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INTERNATIONAL FEDERATION OF INDUSTRIAL ENERGY CONSUMERS

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IFIEC Europe and the EU Energy Policy

In the past 10 years there have been 3 major issues impacting the EU energy policy:

- energy market liberalisation;
- climate change;
- energy taxation.

The liberalisation of the European energy sector is progressing with the implementation of the electricity and gas directives. IFIEC Europe encourages this development.

The issue of climate change has also progressed since the first EU Council statement in Dublin in 1992 with the agreement on a Protocol at the Third Conference of the Parties on 11 December 1997 in Kyoto. IFIEC Europe supports the principle of encouraging energy efficiency as a primary means of reducing greenhouse gas emissions.

Energy taxation has been in discussion in various forms in the past 10 years. Motivation has always been the contribution to the stabilisation of CO₂ emissions; but lately also the “double dividend” theory, with the intention of using the proceeds to reduce labour taxes. IFIEC Europe rejects any policy that increases costs and reduces further the global competitiveness of European industry.

Climate Change

Climate change is a complex and truly global issue. In the future it will affect:

- the environment;
- economic growth and trade;
- society and life style;
- consumers' behaviour.

Governments have decided, using the precautionary principle, to take action now. In this sense Kyoto has been a true milestone. If the Protocol is ratified universally, it will be the first time that over 150 states have agreed on a common target as far as CO₂ emissions reduction is concerned, albeit that the burden is for the moment on the Annex-1 countries (OECD + old GUS). If implemented, it will have a marked impact on the relative competitiveness of

nations, since it will affect trade, energy use, localisation of new production and choice of manufacturing processes.

EU Climate Change Strategy

EU energy ministers have signalled their willingness to hold an open debate on the energy policy implications of the Kyoto Protocol. The EU energy ministers have co-opted the major points from a EU Commission Communication and included them in their Draft Conclusion adopted at the 11 May Council.

The above Communication is trying to answer the following questions:

- what is the impact of energy on greenhouse gas emission?
- what are the implications for the EU energy policy?
- which policy objectives and measures should be used?

The backdrop is the analysis of the business as usual scenario, indicating that CO₂ emissions will grow by 8% above the 1990 level by the year 2010.

The policies and measures to be adopted have the objectives of:

- reducing the share of high carbon fuels;
- increasing the share of low carbon fuels;
- encouraging energy saving and the specific measures listed are:
 - fuel switching;
 - increased efficiency of energy use;
 - promoting cogeneration and renewables;
 - demand side management;
 - voluntary agreements with industry;
 - reducing subsidies for fossil fuels;
 - increasing subsidies for renewables;
 - harmonisation of energy taxes;
 - adoption of flexibility instruments (emission trading, Joint-implementation (JI) and Clean Development Mechanisms (CDM)).

Impact on industrial energy users

Industrial intensive energy users are sympathetic to a number of measures such as:

- liberalisation of the energy markets;
- suppression of subsidies to fossil fuels;
- promotion of cogeneration;
- voluntary and/or negotiated energy efficiency agreements between industries and member states (like VEEP or the Dutch/ German Covenants);
- reducing tax levels for energy saving products;
- increasing energy efficiency products / systems standards.

On the other hand a number of other suggested measures would have very detrimental effects on the competitiveness of the European industry and should be rejected. In this respect IFIEC Europe opposes energy taxation and emission trading with absolute caps because these instruments will not result in the intended global GHG emissions reduction.

Energy taxation

Energy products in Europe are already subject to excise duties and eco-taxation to a much higher extent than in other trading blocks.

The most recent EU energy tax proposal (9.9.1997) foresees the extension of the excise duty system to include natural gas, electricity and coal and is setting minimum tax rates for 1998 and 2000 and further rise (non mandatory) in 2002.

The EU proposal also foresees tax neutrality, but leaves the decision to subsidiarity as to the methodology for tax restitution. This may introduce distortions both nationally between different branches and across borders if member states use differing restitution keys.

Impact of taxation

The impact of this additional energy taxation is very detrimental to the competitiveness of the European industry. As an example, the European chemical industry will have an extra burden of 1.1 billion ECU/year in addition to the existing 1.5 billion ECU/year. Even under the assumption of tax neutrality, the burden will not be eliminated for intensive energy users, where the ratio between tax and reimbursement is 10:1.

Why energy taxes do not work

Energy taxation or environmental taxation on industrial energy use has a number of drawbacks:

- the influence on energy consumption by industry is demonstrably small;
- an appreciable reduction of CO₂ emissions will only come about by shutting down production capacity in the EU;
- products will be imported from third countries and given the less efficient production, will lead to more global environmental burden;
- offsetting costs by reducing labour cost burden does not work for intensive energy users. Job losses and/or business transfer are the inevitable result;
- delocation of energy intensive industries will also affect the components supply and service industries.

Emission Trading - Joint Implementation

Emission trading, JI and CDM are written into the Kyoto Protocol between Parties (i.e. nation/states) and refer either to an up-front agreed level (tradeable permits proper) or on a project basis (JI and CDM).

Since Kyoto, the Annex-1 parties have already agreed to a specific target for their maximum CO₂ emissions in the budget period 2008-2012. The use of the flexibility mechanisms by the Parties is welcomed in principle, because this should reduce the cost of abatement.

The parties will then have to decide how to meet their target at national level. One of the possible solutions that a state may adopt is to allocate the emissions reduction to the national economic actors and impose targets at branch and/or company levels. This is tantamount to rationing fossil fuels for industry.

The EU Commission, in its analysis of the emission trading as a possible measure to

implement the Kyoto commitment, has already arrived at the conclusion that “the involvement of the private sector entities is warranted”. Given the complexity of organising the trading for a large number of entities, the EU Commission further proposes “to restrict these to a few sectors and large sources initially.....”, defining these as being “to utilities, refineries, power generators and large industrial users”.

IFIEC Europe believes this is the way forward and that a pilot programme to test the validity of this concept is necessary and justified. It will mean resolving issues such as the relationship with the BAT principles under the Integrated Pollution Prevention Control Directive, so as not to prejudice the flexibility offered by trading due to an overriding belief in emission limits and "caps".

Industrial energy users are opposed any proposal that will in the result in a restriction of production in Europe. Literally, this will drive industry to relocate in the developing countries, with loss of jobs, wealth and only a redistribution of the global ecological burden.

What is the role of energy intensive industry?

Industrial energy users are committed to sustainable development, as it is testified by their long-standing achievements in the area of energy efficiency.

We are enabling industries and provide other sectors of the economy with materials, whose properties facilitate energy conservation and thereby reduce greenhouse gas emissions. Our industries have been able to decouple growth from the amount of GHG emission released in the past 30 years, primarily because of a dramatic improvement in energy efficiency. This was driven not by high-energy prices but by the fierce competition existing in Europe and increasingly at global levels.

Long term Negotiated Agreements

Instead of energy taxation or the application of a "cap and trade" system, IFIEC Europe supports the use of long term negotiated agreements. They are cost effective and conducive to flexibility and innovation, allowing industry to tailor solutions specific to individual circumstances. They should be based on energy performance criteria negotiated between industrial sectors and governments, so as to support the principle of sustainable development.

These agreed performance criteria could then be coupled with a trading scheme. Sites where investment initiatives or management techniques lead to greater efficiency and therefore to reduced emissions, would be awarded “credits”. These can then be banked for future use or traded between companies. The development of performance criteria will be crucial to the feasibility of this scheme and IFIEC Europe is ready to contribute to this debate.

Alternative Solutions

Aware of the possible damage that an indiscriminate increase of energy taxation would have on the competitive position of the European industry, alternative solutions have been devised.

One that has recently received attention has been Green VAT. In its simplest form, Green VAT means an increase in the rate of taxation for all energy products (coal, fuel oil, mineral oils, gas, electricity). A tax of this kind would have the advantage of not burdening industry, thereby keeping its competitiveness intact. On the other hand it would give the desired

signals, since commercial and domestic consumers would face higher prices for their energy purchases. To keep their purchasing power intact it would be necessary to recycle the proceeds of the tax increase, for example as a reduction of income taxes (Tax neutrality).

Another approach is a taxation of energy use for such as heating, lighting, air conditioning and office equipment as again, this gives pricing signals for improvements in energy efficiency in industrial and commercial premises.

Both of these concepts avoid both imposing further costs on the energy intensive processing sector and disadvantaging global competitiveness.