securing competitive energy for industry

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RESPONSE TO EC CONSULTATION ON ENVIRONMENTAL AND ENERGY AID GUIDELINES 2014-2020

As part of the modernisation of the EU State aid policy ("SAM – State Aid Modernisation"), DG Competition (DG COMP) considers that the Environmental Aid Guidelines ("EAG") should be reviewed to update them in the light of experience with their application, recent developments in energy markets and in the economy, as well as to align them with the common approach to modernising aid frameworks under SAM. This first consultation deals with how the rules should look. A second one will focus on the rules themselves and is expected to follow this summer.
IFIEC Europe welcomes the opportunity to give its viewpoints to the inclusion of energy related issues to the Environmental Aid Guidelines.

GENERAL REMARKS

Since climate and energy issues have become increasingly intertwined it makes in general sense to include energy issues into the "Environmental and Energy Aid Guidelines" ("EEAG"). Through the extension the chance to exclude double burdening is much higher than before. Furthermore in a long term perspective more legal certainty can be given and also the State aid rules in respect of power supply can be simplified.

Nevertheless IFIEC Europe wishes to highlight that a focus is to be made on competition in global markets rather than in the EU internal market. Indeed, the accumulation of EU energy and climate policies has turned into an addition of costs for industrial energy users (commodity cost, climate cost, transport fees, RES support, energy levies, etc…), implying energy costs increase for the industry and a marked deterioration in international competitiveness. In the meantime the EU economic environment strongly deteriorated, putting EU industry at risk: since the beginning of the crisis in Europe employment in manufacturing has fallen by almost 11% and over 3 million industrial jobs have been lost[1].
If nothing is done, industrial production will continue to be relocated outside EU. Nevertheless, the EU electricity system becoming structurally more and more costly, the internal energy market completion will not solve this fundamental problem alone.

As a consequence, EU industrial electricity users' competitiveness in global markets and investors confidence must be restored, in stable, predictable and adapted EU energy legislation and State aid policy.

SPECIFIC REMARKS

- ***Inclusion of energy infrastructure***

As a major novelty of the Guidelines, it is considered to add and define compatibility for aid for energy infrastructure i.e. mainly electricity networks and their components. The idea is to facilitate

[1] *European Commission - Industrial Policy Communication Update – October 2012*

Contact: Director of Coordination Lars Jope, mobile: +49 172 26 99 063, email: jope@ifieceurope.org
Avenue Louise 250/80, B-1050 Brussels, web: www.ifieceurope.org, aisbl NI 436 343 513

investment in particular into smart grids to promote energy efficiency and cross-border interconnection to strengthen the internal energy market.
It is proposed to include aid to network and system operators to invest in grids, especially when there are insufficient incentives to invest.

IFIEC Europe can support this idea with regard to interconnection or internal lines crucial for cross-border trade when it is proven that investment is economically efficient i.e. leads to higher social welfare and otherwise will not take place.
On the other hand, European electricity networks are being redesigned in an unprecedented manner: centralised national systems focused around large generators are turned into an internationally linked highway with generation often in locations remote from large areas of consumption. RES-E intermittency requires the construction of more electrical lines within Member States and more interconnections between countries.
If new developments in energy infrastructure are highly beneficial to the internal energy market the market will make sure these investments will happen.

The impact of all the investments in the grid should not fall on large consumers providing employment. Quite the reverse, an equitable and cost reflective approach toward industry should be permitted, taking into account consumption profile (base-load) and flexibility (demand response) as well as system stability.

➢ ***Inclusion of system stability and generation adequacy***

DG COMP considers making sure that State aid to ensure generation adequacy and system stability is in line with State aid rules but is also restricted to situations where markets are not able to deliver.

IFIEC Europe believes that capacity mechanisms are a market distortion in themselves. Furthermore IFIEC Europe believes that the European Commission and Member States should first and foremost focus on the elimination of market distorting elements such as over-subsidizing renewable energy and the lack of balancing responsibility for intermittent generation such as solar and wind. Additionally, political and regulatory uncertainty should be reduced to create a stable investment climate. Furthermore, the internal energy market must be completed, among others by implementing the Third Energy Package immediately in all Member States.
Above that, Member States should take into account the impact of their energy related decisions on other Member States, supported by a clear European energy policy. Only then can the market function correctly and ensure sufficient capacity.

If, however, these measures prove not to be sufficient and the market still cannot deliver a suitable level of security of supply, a capacity mechanism might be a solution. Before introducing any kind of capacity mechanism it must be clearly stated that such a market intervention will blunt investment signals. If a capacity mechanism is implemented a measure of last resort aid can be granted when the following principles are taken into account:

- All alternative less distortive measures must have been tried before considering the implementation of capacity mechanisms, particularly demand response/interruptibility: industrial energy users are solution providers.
- If introduced, capacity mechanisms must only be a transitional relief while the market readjusts to new conditions – not a long-term subsidy.
- If introduced, capacity mechanisms should be designed to in a way to least distort the market.

- The total economic impact to final consumers must be accurately demonstrated and the remuneration given by the mechanisms should be limited to the only missing money portion, which is to be clearly proven: any kind of windfall profits must be obviously avoided.

➢ ***Inclusion of low-carbon energy sources***

The goal is to ensure the well-being of the internal market by securing technology neutrality and the use of market based instruments in RES support.

Increasing RES-E generation is now associated with increasing financial support to the RES generation which burdens consumers with huge costs and weakens Europe's global industrial competitiveness with respect to industry in other regions of the world which do not bear such costs. Therefore reform is needed now. The EU should use some basic principles for any RES-E support, taking into account existing best practices and the need for grid stability. It must also avoid over-subsidy and distortions in different Member States. Furthermore EU should allow the maintenance of exemptions while capping the total amount of subsidies.

In most Member States, RES-E is no longer a niche technology, but an important part of the energy supply. Accordingly, the support principles need to be revised, made more cost efficient and eventually be phased out. In fact, lessons could be learned from some Member States support schemes, which, when applied in the right manner, incentivise the introduction of cost effective technologies without unnecessarily burdening industry with prohibitive costs.

Last but not least, since intermittent renewable electricity is becoming an important part of the electricity supply in most EU Member States, it is essential that renewable electricity is integrated consistently into the electricity market. RES-E operators must act as much as possible like any other power producer responding to market signals, responsible for their own balancing, without market distortion due to priority access, or needing extensive backup.

IFIEC Europe is of the opinion that aid granted to low carbon energy sources can only be compatible with State aid law if there is a rationale for the aid and the aid instrument does not or in the least way (compared to other instruments or measures) distort the market.

➢ ***Inclusion of exemptions from environmental taxes and other charges on electricity consumption***

''In order not to incentivise subsidy races between Member States" DG COMP plans to carefully examine exemptions for energy intensive users from energy taxes. It states that "all energy consumers should bear the financial burden of supporting RES".

EU has decided a challenging climate change strategy with binding targets for Member States. The policies implemented to meet the related target in the area of RES-E have proven to be very costly. Furthermore with the success coming from these policies (growth of RES-E volumes) it turns out clearer and clearer that the impact on the whole energy / electricity sector is much more significant than expected (grid extension needs, economic deficiencies for back-up capacities, security risks, etc…). All of these consequences in themselves lead to further cost increases for consumers.

The good work done to create a consistent cross-border electricity market is totally wasted if Member States' RES-E policies destroy that internal market and make targets even more difficult to achieve: the fact that market coupling within Central and Western Europe area almost doesn't exist anymore and capacity mechanisms discussions are good examples of huge market distortions caused by RES-E.

In addition, one of the key assumptions that was used as the key argument in favour of starting the EU RES-E policy was of growing international fossil fuel prices, something which does not stand the reality check. At least, we must consider today that the period with RES-E prices significantly higher than prices for conventional generation will last much longer than predicted and expected at the beginning. So the competitive disadvantage for EU industrial energy users towards their competitors will be a reality for a longer than expected time in the future.

There are three important issues, where *EU RES-E policy is driving up costs for electricity consumers and especially for industrial energy users*:

- Direct and indirect electricity costs through RES-E support and intermittent production;
- RES schemes undermining the advantages from development of the internal market;
- Lacking cost disadvantages for fossil fuel electricity production in other regions of the world.

As a consequence, Member States are trying to follow the EU requests for RES-E increase and at the same time need to strengthen the industrial base by introducing a variety of measures that help preserve their industrial energy users' competitiveness, encourage reindustrialisation and help to overcome the economic crises.

- **Other areas of concern for EU industrial energy consumers**

In a strongly deteriorated EU economic environment EU industry is at risk, with the European energy policy as an additional heavy burden.
This is the reason why IFIEC Europe strongly believes that restrictions on long-term contracts with incumbent producers must be eased. This will help EU industry get access to more competitive electricity generation and will also help generators to find guaranteed revenues and long term visibility.

CONCLUSION

Therefore, EU competitiveness policy including State aid policy must allow adequate exemptions, cost limits and specific regimes for industrial energy users, until competitiveness on global field is restored, in order to:

- Seriously address its reindustrialisation policy;
- Soften the consequences of policies initiated at EU level;
- Follow the idea on which the EU was founded – building an economic counterweight to wealthy and economically powerful regions in the world by connecting the patchwork of European economies into one single powerful region – and conduct a State aid policy that has the global competitiveness of the EU in focus rather than simply distortions between Member States.

Brussels, 29 April 2013

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.