IFIEC Energy Forum
"Competitiveness of European EII in a Globalised Economy"

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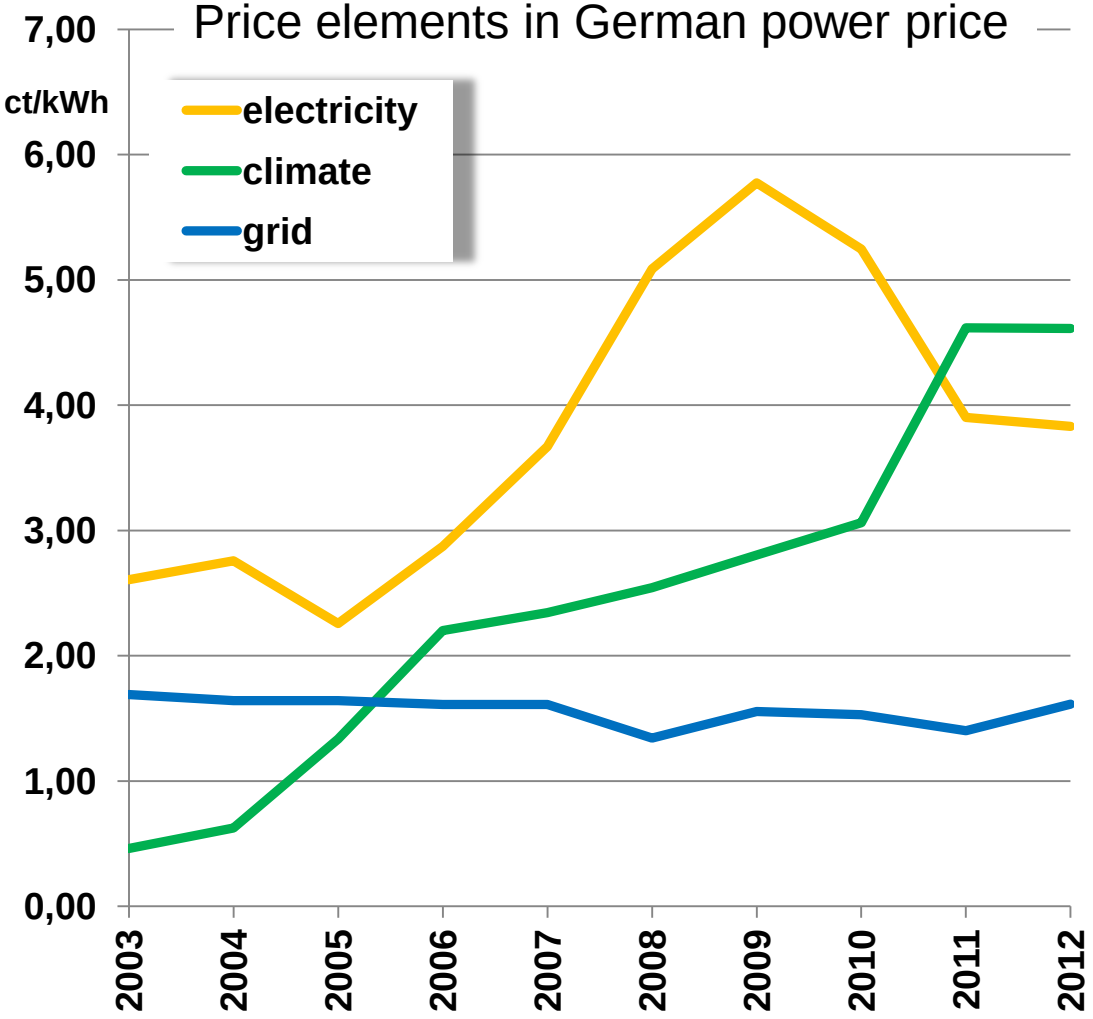
Annette Loske
Chairwoman WP Climate and Efficiency
Managing Director German Federation of Industrial Energy Consumers (VIK)

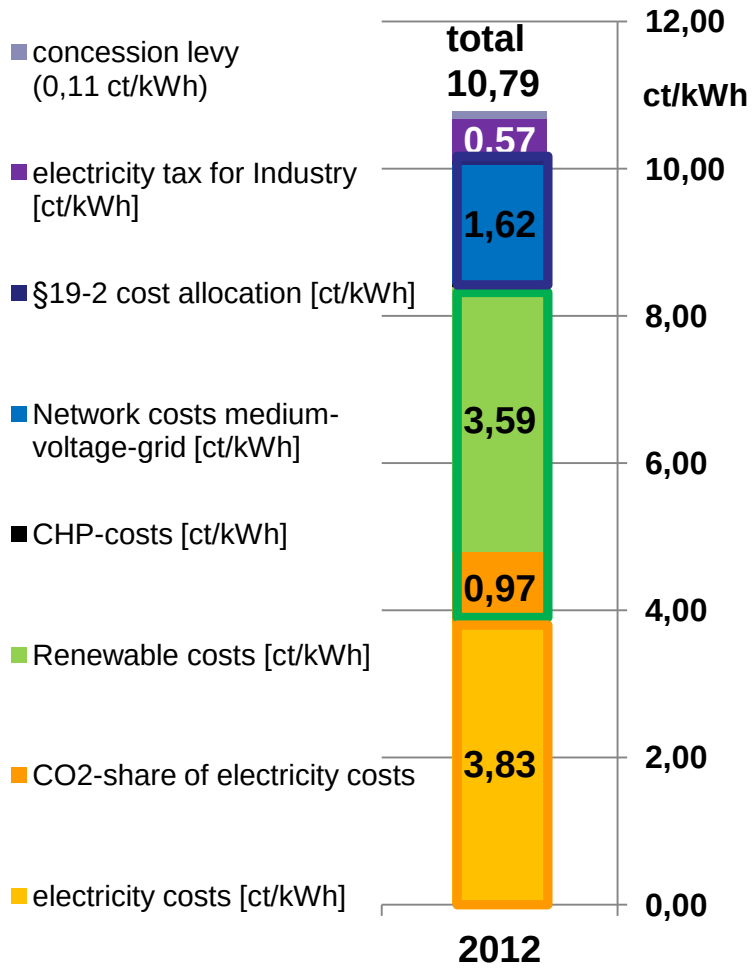
EU climate change policy (20-20-20) affects EII in manifold manners

Most of all:

- **EU-ETS**
  - **Adds direct carbon costs to own emissions**
  - **Adds indirect costs (cost pass through by power companies)**
- **RES target and support**
  - **Adds significantly to electricity costs**
  - **Partial hardship regimes in different member states, however**
    - **More and more unstable and questioned, in particular with growing burden for other consumers**
    - **Under EU state aid caveat**

Impact of EU climate policy on industrial electricity price





Industrial electricity price, Germany

e.g. 6,5 MW ; 40.000 MWh , 6.000 h/a

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EU ETS foresees elements to avoid carbon leakage

- **Provisions to avoid carbon leakage accepted as necessary element of EU ETS**
- **Carbon leakage provisions exist**
  - **Free allocation at a stringent benchmark level**
  - **Possible compensation of indirect effects at MS level**

EU ETS foresees elements to avoid carbon leakage, but …

1. **Inconsistent rules:**
   - Lowering production is rewarded
     - volume of allocated allowances adjusted when production decreased by ≥ 50 percent
     - lowering production by up to 49 percent: allocation is not adjusted; installation benefits from unused allowances
   - Uncertainty for future investment through inconsistent rules for new entrants -> investment carbon leakage
     - Huge barriers and risks for EU EII growth
2. **Unstable rules:**
   - Compensation of indirect CO2-costs only a <u>can</u>-provision in EU ETS, diverse picture at MS level as consequence
   - Strong limitations for compensation set by EU COM
   - Frequent revision of CL-list

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Carbon leakage risk grows with higher carbon price

→ **current attempts to increase the carbon price (backloading, carbon market report)**

- **Clear demonstration that low carbon price is not accepted politically -> EU EII has to expect and consider higher prices for the future -> investment carbon leakage**
- **unacceptable if not accompanied by reforms of EU ETS to make it carbon leakage proof**

IFIEC proposals for a carbon leakage-proof EU ETS reform

Structural reform proposed by COM provides no long-term solution

Alternative proposal:

A dynamic EU ETS

- **Allocation based on actual rather than historic production level**
- **Stable rules for indirect emissions → indirect allocation**
- **As long as no global climate change policy → free allocation to EU industry based on challenging, but realistic benchmarks**

Consequences:

- **No incentive for carbon leakage**
- **Demand response**

IFIEC messages on other climate policies

Renewable Energy Support Schemes

- **EU tasks:**
  - **to stress importance of cost efficient RES support approaches in MSs**
  - **to stop potential RES over-subsidization / inefficiencies**
  - **to allow MS to find competitive solutions for EII in RES support schemes**

State Aid Policy

- **that is addressing global competitiveness next to distortions between Member states**
- **that allows measures to avoid carbon leakage at least based on environmental reasons**

Conclusions – Realizing EU climate Change and industry policy

- **ETS and RES support have strong impact on EU reindustrialisation policy**
- **Stable carbon leakage-avoidance mechanisms in both areas are key; at least**
- **No price interference into ETS as long as this is not solved**
- **Realignment to the strongest rather than to the weakest link!**