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INTERNATIONAL FEDERATION OF INDUSTRIAL ENERGY CONSUMERS



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Commission Green Paper
COM2000 769 Final dated November 29, 2000

European Strategy for Security of Energy Supply

The view of European industrial energy consumers

IFIEC Europe reflects the views of industrial energy consumers, with a membership that constitutes more than 75% of industrial consumption throughout Europe.

A. Introduction

Energy is of vital importance for developed and developing societies, enabling comfort, mobility, and in certain circumstances even survival.

For industrial consumers, energy is not only an essential production factor, which in some specific applications accounts for up to 60% of variable production costs, but in some specific processes, energy vectors are also used as raw materials. In addition, energy is also essential to assure certain vital services to industry, such as transportation of goods and construction and maintenance of production facilities. For European industry, therefore, access to a stable and diversified energy supply, under competitive conditions, is of utmost importance.

IFIEC Europe welcomes the initiative of the European Commission to open public debate on security of energy supply and would like to comment generally on certain aspects deemed to be essential for industrial competitiveness. Specific comments concerning the Commission's proposed "Guidelines for the debate" are also included in the Annex.

B. General Comments

As concerns security of supply, the priority for industrial energy consumers is an EU policy based on supply diversification within the scope of the Single Market objectives. Such an approach means encouraging the involvement of a larger number of supply-side actors, both within and outside the EU, and also ensuring that all energies contribute to meeting the requirements of final customers.

In order to ensure a balanced supply portfolio, resources should be developed within the EU, where economically and technically viable (including nuclear, de-centralized power plant, indigenous primary energies, etc.), and also imported, whenever possible, on world markets (coal, LNG, oil, etc.).

Special consideration should be given to natural gas which is currently imported to the EU from a limited number of countries through interconnected networks. A framework policy may be beneficial in this respect.

More generally, IFIEC Europe considers that the infrastructures for the transportation of electricity and natural gas, as essential facilities and quasi-monopolies, also contribute to internal security of supply. They should be subject to appropriate regulatory control, with co-ordination at EU-level.

Greenhouse gas emissions, and the climate change they are alleged to induce, constitute a relatively new issue and an important challenge to energy producers and consumers alike. A wide basket of flexible measures is needed to safeguard industrial competitiveness. IFIEC Europe urges, in particular, that industry's contribution to the Kyoto Protocol be based on sectorial voluntary agreements negotiated between the concerned parties and national authorities.

While environmental aspects should be carefully addressed by all the economic actors, IFIEC Europe would like to underscore the risks associated with excessive normative legislation concerning energy use and associated emissions.

Furthermore, current experience shows that industry's dependence on natural gas is continuously increasing, whilst the range of alternative fuel choices (fuel products, coal) for use in industry is diminishing. This is an aspect of EU security of supply that needs urgent attention.

Diversification of stable and competitively-priced energy supply

First of all, IFIEC Europe wishes to draw the attention of the Commission to the importance of competitive energy prices. A stable and reliable energy supply is, of course, of vital importance for industrial competitiveness, but does not suffice if prices in Europe are higher than among its major global competitors. IFIEC therefore urges the Commission to take this issue into account while developing its policy proposals for improved security of energy supply. In particular, IFIEC Europe urges European and national authorities to avoid the artificial increase of energy prices through measures such as taxes or storage regulations. Specific attention could also be paid to decoupling natural gas prices from oil prices.

Furthermore, IFIEC Europe strongly supports the ongoing liberalisation process of the European markets for electricity and natural gas. IFIEC believes that liberalisation of energy markets contributes significantly to the improvement of supply security and can also bring about a reduction of price differentials between countries or regional trade blocks. In this respect, IFIEC Europe suggests that the European Union strives for the rapid integration of energy-producing countries into the World Trade Organisation, and for the application of WTO rules to energy products.

In order to avoid extreme market imbalances between energy demand and supply, and ensure sufficient availability of production and transportation capacities, it is also important to

promote the diversification of competitive energy sources, from both geographical and energy product points of view.

- Geographically speaking, and considering its growing external dependence on energy supply, the European Union has all the reason to seek maximum diversification for its energy purchases between primary energy exporting countries. This approach should significantly reduce political risk of supply interruption.
- Diversification is also needed between the different types of primary energy sources. A well-considered balance between oil, natural gas, coal and other solid fuels, nuclear power and different types of renewable energy sources should be promoted in order to reduce risk of interruption of supply and to maximise overall price stability. The EU should, in this respect, not only pursue imports of a wide range of primary energy products, but also develop the local production of primary and secondary energy sources, wherever economically and technically viable.
- Nuclear energy can play an important role in diversifying EU energy supply. IFIEC Europe fully supports initiatives to re-open public debate on this question on an objective basis.
- As far as renewables are concerned, IFIEC notes with interest the ongoing public and private research efforts in view of increasing their share in energy production. IFIEC Europe suggests, however, that public research in this field be limited to basic research, whereas applied research should remain the responsibility of the private sector. Public authorities can stimulate private research, preferably through fiscal incentives rather than direct subsidies. In the production stage, renewables should be required to comply as soon as possible with competition rules in the scope of the Single Market objectives.
- As for stockpiling, IFIEC Europe does not believe that accumulating additional (and costly) stocks of energy products can, under current circumstances, ensure security of supply for industry in periods of crisis.
- IFIEC Europe requests that access to gas storage facilities be granted to industrial consumers under reasonable and transparent economic conditions.

Climate change and security of supply

IFIEC Europe urges the European authorities to implement the Kyoto Protocol within the UNFCCC framework in such a way to ensure that global industry competitiveness is safeguarded. Environmental improvement targets must also be achievable against realistic timescales.

Improvements in the industrial sector should be introduced through negotiated agreements with sectors at national level.

Flexible instruments, (emissions trading, joint implementation, clean development mechanisms) should be offered as complementary options to negotiated agreements, without introducing fiscal or other constraints that hinder economic growth. In all cases, it is necessary to evaluate in advance the potential consequences of the use of these mechanisms on the competitiveness of European industries. In particular, use of a relative rather than an absolute base in any flexible mechanism is essential.

As for energy taxation, IFIEC Europe would like to stress the fact that existing energy-related taxes and State aids already lead to significant distortions of competition between industrial consumers in the different Member States. On the other hand, EU harmonisation of fiscal policies should not create the same kind of distortions between the EU industry and its

competitors in the rest of the world. For industry, and more specifically for energy-intensive industrial activities, taxes generally do not result in a more efficient energy use, but merely in a cash drain and thus, in a loss of competitiveness on a global scale.

Renewable energy sources, such as wind energy, biomass and others can certainly contribute to the reduction of greenhouse gas emissions, but their potential for the European Union is limited. Their promotion should be driven by the objective of making them profitable and viable on the free market as soon as possible.

Nuclear energy can make key contribution in addressing the problems associated with climate change. Other carbon-free energy sources (e.g. nuclear fusion or solar energy) will probably not be available on a sufficiently large scale for some 50 years for nuclear fusion, and some 20 to 30 years for solar energy. It therefore suggests the EU reopens the debate on nuclear energy on a rational basis and stimulate further research on the issues of nuclear waste and nuclear safety.

Annex

Commission Green Paper
COM2000 769 Final dated November 29, 2000

European Strategy for Security of Energy Supply

“Guidelines for the debate”

IFIEC Europe Comments

1. Can the European Union accept an increase in its dependence on external energy sources without undermining its security of supply and European competitiveness? If this were the case, for which sources of energy would it be appropriate to contemplate a framework policy for imports? In this case, is it appropriate to favour an economic approach in terms of energy cost, or a geopolitical approach in terms of the risk of disruption?

The Commission’s Green Paper raises the issue of geopolitical risks linked to the increased dependence on external energy sources. IFIEC Europe considers that a distinction should be made between outside sources that are controlled, on the one hand, by a limited number of actors organised in a quasi supply cartel or oligopoly, (the case for natural gas), and other external supply sources which are traded openly on world markets, (coal, LNG and, to a certain extent, oil) ; the risks of supply disruption and price volatility vary according to each case.

IFIEC Europe urges that the European Union make every effort to avoid increased dependence on external energy sources that are controlled by supply cartels and carry high geopolitical risks. A framework policy might be of benefit for energies in this category to formalise dialogue between the EU actors and producer countries, to encourage secure and safe supply flows and to oversee the timely and non-discriminatory development of interconnections for electricity and natural gas.

All policies relating to security of external supply should be closely linked to the EU Single Market objectives. In particular, they should not impede progress in the effective liberalisation of the internal electricity and gas markets. The economy today is built on an allocation of tasks on a global level. The free market processes within such system are

the best way of providing a maximum level of security.

Other freely-traded energy imports should continue to play a role, alongside the development of indigenous resources, in diversifying EU energy supply. A specific framework policy for such imports does not appear necessary.

Special consideration should be given to natural gas and electricity supplied from sources within and outside the EU because they are transported by quasi monopoly infrastructures considered by IFIEC Europe to be “essential facilities”. In this respect, the efficient management and non-discriminatory development of these infrastructures contribute to overall security of supply flows and market flexibility within the EU.

These infrastructures should be subject to appropriate regulatory mechanisms to ensure their non-discriminatory use and development; harmonised codes of conduct should also be adopted by the infrastructure operators.

2. Does Europe's increasingly integrated internal market, where decisions taken in one country have an impact on the others, not call for a consistent and co-ordinated policy at Community level? What should such a policy consist of and where should competition rules fit in?

IFIEC Europe continues to strongly support the liberalisation process for the European electricity and natural gas markets, within the frame of the Single Market objective.

Recent industrial experience with the implementation, at national level, of the electricity and natural gas directives has underscored the immediate need for common rules to facilitate exchanges at the borders and encourage the market participation of a wider number of actors.

Such an initiative should be accompanied by stricter requirements for the unbundling of essential infrastructures (i.e. activities where duplication is not normally technically and economically feasible) from all commercial activities. Independent transport system operators should be named to manage and develop the infrastructures on the basis of a consistent code of conduct.

In order to ensure transparent and non-discriminatory rules for the use of essential infrastructures, under economic conditions that are globally cost-reflective, the EU market should be fully covered by consistent regulatory mechanisms, at the appropriate level. It is particularly important that specific independent authorities be appointed at national level and provided with sufficient resources to fulfil their mandates at both national and European levels, in liaison with EU regulatory authorities. While the range of their responsibilities may vary, from country to country, these authorities should, at minimum, be charged with overseeing costs and access conditions relating to the electricity and natural gas infrastructures.

Given the strong vertical and horizontal integration that continues to mark the electricity and natural gas sectors, vigorous efforts should be made to ensure effective compliance with competition rules. Here competition can be usefully introduced (power generation and gas trading, in particular).

By contrast, IFIEC Europe remains strongly opposed to the introduction of auctions for the reservation of infrastructure capacity.

3. Do tax and State aid policies in the energy sector impair competitiveness in the European Union or not? Given the failure of attempts to harmonise indirect taxation, should the whole issue of energy taxation not be re-examined in view, in particular, of the energy and environmental targets?

Tax and State aid policies can lead to distortions of competition between industries of the different Member States. Harmonisation of these policies, at EU-level, will not be sufficient to eliminate the same kind of distortions between EU industries and their competitors in the rest of the world.

IFIEC Europe considers that taxation is not an efficient tool to meet environmental targets or stimulate improved energy efficiency in the industrial sector. Taxes deplete cash flow needed to fuel new energy efficiency investments, and they also restrict competitiveness on a global scale.

4. As part of an on-going dialogue with the producer countries, what should supply and investment-promotion agreements contain? Given the importance of a partnership, with Russia in particular, how can stable quantities, prices and investments be guaranteed?

It must be a primary task to integrate the producing countries into the framework of WTO rules. Furthermore, the European Energy Charter is an important basis for trading with producer and transit countries. Therefore, the EU should make all meaningful efforts to include them comprehensively into these agreements.

5. Should more reserves be stockpiled – as already in the case of oil – and should other energy sources be included, such as gas or coal? Should the Community play a greater part in stock management and, if so, what should be its aims and procedures? Does the risk of physical disruption to energy supplies justify more costly means of access to resources?

Since energy stockpiles will only be used in case of an emergency disruption, IFIEC Europe is rather sceptical about the availability of such resources for use in industry? The associated costs for additional stockpiling therefore do not appear to be economically justifiable.

From an industrial point of view, the added-value of an increased role for the Community is also questionable.

6. How can we ensure the development and better operation of transport networks in the European Union and neighbouring countries to enable the internal market to function properly and guarantee security of supply?

The effective completion of the internal energy market depends, in particular, on the way the electricity and natural gas network infrastructures are managed and developed. Given that transport networks generally function as de facto monopolies, and are not readily duplicated, they should be subject to appropriate regulatory mechanisms, for the benefit of all network users.

In the case of natural gas, the essential facilities required for delivery include: on-shore and off-shore pipelines, boosters, storage and facilities for blending and balancing.

Grid investment and management operations should be conducted in the most efficient and non-discriminatory manner possible to meet required demand. IFIEC Europe

recommends that common codes of conduct be uniformly adopted to ensure consistent good practices.

Costs should be ring-fenced to exclude any charges not directly related to the infrastructures and should be limited to “useful life-time” amortisation, operating, maintenance and grid enhancement charges, including costs related to transmission losses. Return on investment should reflect the low level of risk associated with any monopolistic activity.

Transmission pricing for use of the networks should be globally cost-reflective and stable, based on efficiency criteria.

IFIEC Europe recommends that the European Union give high priority to infrastructure development, particularly for natural gas. It is important to clearly identify new investment requirements. In this respect, information concerning available physical capacity is essential, with a clear distinction between structural bottlenecks and periodic congestion.

The effective market functioning requires a maximum of co-ordination between national regulators, in liaison with the EU regulatory authorities. The Commission’s involvement would be beneficial in helping too establish a general blueprint for infrastructure development, including guidelines for cost-efficient investment and incentives for achieving consistent technical standardisation.

7. The development of some renewable energy sources calls for major efforts in terms of research and technological development, investment support and operational support. Should joint financing of this support include a contribution from sectors that received substantial initial development aid and which are now highly profitable (gas, oil, nuclear)?

In most cases, energy companies are already increasing their research efforts in renewable energy sources. IFIEC Europe is of the opinion that public research should concentrate on fundamental research, and be financed with public budgetary means. Applied research by companies could be stimulated through fiscal measures and increased co-operation between companies and public research centres such as universities.

8. Since nuclear energy is one of the factors in the debate on tackling climate change and energy self-sufficiency, how can the Community find a solution to the problem of nuclear waste, enhancing nuclear safety and expanding research into the reactors of the future, and in particular fusion technology?

For IFIEC Europe, nuclear energy is one of the key answers to the problem of climate change. Other carbon-free energy sources (e.g. nuclear fusion or solar energy) will probably not be available on a sufficiently large scale for some 50 years for nuclear fusion and some 20 to 30 years for solar energy. It therefore suggests that the EU should reopen the debate on nuclear energy on a rational, non-emotional base, and stimulates further research on the issues of nuclear waste and nuclear safety.

9. Which policies should enable the European Union to meet its obligations under the Kyoto Protocol? What action could be taken in order fully to exploit potential energy savings that would help to reduce both our external dependence and CO₂-emissions?

IFIEC Europe urges the European authorities to implement the Kyoto Protocol within the UNFCCC framework in such a way to ensure that global industry competitiveness is safeguarded. Environmental improvement targets must also be achievable against realistic timescales.

Improvements in the industrial sector should be introduced through negotiated agreements with sectors at national level. The primary response of industrial energy consumers is continuous improvement of energy efficiency and/or their GHG intensity (tonnes of emissions per unit of production).

As for flexible instruments, industrial companies welcome the added flexibility that the Kyoto market mechanisms (emissions trading, joint implementation, clean development mechanisms) offer, provided they are optional and do not introduce absolute emissions targets, taxes or other artificial constraints that hinder economic growth.

In particular, EU fiscal measures are not effective in achieving environmental goals in the industrial sector : taxes only serve to deplete cashflow and stimulate re-localisation of industrial activities in other parts of the world.

More generally, research and development programmes to improve global energy efficiency should be encouraged, alongside the development of innovative, emissions-free process technologies. Mechanisms should also be identified which allow for technology transfer across international boundaries without trade barriers.

IFIEC's members continue to support climate change measures where environmental protection and economic growth are seen as compatible and will work with those involved to find a new way forward using these principles.

10. Can an ambitious programme to promote bio fuels and other substitute fuels, including hydrogen, geared to 20% of total fuel consumption by 2020, continue to be implemented via national programmes, or are coordinated decisions required on taxation, distribution, and the outlook as regards agricultural production?

As for bio fuels, land availability might cause a problem, as well as its specific properties for use in certain processes.

As for hydrogen, it should be taken into account that important inputs of (electrical) energy are needed for its production. Today, the only carbon free production process at acceptable economic costs is through nuclear energy.

11. Should energy savings in buildings (40% of energy consumption), whether these are public or private, new or being renovated, be promoted through incentives such as tax breaks, or are regulatory measures required along the lines of those adopted for major industrial installations?

IFIEC Europe suggests tax breaks for renovation and regulatory measures for new buildings.

12. Energy saving in the transport sector (32% of energy consumption) depends on redressing the growing imbalance between road haulage and rail. Is this imbalance inevitable, or could remedial action, however unpopular, be taken, more especially in order to discourage the use of cars in towns and cities? How can the aims of opening up the sector to competition,

investment in infrastructure to remove bottlenecks, and intermodality be reconciled?

IFIEC Europe believes that the liberalisation of the rail and waterway transport sectors can contribute to both improved energy savings and the reduction of road congestion.

13. How can we develop more co-ordinated approaches and include the long term in the public authorities' thinking and activities, and those of other parties involved, in order to evolve a sustainable system of energy supply? How are we to prepare the energy options for the future?

It is important that the future energy options take into account the pragmatic consequences for all economic actors, including industrial consumers.

IFIEC Europe therefore welcomes the Commission's Green Paper and offers its full co-operation in contributing to the EU debate within the scope of the new Energy Forum on Energy and Transportation.