**Speech Commissioner Oettinger**
**IFIEC Europe Energy Forum 2014**
**12 June 2014 Brussels**

Dear President Felzinger,
Dear ladies and gentlemen,

- I am pleased to be here today to celebrate with you 25 years of IFIEC Europe - International Federation of Industrial Energy Consumers. Congratulations!

- Your anniversary and your work over these two and a half decades is indeed a reason for celebration first of all for your federation and all its members, but also for all those who have an interest in well-functioning European energy markets, in market liberalisation and transparency, in consumer choice and cross-border trading.

- I have read that the Florence School of Regulation - an institute of a very good reputation in academia and among policy makers - has described you as a major driving force for liberalisation and transparency in energy markets.

- For the Commission I can say that you have been a real partner and an important interlocutor for us on many issues concerning energy policy in Europe.

Ladies and gentlemen,

- Mission growth – this is the key message of the communication *'For a European Industrial Renaissance'*, adopted on 22 January 2014. The European Commission recognises the central importance of industry for creating jobs and growth, for our capacity to innovate, to compete globally and to master our future with success. Europe has comparatively small energy endowments. It needs to rely in the education and inventiveness of its people, on good ideas and on an industry that is capable to bring these ideas to the market and compete in the global economy.

- The European Union has set itself the objective for industry to represent 20% of GDP by 2020. Currently, industry accounts for about 15 or 16% of the EU's GDP. What is worse, there has been a decline in the industrial base. We therefore need to reverse this trend.

- Strengthening Europe's competitiveness is therefore a core concern of the European Commission. It is at the core of our proposals, also in the field of energy.

- When I started my job as Commissioner, energy policy was just a service provider for climate policy. Climate policy decided about the objectives and then energy policy had to deliver. My position has always been and remains that energy policy must be self-standing but linked both to industrial policy and social policy.

- The challenge will be to square our objectives for the reduction of greenhouse gases with our objective to strengthen Europe's competitive position in the world. If we want to succeed, we need to be realistic.

- Reality is not always comfortable. And that is certainly true for energy prices.

- High energy prices in the EU remain a source of concern, for industry and for consumers. Clearly, if the energy cost differential with major competitors in the global economy were to persist, this would be a serious challenge - particularly for energy intensive industries.

- Let me be quite clear, the role that labour costs played in the 1990s energy costs are playing now for our competitiveness, in particular when comparing this cost factor for EU industry with the situation in the United States. When we see price differences for gas of a factor of three to four and for electricity a factor of two, this means that we may see the re-industrialisation of the United States and the de-industrialisation of the European Union.

- While there may be considerable political blockages in the US political system between the two sides of the spectrum, there is considerable unity on one thing: low energy prices and the objective to re-industrialise, if need be at the expense of Europe.

- The EU’s net energy import bill reached over EUR 400 billion in 2012 (3.1% of EU GDP). This is twice the average level in the past two decades – certainly a call for action.

- Between 1995 and 2012, the EU's primary energy production decreased by almost one fifth. Natural gas production dropped by 30%, production of crude oil and petroleum went down by 56% and production of solid fuels decreased by 40%. Renewable energy production, on the other hand, has significantly grown during recent years, renewables account for 22% of primary energy production.

- At the same time, European consumers' electricity and gas prices have risen and are still rising.

- Over the period 2008-2012 and for the EU on average we have seen increases each year in:

    - household electricity prices by ↑ 4%
    - gas household prices by ↑ 3%
    - industry retail electricity prices by ↑ 3.5%
    - gas industry prices ↑by less than 1%

- Retail price increases have been driven mainly by non-market elements: taxes and levies, as well as network costs and charges. Since 2008, for both households and industry, the biggest increase was in the tax/levy component of electricity retail prices, the smallest in energy costs.

- The considerable decline we have seen in wholesale electricity prices has not resulted in lower retail prices. The reason is the growing share of non-market elements in retail prices. Universal retail regulation and high levels of market concentration disconnect retail markets from wholesale markets.

- Energy costs are not just about prices, but just as much about the amount of energy we consume. For competitiveness and affordability reasons, we therefore need to work harder to find cost-effective measures to improve efficiency.

- Even though EU manufacturing is among global leaders in energy efficiency, energy costs have increased despite falling consumption as improvements in energy efficiency have not been able to compensate price increases in full.

- For the European Union this is not a small matter. Because the EU is the largest exporter of energy-intensive products globally.

- As you are only too aware, certain industrial sectors are very vulnerable to energy price differentials with external competitors (with the main exceptions of Japan and Korea) that are increasing. Industry pays 3 to 4 times more for gas in the EU than in the US, India and Russia and 2 times more for electricity than the US and Russia.

- EU, Member States and European households and industry all need to work together to confront the energy cost challenge of the energy transformation.

- We need above all competitive markets, flexible energy systems, responsive consumers and cost effective government instruments if we want to contain price rises, pay for investment and minimise cost increases.

- Therefore, the Commission adopted several measures to maintain and increase competitiveness of EU industry:

- One clear result of the Commission's report on energy prices and costs is that we absolutely must ensure that our energy and climate policies are conducted in a cost-efficient manner. This means we need well-functioning and competitive energy markets and improvements in energy efficiency.

- My hope is that the European Council will by October reach political agreement **on the 2030 framework**. We need a swift agreement so as to provide predictability and certainty for our investors (for them, 2030 is just around the corner).

- There are also global reasons for coming forward with a 2030 proposal now, given that next year a new binding global agreement covering all emitters is foreseen. The EU must be ready to make its contribution in spring 2015.

- The Commission proposes that the EU adopts a *domestic* 2030 greenhouse gas emissions reduction target of 40% below 1990 levels. In pursuing this objective we should give Member States a large degree of flexibility on how to achieve this.

- Let me be clear, I do accept this target. But it is a really ambitious target. It implies that we increase the speed of greenhouse gas reductions by a factor of three. We reduced greenhouse gases by 20% in three decades (between 1990 and 2020). Now we are proposing to do the same in only one decade (between 2020 and 2030). That alone is already ambitious.

- In my personal view, I am convinced that the target of -40% for the greenhouse gas reduction will not be neutral in terms of its impact on investment. While it is all right to go to Paris with this target, we should also consider what the consequence would be if there were not going to be an ambitious global commitment on the part of at least our main competitors. If there is such a commitment, say of about 60% of global emissions, including our main competitors, this would be a good outcome. The question remains however, what we would do, if there is no such level of commitment globally and what this would mean in terms of investment, growth and jobs.

- We also should be aware that part of the reduction between 1990 and 2020 was the "low-hanging fruit" of the disappearance of Soviet-style industrial plants. And another part was the fallout from the economic and financial crisis in 2008.

- Hence, reducing greenhouse gas emissions three times as fast between 2020 and 2030 will be a challenge. Because several of those Member States who did not previously have Soviet-style industry are currently not achieving significant further reductions in greenhouse gases. Achieving such reduction will be much more difficult than was the case between 1990 and 2020.

- The package also includes a binding target of 27 % for renewable energy which is binding at the EU level. However, this would not be broken down into 28 binding national targets anymore. One of the lessons we have learned from the current 2020 package is that purely national targets and approaches can be quite counterproductive.

- Energy efficiency remains fundamental to a cost-effective transition of the energy system that creates growth and jobs. Your industries are efficient by themselves, because as energy-intensive industries, they have been obliged to adapt to high energy prices for considerable time.

- The Commission's aim is to give flexibility to Member States so as to come to the most cost-effective solutions, in line with national circumstances. But there needs to be better coordination and regional cooperation as national decisions also affect neighbouring countries, and surveillance to ensure that national measures are in line with the internal market. The current fragmentation must be overcome.

- The proposed governance scheme must provide flexibility to Member States while at the same time ensuring that commonly agreed targets at the EU level are met. The approach to develop national plans must strike the balance between the need to ensure investment certainty and the right to adapt to changing circumstances.

Ladies and gentlemen,

- The completion of the internal energy market with expanded grid interconnections is central to a cost-effective implementation of the 2030 Framework, thereby safeguarding both Europe's competitiveness and energy security. According to a recent study, a fully integrated, competitive market could result in cost savings of between 40 to 70 billion euro until 2030.

- Such progress cannot take place without a properly integrated, modern energy infrastructure. In view of the European Eenergy Security Strategy, the Commission proposes an interconnection target of 15% by 2030.

- We also need to deal with the impact of an increased share of renewable energy on system stability.

- The Commission guidance on this and the guidelines on state aid in the field of environmental protection and energy go a long way towards achieving this. The guidelines establish rules for a gradual move to market-based support for renewable energy and provide criteria on how Member States can relieve energy intensive companies that are particularly exposed to international competition from levies for the support of renewables and other environmental taxes and charges.

The new state aid rules envisage a number of elements which should lower the costs of energy for companies:

1. Support for renewables should be more market based and avoid overcompensation of production allowing more adaptation of the support schemes across the EU and interlining them across Member States.

2. Exemptions for energy intensive industries which are in competition with non-EU companies remain possible to prevent that industries delocalise from the EU

3. State aid for new generation capacity should be used only as last resort when interconnectors and demand response is not sufficient to cover the demand.

- Furthermore, the guidelines include new provisions on aid to energy network infrastructure, and generation capacity and revise the rules on CCS and energy efficiency taking into account provisions of the Energy Efficiency Directive.

Ladies and gentlemen,

- The EU Emission Trading System (EU ETS) will remain a central instrument for the transition to low carbon economy, but it needs to be restored as an effective instrument. If not, we risk a fragmentation of policies and much higher costs for industry.

- For this reason we have proposed to establish a market stability reserve in the EU ETS to tackle the supply-demand mismatch. This will give predictability for the regime post 2020.

- For energy-intensive industries exposed to international competitiveness, we will limit the risk of carbon leakage now and in the future. In this decade the Commission aims to guarantee continuity in the methodology of the composition of the carbon leakage list.

- Post-2020 we should continue with an improved and better focused system of free allocation, if other major economies do not take comparable action. The experience with the existing rules is a valuable starting point to ensure simplicity, predictability and effectiveness.

- Within the 2030 Framework, the Commission also proposes a set of key energy indicators relating to the internal market, energy security and competitiveness. One example is energy price differentials with major trading partners. These indicators will allow us to monitor progress over time and to provide a facts base for policy response.

- Considering the investment challenge, it will be particularly important to devise smart financing mechanisms to leverage private sector investments, in particular in lower income countries. Financial institutions such as the European Investment Bank should enable attractive loan conditions for productive investments.

- The Commission is ready to contemplate governance arrangements to ensure that funds are used well in Member States, e.g. via the EIB, but also in the framework of the European Structural and Investments Funds (at least 23 billion € in 2014-2020) and Horizon 2020 (6 billion € over the same period) in order to spur research and innovation.

Ladies and gentlemen, dear friends,

- A stable, long-term perspective for European industry to invest in energy capacity and infrastructure should help the Union to capitalise on the strong position it has in high-tech manufacturing of capital goods, such as industrial technology, power equipment, transport vehicles and appliances.

- Our energy-intensive industries are part of the core of the Europen economy. Without competitive energy prices we stand to lose these industries and with them entire value chains. We should make an effort to keep the entire value chain.

- Europe cannot afford de-industrialisation. We should export top-quality products and services. We should not drive out our industries to assist the re-industrialisation of the United States. We need to remain competitive.

Ladies and gentlemen,

- Let me congratulate you again on your 25$^{th}$ anniversary.

- You have been a good partner for us in the past.

- I would like to encourage you to continue making your voice heard and engage with us also in the future.