IFIEC Energy Forum
“Competitiveness of European Ell in a Globalised Economy”

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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

Price elements in German power price

- Electricity (ct/kWh)
- Climate (ct/kWh)
- Grid (ct/kWh)


- Concession levy (0.11 ct/kWh)
- Electricity tax for Industry [ct/kWh]
- §19-2 cost allocation [ct/kWh]
- Network costs medium-voltage-grid [ct/kWh]
- CHP costs [ct/kWh]
- Renewable costs [ct/kWh]
- CO2-share of electricity costs [ct/kWh]
- Electricity costs [ct/kWh]

Total 2012: 10.79 ct/kWh
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 can-provision in EU ETS, diverse picture at MS level as consequence
   - Strong limitations for compensation set by EU COM
   - Frequent revision of CL-list
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 \(\rightarrow\) indirect allocation
- As long as no global climate change policy \(\rightarrow\) free allocation to EU industry based on challenging, but realistic benchmarks

Consequences:

- No incentive for carbon leakage
- Demand response
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!