on the above-mentioned issues does not contribute to a favourable business and investment climate which is necessary for the electricity industry and its customers alike.

A real threat to industry

Higher electricity end prices, if not the consequence of a properly functioning competitive market, constitute a clear threat to energy-intensive industry in Europe. This could lead to:

- Loss of global competitiveness of European industry and thus of jobs, not only directly within the industry, but also indirectly on the side of suppliers and subcontractors of goods and services;
- A negative global environmental balance, to the extent that industrial activities delocalise to other continents that impose less stringent environmental constraints on industry;
- Loss of economies of scale and base load for electricity generators in Europe, thus leading to higher energy costs for remaining industrial or other activities, and to spiralling loss of competitiveness,
- A deterioration of the investment climate in the electricity sector, leading not only to higher prices but also to a loss of economic efficiency in the sector and to weakening of security of supply.

Competitive energy prices are a vital component for ensuring the competitiveness of Europe’s industry. This can only be guaranteed through a healthy and competitive market for energy and a stable regulatory framework, avoiding costly and distortive burdens.

IFIEC Europe and EURELECTRIC therefore urge European and national authorities to review their current energy policies in order to take into account the global competitiveness of energy-intensive industry and the impact of specific measures on the cost of energy. They urgently invite the European Commission to thoroughly assess the consequences for industry of the current energy policy in Europe, taking into account the

environmental, social and economic dimension of sustainable development, with a view to identifying the necessary measures to improve consistency and to restore industrial competitiveness. IFIEC Europe and EURELECTRIC urge policy makers not to impose any new energy cost-increasing measures before the results of such an assessment are available.