

**Response to the Green Paper "A European Strategy for Sustainable,  
Competitive and Secure Energy"**

1. IFIEC Europe represents industrial consumers in 15 EU countries for which energy is a major part of the operating costs and directly affects competitiveness. For some, energy is both a fuel and a raw material and typically, can represent more than 20-40% of operating costs and in certain production processes can be as high as 60% of costs.
2. Whilst IFIEC Europe will confine comments to those directly affecting its members as energy intensive industrial consumers, the wider EU responsibilities for household, social and welfare protection are recognised.
3. IFIEC Europe has always promoted the liberalisation process to bring about a truly competitive market and welcomes the Commission's initiative to review all aspects of energy supply and use. The Green Paper recognises the crucial link between energy and competitiveness, as high prices are now impacting more evidently on all sectors of the EU economy. Driven by the magnitude of energy policy challenges, swift and full market integration is crucial for the competitiveness of those companies on which the European economy depends. Despite this, fundamental failings such as the following are still evident:
  - 3.1. there is lack of effective competition in electricity and gas markets;
  - 3.2. there is both insufficient generating capacity available where needed and cross border capacity;
  - 3.3. barriers to effective competition remain in the use of gas transmission capacities;
  - 3.4. there are excessive surcharges and taxes on energy as well as unintended distortions due to such as the European Emissions Trading Scheme (EUETS).

These have led to inadequate competition and excessive costs.

4. The fundamental problems now are recognised, but many of these same areas of concern remain unresolved. Throughout this response the problems associated with the following recur consistently:
  - 4.1. lack of choice in supply options;
  - 4.2. lack of transparency over costs and system utilisation;
  - 4.3. lack of data on gas in storage;
  - 4.4. lack of data on electricity generating capacity utilisation;
  - 4.5. the market price setting mechanisms.

**Competitiveness and the Internal Energy Market**

5. IFIEC Europe supports fully the Commission's objective of pan-EU gas and electricity grids, but this is a long way from reality. Markets remain largely national with a few suppliers being dominant. In some instances, actions by Member States in response to the requirements of the Directives have resulted in support for the dominant players, intended or otherwise.

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AUSTRIA OEKV	BELGIUM FEBELIEC	CZECH REPUBLIC SVSE	DENMARK FSE	FRANCE UNIDEN	FINLAND FFIF	GERMANY VIK	HUNGARY IEF
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6. Dominance remains a key issue and directly affects the competitiveness of IFIEC Europe's members operating in global markets. Whilst prevarication has continued over the implementation of the Directives, the energy companies' market position has been enhanced further by horizontal and vertical integration. Competition rules must be more effective in challenging further integration. It will be too late once cross-border bottlenecks have been overcome, if existing dominant players have extended their grip further by being dominant on both sides of borders.
7. The Commission clearly recognises that the infrastructure development needed presents a long term challenge if the Directives objectives are to be met. IFIEC Europe agrees with this assessment and strongly supports initiatives leading to a more effective arrangements and preferably, ownership unbundling. This will need a change to the present energy Directives, but is justified given the damaging effects of the present situation on costs and competitiveness. Structural change must also be an early measure, otherwise there will be no incentive for new players to invest, leaving actions to those which are dominant at present.
8. A Grid Code is needed as a series of principles for development of supply in pan-EU systems. A common set of principles and binding rules are essential if TSO's are to improve market integration. Without binding rules it is unlikely that TSO's as a whole will take a consistent position in acting on the steps needed. It follows that supervision and enforcement are also essential on an EU level. National regulators do not have the necessary jurisdiction and cross-border dealings present a new responsibility that can only be agreed across EU and included in the final Code. IFIEC Europe believes that DG TREN has a major role in facilitating the development of this Code and overseeing its implementation.
9. Similarly, bodies already exist that could constitute the European Centre for Energy Networks without setting up another formal body. The remit must be clear to be effective in terms of Grid Code development and maintenance. Any overseeing body must have consumer representation and be able to take balanced decisions on all issues, including those of markets. It must not become a means of delaying decisions and change that could have been dealt with more readily using existing arrangements. The Commission will need to retain an essential role in how competition is initiated and managed. Without this, the ability of independent players to offer shipping options will remain restricted.

### **Security of Supply**

10. Security of supply is recognised as a key issue for both the future social and industrial stability across EU. IFIEC Europe supports the stance taken in the Green Paper in that diversity of supply and reducing reliance on ex-EU supplies has to be the basis of policy. In practice, though, the design of a single EU market, when security of supply is important at national level for political, social and welfare reasons and possibly for different customer groups, raises real issues.
11. The industrial market differs from domestic supply considerations. While supply options and transparent pricing are likely to be common to all, views on such as how back up and storage capacities are supported produce quite different reactions between groups. As an instance, industrial consumers need steady 24 hour year round supply whilst domestic needs vary considerably between day and night as well as across the seasons. None of these reduces the need for better energy data than is available currently about supply options, storage and forward plans on infrastructure management, but the way different groups purchase energy will influence their ideas on the market shape that suits them best.
12. IFIEC Europe's members require market arrangements that allow them to contract at internationally competitive prices, including access to long term agreements similar to those on which the supply side depends. As long as this is not brought about by effective EU wide competition policy, producers should be allowed and encouraged to make interim arrangements with industrial consumers (e.g. long term contracts and partnerships) on a basis that suits best the user's needs (e.g. base load consumption pattern, interruptible supply).
13. IFIEC Europe is ready to discuss this further, as at present no clear differences are apparent in the supply side thinking and the exchange price applies to all customers. The costs of such supplies remain central to concerns of IFIEC Europe members, as energy is now inherently more expensive than outside EU. This is undermining competitiveness as effectively as losing supply entirely.

14. IFIEC Europe supports the Commission proposal to review how Member States hold security supplies and the feasibility of interchange when balancing is needed. This cannot be considered in isolation, though, as ability to achieve distribution remains largely theoretical and dependent on major infrastructure development.

#### **Integrated approach to tackling climate change**

15. IFIEC Europe supports a policy of reduced carbon emissions, but within the principle of sustainability. The single policy approach of dealing with carbon alone outside of other important economic factors has to change. The future of Europe depends on more than carbon reduction alone and any reduction represents a minor action in global terms, whatever the future reduction achievements.
16. The result of this policy suggests that the full support of many Member States is lacking and there is little in the wider global community. Any EU Emissions Trading Scheme (EUETS) must gain wider EU and international support if it is to achieve the ambitious targets to which EU is committed. IFIEC Europe has responded to the current review, as it is essential that this results in positive measures that match the Lisbon Strategy, rather than setting “caps” on individual companies that impose further constraint on EU’s industrial base.
17. Consequently, IFIEC Europe questions the statements in the Green Paper about the cost effectiveness of EUETS. On the contrary, there are serious deficiencies that encourage higher pro-rata carbon emissions, whilst allowing the producer to charge more for doing so, as there are no checks on “pass through” of costs and no relationship between these costs and the carbon component. The cost of the “windfall losses” due to inadequate allocation rules being set within EUETS has been enormous to consumers. Those costs, which are proportionally greater for IFIEC’s members, are not faced by international competitors, so have impacted on global competitiveness and continue to do so.
18. For EUETS to deliver on the objectives, these deficiencies have to be addressed in the short term. Present cap & trade allocation rules, however, build a significant obstacle for a liberalised, free undistorted market. This allocation methodology leads to power producers charging allowance values to customers, regardless of their actual emissions and true cost of allowances. Winners of market share with existing power plants must buy allowances, which works like a penalty to be paid to the losers of market share. Furthermore, since allowances to new entrants are not linked to actual future production, but are determined on an ex-ante decision of annual operating hours by the Member State, this works as determination of allowed operation and profit capability of new entrants, which has the effect of a plan economy. The fundamental problem of the absence of a link of actual production with the allocation of allowances must be reversed, in order to abolish this important obstacle to the process of liberalisation in the electricity market.
19. IFIEC Europe has proposed a form of ex-post correction for the second trading period. This would also support the longer term intent of designing a post 2012 system that will gain international acceptance. EU cannot afford to be left isolated whilst the wider global community develops an alternative that is not compatible, resulting in the threat to EU industries’ competitive position continuing. IFIEC believes that the situation will worsen after 2008 without correction.
20. The proposals for using the EU Cohesion Policy principles to enhance adoption of improved energy efficiency measures are welcomed. Apart from there being greater acceptance of this approach internationally, IFIEC Europe has always proposed this as a far better focus for policy than absolute measures, for the reasons now evident in the EUETS review.
21. The proposal for “white certificates” is interesting, but needs more discussion, as it is important to avoid conflict with other measures such as the Integrated Pollution Prevention Control and Energy Efficiency Directives. As with EUETS, any system for energy efficiency certification would need to recognise improvements already gained in regulated sectors, against other sectors coming into any scheme that have not had previous obligations.

22. The intention to improve renewable energy arrangements is also welcomed by IFIEC Europe. There is considerable opportunity for such technologies and for the research and development (R&D) studies to develop further. The scope must be broadened from virtually total reliance on wind schemes with expensive backup capacity arrangements and unsustainable financial support.
23. In the future, financial support for renewable investments must have better efficiency and auditing criteria from the outset. These comparisons should be against properly costed alternatives, not through measures that mean the market price of other energy sources rising so that artificial competitiveness is created.
24. IFIEC Europe believes that the nuclear option offers all sectors an efficient and reliable energy source that does not depend on ex-EU suppliers. It is now time for this technology to be considered as a serious option in EU energy policy.

### **Encouraging Innovation**

25. The Green Paper identifies institutional, financial and business links to facilitate change and IFIEC Europe supports the principles being put forward, but how these are used to promote the aims of this Green Paper will be a challenge for the Commission. In all respects, large capital investments will be needed. Globally, there are already early collaborative projects being agreed between players in competition in open markets to develop new resources and technologies. This means a balance between the regulatory role of the Commission and business based fora, where the R&D co-ordination is planned and agreed. This is where IFIEC Europe sees a High Level Group role. These generally consist of senior industrial representation and financial and other interests can be added for a programme under the auspices of the EU President.
26. Only R&D coupled with the resulting technology can deliver secure energy supply coupled with reduced emissions. The Commission now has the opportunity to redefine how the technological ambitions can be allied to effective markets and incorporating new means of ensuring capital funding is available. This will require new approaches to integrating political, financial and business thinking between the Commission, corporate interests and equity providers.
27. Whilst the regulatory role is needed, this increasingly needs to be in conjunction with a more flexible structure able to move in line with rapidly shifting business and economic activity globally. Short term, high level groupings overseen by Commission interests should enable better forward programmes to be agreed and initiated.

### **Summary**

28. IFIEC Europe encourages the Commission to take further the initiatives raised in the Green Paper. Energy policy is an integral part of many other aspects of the social, commercial and industrial structures essential for a strong and innovative EU economy.
29. This will not happen unless a series of steps that include the following as a minimum are taken:
  - 29.1. Dominance by national players is addressed, with greater transparency in market behaviour allied to better data being available to consumers;
  - 29.2. Additional cross-border capacity investments are made and the quantity of existing physical cross-border capacity available to the market is increased;
  - 29.3. Capacity utilisation is optimised through the harmonisation of market rules, the application of the "use it or lose it" principle, netting and the introduction of secondary trading mechanisms;
  - 29.4. TSO's responsibilities are defined under one set of binding rules.
30. This must be designed and delivered through a Commission programme rather than as single issues in different Directorates General. IFIEC Europe is ready to assist in such developments, as securing energy supplies in open markets whilst improving competitiveness are essential if its members are to continue to maintain manufacturing in EU.

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