IFIEC Europe's main suggestions for the Clean Energy Package

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IFIEC Europe, representing energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness, welcomes the European Commission's efforts to try to make the EU to lead the transition towards a low carbon economy. At the same time, IFIEC Europe wishes to express its concerns about the potential impact on industrial development in Europe if this is not executed correctly.

While promoting sustainable, secure and affordable energy for retail consumers, global competitiveness of industrial energy consumers must be focused on as well. Particularly as in the past, great achievements over several decades have been made by manufacturing industry already; the technical potential left for further improvement of energy efficiency is therefore very limited. In IFIEC Europe's view, a fine tuning of the Clean Energy Package is necessary, which will allow Member States to exclude EU ETS industry completely from obligations resulting from the Energy Efficiency or the Renewable Energy Directive.

Whereas energy efficiency and renewable energies are tools to contribute to the transition towards a low carbon economy, it should be ensured that the EU energy and climate policy (including ETS, RED, and EED) is consistent, does not overlap and cause distortions. Setting additional targets on those aspects has counterproductive effects and does not lead to the most cost-effective measures towards a low carbon economy.

This paper discusses three important aspects of the Clean Energy Package: A. Energy Efficiency, B. Renewable Energy, and C. Governance.

A. Energy Efficiency

IFIEC Europe is concerned about the underlying used definition of "energy efficiency" in the Clean Energy Package, which does not match with the industry's understanding of this important issue for EU industry.

It must not be forgotten that: Energy Efficiency is not an endless game but comes to an end where technical, economic and/or physical limits are reached. Therefore, cutting the energy usage linearly every year will only be possible with harshly cutting industrial activity in the EU. Any growth of efficient EU industry would be excluded. Therefore, endless energy saving targets without taking account of existing potentials and limits is not in line with any sound EU industry policy. We propose to adapt the overall Directive approach for industry to an understanding of energy efficiency that is targeted to avoid energy losses by promoting activity that is made with optimal energy usage patterns.

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The Directive should aim to make real energy efficiency improvements. Energy efficiency in our understanding means the intelligent use of energy in a cost-efficient way. Many times, this is not necessarily linked to total energy consumption savings, especially in the industrial sectors. It should be a guiding principle for all activities in the society.

The proposal of the Commission to reform the Energy Efficiency Directive does not tackle the most important issues having significant impacts on the European manufacturing industry:

EED Articles 1 and 3

A.1. **Avoid capping the energy consumption in industry:** The directive aims at a linear and absolute reduction of the energy consumption. A reduction of the energy consumption does however not necessarily lead to increased energy efficiency. A target on industry inhibits implicitly EU economic growth, investment and jobs. In addition, the directive does not take into full account already made efforts in terms of early actions, nor the technological-economical potential. This leads to an increased burden on energy-intensive industry to fulfil the target. The potential in building renovation is often named as justification for the energy efficiency target. But while the EED Impact Assessment identifies the need to double the rate of building renovation to fulfill the target, the EPBD effects a much lower ambition. Without proper alignment, this increases the burden for other sectors. Lastly, as the absolute reduction target is calculated on estimations of GDP growth, it is possible to wrongfully account a lower GDP growth than expected (ie. by closures of production sites) as energy efficiency.
Solution: The target should be based on energy efficiency potential, instead of absolute reduction. In order to focus measures on sectors where energy efficiency can be cost-effectively improved, it should therefore be based on a sector specific bottom-up approach, including alignment of EED and EPBD.

For example, energy consumption improvement per m² for the building sector, energy consumption improvement per km for transport, energy consumption improvement per unit of respective product for non-ETS industry, etc. Member States should also be able to adjust their contribution to national GDP growth.

A.2. **Avoid double regulation:** The energy intensive industry is already facing an absolute reduction target of its greenhouse gas emissions and has already achieved significant energy efficiency improvements. Along with energy costs, the GHG reduction target under the EU ETS is a strong driver for those efforts, incentivising the industry to invest in more efficient and innovative processes. Other sectors such as buildings or transport are not subject to a reduction target, while the energy efficiency potential is huge.
Solution: the target should not be binding and will require a meaningful contribution from the non-ETS sectors. For example, about 40% of EU energy consumed is used for buildings, one of the main non-ETS sectors with a significant energy reduction potential. Any ETS-participating large consumer should be exempt from specific energy efficiency targets, which in turn will overlap the ETS' role in promoting cost-effective GHG abatement investments.

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A.3. **Allow for target definition to reflect Member States' economic/energy context and industrial policy:** The reform of the EED obliges Member States to express their target in primary AND final energy. This will however not allow for Member States to fully account the energy efficiency improvements in the primary to final energy transformation sector (such as cogeneration).
Solution: Member States should also in future be allowed the flexibility to express their national contribution in primary or final energy, Next to this, they must be free to base it on their national potential in the different sectors and adjust it to the real national GDP growth.

EED Article 7

A.4. **EU ETS exclusion to maintain competitiveness:** The target definition under Article 7 forms, in the same way as the overall target under articles 1 and 3, a distortive overlap with the EU ETS and does not take into account already made efforts and bottom up potential.
Solution: Member states should have the possibility to exclude EU ETS sectors from their national energy savings obligation without any restriction (like the 25% limit).

A.5. **Allow more flexibility to fulfil the target:** Flexibility should be given to Member States to allow them to include all measures leading to higher energy efficiency. The proposal limits the eligible measures to new savings (on top of existing EU legislation) which leads to unreachable targets.
Solution: Since it is not based on potential, Article 7 should not be binding and the improvement rate should be capped to the national potential bottom up defined. All efficiency measures should be eligible and RES on building should be kept as measure in Article 7 and should not be part of the alternative measures (that are limited in use at 25%).

B. Renewable Energy

B.1. **Developing renewables in line with consumers' requirements:** With the Renewables Energy Directive proposal, deployment of renewable energy becomes a once more strengthened major goal of EU energy and climate policy. IFIEC Europe fundamentally supports the development in the market of renewable energy sources as they can contribute to greenhouse gas emission reductions, but insists on the **urgent need for technological progress in generation and flexibility (backup) as a solution for intermittency**. Early deployment of immature, subsidized technologies pushes up system costs (subsidies, backup, balancing, grid extension, storage, etc.) and drives electricity prices up to a level where industry can no longer compete at a global level.
Solution: IFIEC Europe therefore recommends giving priority to research and development and demonstration projects of immature technologies and asks for a swift phase out of market distortive subsidies. If support would be allowed during the transition period by the State Aid Guidelines, it should be market-based and market responsive. RES-E-

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producers need to be subject to the same requirements (i.e. balancing,..) as other market participants.

B.2. **An electricity market design that allows competitive costs:** The package further strives to adapt the electricity market design to the high deployment of intermittent renewable sources. This brings further risks to EU industry, because for European industry, electricity cost and security of supply remain major factors influencing its competitiveness. Our industrial plants will therefore in the following years, more and more have to face two specific challenges: How will the undoubtedly higher electricity system costs as a consequence of the energy transition allow for industry to have access to globally competitive electricity prices? Will it still be possible to have access to baseload contracts at a reasonable price once intermittent renewable generation starts to prevail in the fuel mix, storage fails to be available at affordable costs and consumers are required to operate with highly flexible consumption patterns?
Solution: IFIEC Europe therefore recommends keeping the goal of a competitive energy market, which was at the centre of the liberalisation process, high on the agenda also for the future. Decreasing the overall energy system costs must be in the focus of energy policy. Hardship regimes on energy costs for industrial consumers in global competition, especially for surcharges on top of market prices, must be accepted as long as RES and further climate policies will be causing a non-level playing field in energy competitiveness for these companies.

C. Governance

IE welcomes the legislative proposal on the Governance of the Energy Union, which among others will bring together the existing scattered planning and reporting obligations from the main pieces of EU legislation across energy, climate and other Energy Union related policy areas, thereby achieving a major simplification of obligations.

IE pays particular attention to the inclusion and the dealing with the Energy Union element “Research, innovation and competitiveness”, since the EU climate and energy policy in the past often had a deteriorating impact on the global competitiveness of energy intensive industries (EII) in the EU. This needs to be corrected with the future legislation.

Therefore, we especially take positive note of the foreseen design of the integrated national energy and climate plans, which requires from Member States to deliver on a regular basis to define “national objectives with regard to competitiveness” (Art. 4 (e3)).

Governance Regulation Article 27

C.1. **EU assessment of member states target needs to be clearer.** It is unclear how the translation of the EU binding target is done down to member state level (responsibilities, enforceability,..). The Governance Directive leaves too much uncertainty and power to the EC to take any action that can possibly strengthen the legislation and impose more obligations and constraints at Member State level, without giving any justification on the

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assessment methodology and criteria. This gives high uncertainty to industries in the member states.

Solution: Member States should be in charge to set and argue their energy efficiency ambition based on bottom up assessment of their potential, linked to their economic structure, spatial planning, buildings status, …

Governance Regulation Article 29

C.2. **Competitiveness need to be integral part of national and EU reporting.** IE regrets, that in the "State of the Energy Union report" to be submitted by the Commission to the European Parliament and to the council on a yearly basis (Art. 29) competitiveness is not mentioned, when listing the elements to be included in the report (Art 29 (2)).

Solution: The EU state of the Energy Union reports must give special attention to competitiveness in the EU and must include an international competitiveness assessment on energy and climate costs.

Governance Regulation Article 4

C.3. **Member States should have the flexibility to express and determine their target** in a way that is reflecting their economic activity and trends, as well as their energy mix. Therefore, a linear reduction path must be avoided, and Member States must have the choice of expressing their energy efficiency target in primary and/or final energy.

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