AmCham EU's response to the 2030 Climate and Energy consultation

CONSULTATION RESPONSE

American Chamber of Commerce to the European Union
Avenue des Arts/Kunstlaan 53, 1000 Brussels, Belgium
Telephone 32-2-513 68 92 Fax 32-2-513 79 28
Register ID: 5265780509-97
Email:info@amchameu.eu

Secretariat Point of Contact: Julie Linde Kjelden (jlk@amchameu.eu; +32 (0)2 289 10 15)

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Introduction

The American Chamber of Commerce to the European Union (AmCham EU) has always taken the EU's 20-20-20 targets very seriously and our members have taken all the steps necessary to help decarbonise the EU economy, in compliance with the regime setup by the EU and national legislation.

However, achieving these objectives has, in some domains, been more difficult than expected. AmCham EU supports EU energy and climate policy objectives, namely, security of supply, sustainability and competitiveness. However, we believe that now may be the time to reassess the tradeoffs between each of these objectives in an open and transparent way, thereby ensuring the EU's future energy and climate policies gives equal weight to these three objectives.

AmCham EU, therefore, welcomes the Commission's initiative in calling for such an integrated and open discussion on the future of the EU's climate and energy policy and we are eager to be an active stakeholder in the debate.

We would like to start by stressing some of the key lessons we have learned from the 20-20-20 framework, and what we believe will be most important on the road to 2030:

- EU climate policy should seek to manage climate risks in the most cost effective way possible;
- The framework of EU climate and energy policy should be clearly defined and stable to encourage business to make the investment and business decisions needed to deliver on the EU's objectives, goals and targets;
- It should minimise system complexity and maximise cost transparency to allow markets to drive technology deployment;
- The 2050 Low Carbon Roadmap[1] objectives, on which the Green Paper is based, should remain consistent with IPPC assessments of climate science, the progress of international climate negotiations and the existing and future commitments of major trading economies. These new objectives should also be realistic to ensure their technological and economic feasibility;
- The entire EU economy should contribute to emission reductions. This should be driven by an EU framework that promotes a consistent carbon abatement cost across the entire economy;

[1] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0112:FIN:EN:PDF

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- EU energy and climate policies should not overlap with each other. They should also be aligned with the broader EU policy agendas on competiveness and industrial policy;

- More coherence is needed between EU climate and energy objectives and national support schemes;

- The 2030 framework will need to allow flexibility to adjust to economic and technological developments, as well as advances in climate science. The 2020 framework's emphasis on ex-ante allocation of allowances has proved its limits over the past few years. The 2020-2030 framework will need to allow for more flexibility; and

- Regulatory delay and uncertainty can be responsible for investment hiatuses. This is particularly relevant for investments in the energy sector, which have to be made with long-term horizons.

General

Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

Greenhouse gas emissions (GHG)

Given the EU ETS is seen as the cornerstone of European climate and energy policy, we are most concerned by its fate and future credibility. AmCham EU has consistently supported the principle of market-based instruments to tackle climate change. We are therefore committed to the ETS, and consider it one of the most effective tools to help the EU reach its carbon reduction targets in a cost-effective manner.

As previously raised with the Commission[2], AmCham EU is a strong advocate of ETS structural reform to put the scheme on a stable and enduring footing. This is vital for long-term private sector investment planning and implementation. We believe that structural reform should address ETS design flaws that have led to its crisis of confidence and credibility. Short-term fixes will not be enough, but fundamental measures that make the ETS a more responsive, flexible and transparent instrument are necessary to place it within a long-term framework to 2030, which would obviously cover Phase IV of the scheme.

Linking ETS reform measures with the new 2030 climate and energy framework has a clear logic to it. Moreover, AmCham EU believes that a fully integrated European climate policy is essential to making the transition to a low-

[2] AmCham EU response to the structural reform of the Emissions Trading Scheme, 25 March 2013:
http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=8858&PortalId=0&TabId=165

carbon economy, with urgent investment needed in creating a diverse mix of energy sources at the lowest possible cost. Member States acting unilaterally in climate policy are a risk to the EU Single Market, energy prices and, ultimately, security of supply. We worry that, without a stable and strong ETS, there is a risk that Member States will introduce unilateral measures, as is the case with the UK carbon floor price.

As companies dedicated to manufacturing in Europe, we would like to emphasise the over-arching climate policy principles necessary for industry to help Europe compete in a global economy:

- We believe that a global approach to reducing GHG emissions continues to be essential. The EU represents only 12% of global GHG emissions. Unilateral EU action will not be sufficient to mitigate climate change. We therefore encourage the EU to continue to do all it can to achieve a global agreement;

- The EU should be aware of the potential risks in pursuing globally uncoordinated climate change policies. Acting in the absence of global agreements on GHG emissions may put broader policy objectives – such as economic growth – at risk by putting a heavy burden on trade-exposed industries. Efforts currently being made in other parts of the world should not be underestimated, and the delays in global negotiations should not be a reason for inaction at European level. We encourage policy leaders to assess the current situation and recognise the trade-off between potential loss in domestic competitiveness, energy security and jobs and local carbon reduction, which may, in effect not result in global emission reductions;

- Future EU climate policy should be addressed in conjunction with EU industrial policy. It should recognise and support both current and future opportunities for companies to provide low carbon technologies and solutions, including the contribution of Europe's industrial manufacturing base in delivering innovative materials, products and technologies; and

- Legal and policy certainty is key for our companies' investment decisions and business planning. Changes to legislation or processes are extremely disruptive and weaken industry performance. A long term and predictable policy environment is key for companies to be successful in Europe and will restore confidence in the region.

<u>Energy efficiency</u>

Progress toward the 20% reduction target has been limited, due to low prioritisation by Member States. A vague methodology for measuring progress toward the target has also weakened progress in this field. Member States have also set very different strategies to achieve the target with different objectives in different sectors.

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The EU is not capturing the vast potential for energy savings and efficiency in many sectors, particularly in the buildings sector and on the supply-side, including power generation, transmission and distribution. The economic potential along the entire energy supply chain in EU Member States should be a bigger political priority. Greater investment in energy efficiency could create local jobs, savings in public budgets and reduce energy import dependency and fuel poverty.

To date Europe's energy efficiency focus – reflected in the Energy Efficiency Directive – has been predominantly on domestic energy conservation. There is, however, growing recognition that this alone will not be sufficient to meet the policy goal of a 20% improvement by 2020. Realising the additional significant potential for supply-side and industrial efficiency will be needed to fill this gap.

The EU should also properly calculate the long-term risk and opportunity cost ofnot focusing on energy efficiency, particularly in the buildings sector. The EU should act now as 80-90% of Europe's 2050 building stock is already standing.

Due to the critical importance of the buildings sector (including private housing, commercial and public buildings), specific EU regulation and funding in this area may still be appropriate. Equally, full implementation of existing EU regulations on energy efficiency in buildings needs to be strengthened. However, when designing additional energy efficiency measures, special care should be taken to minimise market distortion for the EU ETS sector.

Renewable energy (RES)

The 2020 climate and energy framework, including its binding renewable energy targets, has provided the energy sector with needed stability and predictability. The EU should continue the policies that help deploy RES technologies and decrease their costs, bringing some of these technologies to the point where they are almost self-sufficient on the EU market.

The EU's 2020 renewable objectives have driven investments in the renewable energy sector: in 2011, Europe achieved a share of 13% renewable energy[3] and the number of persons directly or indirectly employed in the EU renewable energy sector increased by 30% from 2009 to 2011 to reach 1.2 million people.[4]

However, substantial investment is still needed and, given the current economic climate in Europe, it is by no means certain that European governments will continue to provide the financial support needed to help bring new RES technologies to commercial viability. The EU needs to plan beyond 2020, because the design of renewable energy support schemes for the 2030 horizon is crucial to adapting to the increasing maturity and changing costs of renewable

[3] http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/8-26042013-AP/EN/8-26042013-AP-EN.PDF
[4] http://www.eurobserv-er.org/pdf/press/year_2013/bilan/english.pdf

energy technologies. Helping the deployment of renewable energy in the Single Market will help bring producers of renewable energy to the point that they can start contributing the necessary investment for updating the EU's electricity grid. Halfway measures lead to inefficient subsidies and increased prices for consumers.

It must be stressed that the current renewable target was set based on the assumption of a fully functioning EU energy market. In practice, the situation has been quite different. Remaining barriers to entry and other obstacles within the EU single energy market, have contributed to the rise in electricity costs and to uncoordinated, in some cases financially unsustainable, national strategies to support the greater uptake of renewables in the energy mix. A transparent and consistent carbon price across the EU Single Market would help send the proper investment messages.

Targets

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

Target setting as a policy tool

In principle**,** targets set objectives while allowing for flexibility in how they are met. EU level targets are useful as they send a broad strategic message and encourage investors to take advantage of the Single Market's economies of scale.

However, Member States also have their role to play. EU targets should be broken down at national level to allow for better enforcement. It is important that Member States take on the legal responsibility of meeting the targets they sign up to at EU level. We therefore encourage the EU to step up its naming and shaming efforts in this regard, and to encourage greater enforcement of EU climate and energy policy. We find that stepping up the EU's monitoring efforts in this domain would also help better coordinate national low carbon policies.

To be most effective, targets must be set for a long timeframe, be stable and not be reconsidered at regular intervals. Constant reconsideration deters investment and it must be stressed that targets are only as effective as their enforcement. The Commission must continue to monitor progress and encourage Member States to meet the objectives they have signed up to at the EU level. Only targets that are properly enforced send an effective and strong investment signal.

That being said, it is important to stress that, before proposing a new target, the Commission should always assess whether it is needed. In some cases other tools such as market liberalisation or additional R&D funding may be more appropriate. When choosing to propose new targets, the EU should always assess whether it places a burden on one sector of the economy to order to

benefit another. It should also consider the proposed target in the context of other policy objectives such as job creation, innovation and reindustrialisation.

How many targets for the EU's 2030 climate and energy policy objectives

AmCham EU is a horizontal trade association with a broad membership representing almost all industry sectors present on the EU market. This means that, at this stage, our membership is divided on whether an EU climate policy built around one or three targets would be most efficient.

The choice between one or more targets must be weighed carefully. In principle single carbon reduction target would simplify the existing framework. It would send a clear message to the market that could help avoid some of the pitfalls witnessed over the 2008-2013 period, where some EU and national objectives lacked coherence. On the other hand, a single carbon target could, depending on how ambitious the overall target, lead to a substantial rise in the CO_2 price and cannot be viably implemented without effective compensation mechanisms to shield energy intensive industries from the indirect CO_2 costs of the ETS. To date, the ETS fails to provide such an adequate compensation mechanism.

Whereas progress has been made to lower the price of renewable technologies, more effort must be made in the run up to 2030 in order to send the investment signal that will continue to decrease RES prices. It would not mean a de facto continuation of support schemes until then. When mature RES technologies become competitive, financial support will be gradually phased-out, and they will play their role in a fully functioning energy market.

We continue to believe that significant progress on energy efficiency is key to delivering climate and energy objectives and that much remains to be done in this field. We particularly call for more ambition for energy efficiency in the buildings sector, which covers almost 40% of the EU's energy consumption. An EU buildings roadmap and strong national targets and renovation roadmaps with a 2050 perspective would give the investment signals for the construction industry, as well as set the EU Member States, to set them on the right path toward energy security, green jobs and lower costs for both consumers and the public sector.

No matter what decision the EU takes on its next climate targets, there is no doubt EU climate policy could maximise its potential in a fully liberalised and transparent energy market. Relying on different national systems is not the most effective way to allocate investment in the new energy infrastructure needed to deliver the EU's climate objectives.

Regarding the GHG target's level of ambition, we would like to reiterate as we did in our previous paper on the impact assessment that accompanied the 2050 Carbon Roadmap[5], that the proposed 40% target is only the result of economic

[5] AmCham EU calls for a more thorough analysis of the long-term targets stipulated by the Low Carbon Economy Roadmap to 2050: http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=7518&PortalId=0&TabId=165

modelling, based on some questionable assumptions, and is not a target that has been politically debated or legislatively adopted. A target requiring such a sizeable effort from European industry should first be thoroughly discussed with Member States (some of which opposed the Roadmap[6]) and business stakeholders.

EU targets cannot of course be set in a vacuum, and must also be considered with regard to equivalent commitments by other major industrialised countries and regions. The need for an international agreement is paramount. AmCham EU supports a binding international agreement on climate change and welcomes EU effort to secure an agreement, by the time parties come to meet at the COP in Paris in December 2015.

Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

Incoherence caused by EU targets and lacking implementation measures

There have, however, been problems resulting from a lack of coordination, not only between EU and national levels, but also at EU level, where targets have been set, but the implementing measures were not clarified.

The example of the Fuel Quality Directive (FQD)[7] is a good illustration here. The debates on the implementation of the calculation stipulated in article 7a are still ongoing. In the meantime, neither industry nor Member States know how to account for progress made toward the 2020 target of a 6% reduction of the carbon intensity of transport fuels. By the same logic, progress on biofuels under the Renewable Energy Directive (RED) is hindered by delays in the adoption of legislation tackling the Indirect Land Use Change (ILUC) issue. However both these questions can, and should, be approached by revising the methodologies to calculate the carbon intensity and the greenhouse gases emissions reduction potential of all fuels, whether oil- or biomass-based, using pragmatic yet sound science-based and transparent principles. Only this approach will bring credibility, acceptance and certainty that lead to the adherence to, and achievement of the EU's objectives.

AmCham EU is also a strong supporter of technology neutrality and market-based mechanisms. Whereas the RED foresees achieving the target of 10% of

[6] Letter by Marcin Korolec, Polish Minister of the Environment to Members of the European Council of the European Union, 6 March 2012, (ref: DWZue-7722-7/9263/11/MM).
[7] AmCham EU position paper on the Fuel Quality Directive letter, 16 December 2011: http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=7363&PortalId=0&TabId=165; and AmCham EU position paper on Article 7a of the Fuel Quality Directive, 12 March 2012: http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=7609&PortalId=0&TabId=165.

final energy consumption in all modes of transport, many Member States have de facto favoured the use of biomass in biodiesel. This makes it difficult for some sectors, for instance aviation, to compete for the available volume of sustainable biofuels. A possibility would be to allow aviation biojet suppliers to qualify for tradable certificates within national incentive regimes, such as the Renewable Transport Fuel Certificates in the UK.

It is important to note that the assumption that RES development is the reason for the current low carbon price is incorrect. RES, on its own, cannot be responsible for the oversupply of allowances currently seen on the carbon market. The European Commission estimates the ETS surplus to be around 2,000 Mt by the end of 2013, the estimated 39 Mt reduction from RES cannot therefore be the cause of current problems with the EU ETS.

The lack of clear uniform guidance rules on RES support schemes at EU level has resulted in a variety of schemes at the national level that have not always been cost efficient and have, in some cases, raised the financial burden on consumers and affected competitiveness. The renewable energy sector has proven to be very dynamic, with a fast learning curve and economies of scale leading to rapid decrease of the technologies' cost. However, in the last few years, many Member States have not taken these rapid changes into consideration when designing their support schemes. In some cases this has led to overcompensation and investment bubbles that then lead to retrospective changes of legislation. To avoid this situation, and ensure the cost-effective support, some flexibility clauses should be integrated to the design of support schemes, from the outset, e.g. digressive support, regular revisions, use of transitional periods, etc.

Solutions should be found to alleviate the burden of RES on industrial consumers. Governments should allow for more competition among renewable energy sources by introducing more market considerations during contracting and by giving RES producers balancing responsibilities, for example, when they are capable of assuming these. Some countries have already taken steps in that direction. Italy for example introduced balancing responsibilities for RES in 2013. Furthermore, as technology learning curves for RES are expected to continue to drive down investment costs, certain RES technologies will reach commercial maturity. When that is the case, and RES can compete freely in a fair and functioning internal energy market, governments should ensure that they do no longer provide subsidies for new RES. In Spain for example, we are seeing that solar projects are being planned without relying on financial support.

ETS and different approaches to carbon leakage

It is essential that competitiveness be ensured for sectors deemed at risk of carbon leakage. The ETS Directive recognised that a major impact on the competitiveness of energy intensive industries is the indirect costs of the ETS, i.e. the pass-through of the carbon cost in the energy bill. The Directive consequently allows for Member States to compensate their energy intensive industries, on the basis of legal state aid, to limit the impact of these indirect

costs. However, to date, only one or two Member States have indicated that they will allocate budgetary resources to this end. This makes the situation hard to read for companies when they assess where to invest and aggravates the risk of carbon leakage for companies exposed to international competition.

The current situation leads to situations where, in most Member States, energy users who buy their electricity from the grid have a comparative disadvantage against other companies that generate their own electricity.

Energy efficiency

The Energy Efficiency 2020 target was non-binding, therefore the political signal it sent was weak and Member States never prioritised energy efficiency in national policies. The calculation methodology to calculate progress toward the target should also be further specified to make national reporting more coherent and comparable.

At a sectoral level, the lack of full and timely implementation and enforcement of the EU's Energy Performance in Buildings Directive has led to lost opportunities on energy efficiency and on savings in the buildings sector. Member States need to put a lot more focus into setting up comprehensive implementation and enforcement systems to make sure there is a proper, long-term energy performance improvement strategy in place for the whole building stock. Industry already has the necessary technology to make buildings much more energy efficient, but needs long-term policy to support market-take up and to give investment certainty.

Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO_2 reductions for passenger cars and light commercial vehicles?

Although we understand that extending the ETS to new sectors would require an in depth analysis of how the ETS would coexist with existing sector specific legislation, we believe this is the best solution for the carbon market's efficiency and increased credibility. This approach would also help the price of carbon converge across the entire economy.

AmCham EU has always been a proponent of technology neutrality and a level playing field for all industries. As such, we find that a broad-based ETS is the best path toward a carbon market that is credible over the long run. All sectors should contribute equitably to achieving the EU's emission reductions. However, this will require a fully functioning ETS and a thorough analysis of the contribution the non-ETS sectors are making to CO_2 reductions through product and sectors specific regulation in order to avoid double legislation. For example, is a renewables target necessary for transport, given the targets for CO_2 reductions for passenger cars and light commercial vehicles[8]?

[8] On the issue of international transport and the ETS, AmCham EU supports a global solution to the issue of aviation and maritime emissions. The EU Decision to temporarily 'stop the clock' on

We would like to stress however, that measures, e.g. EU-wide European Committee for Standardization (CEN) standards, EU CO_2 efficiency measures gCO_2/km for cars for renewables and energy efficiency, should not overlap with the EU ETS. Buildings and transport, should contribute to the reduction of GHG emisions using the most appropriate instruments. When complementary measures are used, these should avoid overlap with the EU ETS.

Due to the structural disparity and the high number of stakeholders with different incentives, the buildings sector needs strong regulation to improve energy efficiency. Market forces alone are too slow to drive the change in building type and management that is needed to have an effect on overall energy consumption and cost. The EU must therefore encourage Member States to make energy efficiency in buildings a priority and to ensure stronger implementation of sectoral EU regulation.

Targets are not the only means of reaching EU climate policy objectives. Low carbon technologies are being held back by the lack of policy focus on the deployment of technologies, including barriers to commercialisation of new technologies by administrative hurdles distorted and fragmented energy market and market distortions that do not allow these new technologies to reach the economies of scale that would make them economically viable.

We believe that great progress could be made were the Commission and Member States to focus on identifying the gaps and removing existing barriers to market these low carbon technologies and products face, and to help their mass deployment on the Single Market. Low carbon incentives should focus on policy mechanisms that can be financed over the long-term, e.g. investment tax credits, product tax credits and loan guarantees. Particularly, incentives for biofuels should be tied to sustainability criteria to avoid confusion, uncertainty, and a negative impact on the environment.

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

2030 is tomorrow. Should there be technological innovations that make it easy for the EU economy to reach its carbon reduction targets, it will beat these and continue its path towards decarbonisation.

There is no need to revise targets once they are set. Targets act as an investment signal only inasmuch as they are stable and predictable. Targets help set a framework that encourages investment stability, however, tweaking the system midway has recently proved counterproductive. We encourage Member States to collaborate so they can support carbon reductions where it is most cost effective to do so.

the enforcement of its aviation ETS for flights entering or leaving European territory represents a pragmatic step to allow a more constructive climate in the ICAO negotiations towards a global sectoral agreement on aviation emissions.

A coherent, stable and predictable 2030 framework should significantly minimise the costs of uncertainty, lowering the investment risk, reducing the costs of capital and hence the level of support needed. Post-2020 an increasing number of renewable energy technologies should be able to move away from

existing support mechanisms into a fair and properly functioning energy market for electricity, heating and cooling, and transport.

Technology based targets pose the risk of stranded assets for utilities/companies that have own their own generation capabilities if they become obsolete because of technological innovation or non-compliance after sudden regulatory changes.

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

For industry present in Europe the most important indicator in the next few years will be energy price, and its reduction, to help increase the competitiveness of European manufacturing, and thereby help lift Europe out of the current recession.

Targets are not suitable for measuring security of supply and competitiveness (energy prices), but we could support a set of indicators to monitor progress in these areas. Indicators may be useful to track performance, but the economy is unlikely to respond efficiently to any mandatory target set in these fields. In the UK the energy market regulator (Ofgem) is mandated under UK law to produce annual gas security of supply and electricity capacity assessment reports.[9] Similar indicators could be developed at the Member State or EU level to measure progress on security of supply.

We encourage the Commission to closely monitor the cost of energy in all Member States in its assessment of the implementation of the third energy package. According the Commission's own assessment, the full liberalisation of the EU energy market would deliver an additional 0.8% GDP growth in the EU.[10] Greater liberalisation of the EU energy market would almost mechanically help deliver these lower energy prices, so we encourage the Commission to push for the package's full implementation, including by making use of infringement proceedings when necessary.

We also underline the importance of fully recognising the impact of climate policies on electricity costs and of designing effective instruments to address them, e.g. compensation mechanisms embedded in the EU ETS for energy-intensive industries.

[9] http://www.ofgem.gov.uk/Markets/WhlMkts/monitoring-energy-security/gas-security-of-supply-report/Documents1/Gas%20SoS%20Report.pdf and http://www.ofgem.gov.uk/Markets/WhlMkts/monitoring-energy-security/elec-capacity-assessment/Documents1/Electricity%20Capacity%20Assessment%202012.pdf

[10] Source: Presentation of J.M. Barroso to the European Council, 23 October 2011.

Security of supply can be ensured by increasing the share of indigenous energy sources and decreasing energy import. In 2011, the EU's combined trade deficit was €150 billion. At the same time, the net import bill for fossil fuels to the EU amounted to €388 billion, more than 3% of EU GDP, and more than twice its trade deficit.

As companies of American parentage investing in and committed to Europe, our member companies have witnessed how the increased production and use of natural gas as an energy source in the US has had a critical impact on the competitiveness of industry, thereby stimulating investment and growth in the US economy. We would therefore like to highlight the importance of the role of natural gas as part of a diverse mix of energy sources, and to advocate for the adoption or implementation of a number of policy measures in Europe to support the growth of the natural gas industry, which could generate similar benefits for the European economy.

Instruments

Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

Too many roadmaps do not send a clear message to the market

The cumulative cost of ever-increasing and overlapping layers of regulation severely affect the EU's industrial competitiveness and may lead to even more industrial disengagement from the EU. It is crucial that every new policy measure should be based on realistic assumptions and should be thoroughly tested with regard to its impact on industrial competitiveness. EU policies should be designed as part of the global context.

The EU's future climate and energy policy should be addressed in conjunction with EU industrial policy and should recognise and support both current and future opportunities for industry to provide low carbon technologies and solutions. To keep its front-runner advantage in developing low carbon technologies on a commercial scale, a real industrial policy would strengthen further local investments. Such a policy should be based on:

- Implementing a transparent and efficient European energy market that provides an attractive investment climate while respecting general competition rules, through the use of low interest loans and easy access to capital;
- Ensuring investment security through a stable and favourable policy framework with long term 2030 predictable targets;
- Define an EU compensation scheme for the indirect electricity costs of the ETS on energy-intensive industries exposed to carbon leakage; and
- Simplify administrative rules, by developing sustainable support schemes, streamlining administrative procedures and implementing efficient grid connection processes. All current electricity grid plans should be implemented.

American Chamber of Commerce to the European Union – Avenue des Arts/Kunstlaan 53, B-1000 Brussels, Belgium
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How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

- Further strengthening energy market liberalisation. An important first step is the full implementation of the various energy packages.
- Adopt a common approach to dealing with carbon leakage in EU legislation, instead of the different approaches existing currently.
- Adopt a consistent approach to the criteria for free allowances, ensuring that they are the same whether a firm uses electricity or another energy source.
- Recommend guidelines for the design of capacity mechanisms.
- Explore and encourage options for demand-side management via, for example, more smart grid capabilities and off peak capacity.
- Push for more cross border interconnections ensuring, shorter licensing periods and to continue the current EU policy of selective financing of key projects.
- Greater regulatory focus on supply side efficiency.
- Establish common guidelines focusing on key characteristics when implementing different types of support mechanisms for renewable energy.
- An undistorted EU ETS is a means to achieve an environmental target cost-effectively. It is technology neutral and market-based and constitutes the right instrument to ensure emissions reductions in European industry are made at the lowest cost.

How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

As stated in our Single Market study,[11] we find that abrupt and retrospective changes to the different support schemes for renewable energy create a situation of uncertainty for investors. This significantly discourages investment. Furthermore, the different measures taken to handle larger shares of wind energy in the energy system may set back the development of a Single Market for energy.

Lack of coordination between EU and national levels have, in some cases, led to support schemes that were not cost efficient. Governments should allow for more competition among renewable energy sources, as the technology continues to mature. Greater competition between mature RES energy sources will increase transparency and act as an investment signal.

We welcome the Commissions' promise to develop a set of general design criteria to promote the convergence of support schemes, which are to be

[11] Chatper V of AmCham EU's *The EU Single Market: A Work in Progress* http://www.amchameu.eu/Home/FullStory/tabid/106/smid/827/ArticleID/749/reftab/449/Default.aspx

published in 2013. This would help Member States to design their support mechanisms in more efficient ways and to better address investor uncertainty.

Avoiding Single Market fragmentation and ensuring reliable energy supply could be helped by adopting market design principles that countries should stick to when designing capacity mechanisms[12].

How can EU research and innovation policies best support the achievement of the 2030 framework?

Financing the Low-Carbon Economy

AmCham EU stresses the importance of policy stability when looking at long-term investments. Availability of capital is very important, however, it is the certainty provided by clear, consistent and predictable policies that really makes a difference. This is particularly the case with regard to political and economic risk. Private capital flows may be unlocked if policies make this investment risk acceptable and:

- Ensure sustainability over the duration of the investment period;
- Bridge the financial gap new technologies encounter as they mature and become competitive;
- Focus R&D funding toward commercialisation;
- Make investment more commercially attractive;
- Avoid administrative and permitting barriers;
- Do not subsidise mature technologies or energy sources, but let them compete upon their own merits on the market; and
- Real investment in energy infrastructure is needed, and it is a shame that the current discussion on the EU budget is sending such a weak signal to the market in this domain.

Efficient infrastructure investment through a mix of pan-European and local schemes

All funding instruments should be directed at improving Europe's competitiveness and providing new job opportunities in a healthy and sustainable low-carbon economy. The EU should continue using decentralised funding schemes, such as the structural funds, to spur investment in innovative technologies (local high-tech and large cross-border projects) and develop flexible centralised programs such as the 'energy infrastructure fund' of the European recovery plan. In addition, these funding schemes could be used to help seize energy efficiency opportunities.

[12] Ibid.

Green Public Procurement (GPP)

EU public procurement laws already strike a balance between 'pure' competition and secondary objectives. The primary purpose of public procurement is to provide the contracting authority with 'value for money', to spend public resources wisely and ultimately save the taxpayer's money.

To that end, procurement should take into consideration not only short-term opportunities for cost savings, but also drive long-term investment in sustainable products and services including considerations of life-cycle costing.

Other public policy objectives should remain the exception, not the rule, and should only be adopted if there is broad consensus about their value to society and if they are clearly defined. Fostering sustainable markets is a key policy objective of GPP. Use of GPP will encourage industry to commit resources to green R&D to bring solutions to the European market and enable the EU to meet its objectives in energy efficiency, renewable energy and the reduction of greenhouse gas emissions.

It is important that the legal framework remains user-friendly. GPP criteria need to be clearly defined, simple and product-specific and should be established and updated together with business in a transparent and efficient process.

Competitiveness and security of supply

Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

Lower energy prices would help keep manufacturing in the EU strong and competitive, thereby increasing job creation and innovation.

Despite progress in energy liberalisation, we are still far from a Single Market in the energy field, which could deliver lower energy process across the EU. On the contrary, energy prices have increased, negatively impacting both consumers and energy-intensive industries.

Some of the outstanding issues that still remain with respect to energy liberalisation are:

- Incomplete unbundling of incumbent energy companies;
- Lack of transparency in power markets; and
- Lack of infrastructure connections within and between Member States.

We join the Commission in calling for a reindustrialisation of Europe, and strongly believe that industrial policy and climate policy should be aligned. An energy efficient and competitive industry would go a long way to fulfil the EU's climate objectives.

American Chamber of Commerce to the European Union – Avenue des Arts/Kunstlaan 53, B-1000 Brussels, Belgium
Telephone 32-2-513 68 92 – Fax 32-2-513 79 28 – info@amchameu.eu – www.amchameu.eu

What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

Carbon leakage is a real phenomenon. Although it would be simplistic to state that the cost of carbon and electricity is the sole reason for the decision to delocalise production away from Europe, the continued increase in energy prices over the past few years has made it more difficult for European manufacturing to remain competitive compared to other regions of the world. This trend has of course been further exacerbated by the recent drop in energy prices in the United States due to the exploitation of unconventional fossil fuels.

It is important to stress that carbon leakage is not only about the cost of carbon allowances. For example, in the tyre sector, 53% of ETS costs are indirect costs associated with electricity consumption. This means that even smaller plants that are currently out of the scope of ETS[13] are already paying the price of carbon allowances. This phenomenon is not currently taken into account by either EU or national politicians, and although it is in theory possible to get national compensation for energy costs, in practice, few Member States allocate some of their national resources to that effect.

The aluminium industry in Europe also serves as a good example. Primary aluminium production in Europe has declined by one third since 2008. It has already disappeared in the Netherlands and Italy, while in the UK only one aluminium smelter is still in operation. France, Poland, Norway, Germany and Spain have also experienced closures or reductions in their primary production of aluminium.

One of the primary reasons for these closures is the increasing price of electricity. Electricity costs for primary aluminium smelters operating in the EU are 30-40% higher than those faced by smelters in other parts of the world (excluding China.) Since aluminium is a globally traded commodity, these high electricity costs have a major impact on the competitiveness of European smelters.

While EU aluminium primary production has shrunk, demand for aluminium has increased, and the EU is now a net importer. This is not only having an impact on jobs and growth in the EU but, if the trend continues, it also risks worsening the EU carbon footprint through imports that tend to have a higher carbon content compared to aluminium produced in Europe. This might be true also for other sectors.

What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

Investments in new capacity always had an effect on energy prices. With many of the EU's power plants due to be decommissioned in the coming decades,

[13] Because of combustion installations with a thermal input not exceeding 20 MW.

Europe needs to replace its ageing power system and this has a cost, no matter what technology is selected for the future EU energy mix.

We understand that neither the EU nor the Member States are responsible for the volatility of commodity prices, which are partly responsible for the recent increase in energy costs. However, it is no doubt the case, that many Member States still have very high taxes on energy, and these should be lowered for the benefit of European citizens and the competitiveness of European industry. We

currently see increasing costs from non-commodity charges rather than an increase in the wholesale prices.[14]

Even though the EU cannot control the price of commodities that influence the final energy price in Europe, the EU could help decrease energy prices across Europe by delivering on the items below:

- Complete unbundling of incumbent energy companies;
- Increased transparency in power markets;
- Build energy infrastructure connections within and between Member States;
- Enable lower capital costs through stable legislative frameworks;
- Set-up effective compensation mechanisms for the indirect ETS costs impacting energy-intensive industries that compete on global markets; and
- Support schemes for renewables should be progressively reviewed on the basis of the technological progress and reduction in production costs.

How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

Further unilateral action by the EU will have little or no impact on global emissions or on the 2°C objective, but it could compromise future growth and would increase carbon leakage, which is already a major concern for industrial sectors. This is one reason why it is vital to secure a binding commitment on GHG reductions from the EU's main trading partners.

How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

One of the key lessons to arise from the 20-20-20 policy framework is that the EU's 2007 assumption, that it could move on its own and others would follow, was erroneous. Lessons should be learned from this in deciding what the future of EU climate policy should look like.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf

There is a competitive edge to investing in low carbon technologies and products, but market forces should be left to drive more of the process in climate policy after 2020, taking into account some of the recent shifts in global energy supply, such as the US's shale gas revolution and the increasing availability of cheap fossil fuels.

More and more countries are starting to consider ETS schemes or carbon taxes, and support to renewable energies (in 2012, 118 countries had renewable energy targets in place). However, it is early days for these schemes and therefore premature to say whether they will abate carbon leakage. For example, the Australian ETS provides for a compensation mechanism embedded in the scheme for indirect costs for energy intensive industries: energy-intensive industries receive one additional carbon permit for every MW/h of electricity consumed. This is currently not a possibility in the EU ETS, which means that energy intensive industries in Europe do not benefit of the same level of compensation that will be granted to their Australian counterparts.

How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

Additional financing is always welcome, especially to finance high added value projects such as the cross border energy infrastructure that are key to a functioning Single Market and where it is difficult to get the required licences to build cross border transmission lines.

We recommend giving greater attention to these two themes: physical grid automation to manage RES and efficiency technologies

AmCham EU's key recommendations in this particular area are:

- Application of technology, i.e. 'proof of concept' projects, as there is a significant burden on industry to generate a return on investment associated with R&D. The results of previous projects should be used to reduce costs or build commercial economies of scale in future projects;
- Easier access to funding. The structure of funding programmes should allow companies to get involved through faster decision-making and a clearer line of sight to project outcomes;
- More focus on the application of technologies to match the scale of investments in 'upstream' research and development. One-off demonstrations projects are often useful to provide proof-of-concept demonstrations. However, these do not occur on a large enough scale to improve economies of scale; and
- Procurement practices. Procurements often only focus on the benefits of certain types of energy such as renewables, overlooking gas technology and other infrastructure that also support carbon emissions reductions.

It is also important to stress that increasing innovation is best served by a free market and competition. The EU has a sophisticated manufacturing sector

whose activity has spill over effects in many other sectors of the EU economy. Liberalising the EU energy market, levelling the playing field between energy providers, thereby lowering the cost of energy, would help European manufacturing to put more of its financing in R&D and thereby in its innovation capacity.

How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

Shale gas[15] could play an important role in the EU energy mix and policy-makers should consider its importance to the EU's energy security of supply and economic competitiveness, as well as its potential role in meeting its greenhouse gas (GHG) reduction objectives. Considering the fast-paced development in North America of new extraction technologies, it is also important that the EU remains technically aligned to achieve competitive advantages in Europe. The regulatory framework underlying shale gas exploration in EU Member States should be science-based and the rules for exploration harmonised.

AmCham EU therefore believes that unconventional gas represents an opportunity and that it can be s effects can be accurately measured and tracked. We recognise the need for civil society and local communities to be reassured that the production of shale gas is being properly regulated with regard to environmental and social impacts.

We are seeing the US economy recover and, in particular, the US industrial and manufacturing sectors gaining competitiveness in the global market. Shale gas development in the US has supported 600,000 new jobs in 2010, and is expected to represent an estimated 900,000 jobs by 2015. It should result in $1.9 trillion in capital investment into the economy from 2010 to 2035. The situation in Europe is different but we can still take steps to better leverage our own gas resource to the benefit of our energy intensive industries, consumers and the overall economy.

Switching from higher to lower-carbon sources of energy, such as from coal to natural gas, while using existing infrastructure, can deliver substantial reductions in CO_2 emissions in power generation. CO_2 emissions from a best-in-class natural gas-fired power plant are about half those of a best-in-class coal plant for the production of a unit of electricity.[16]

[15] AmCham EU position paper on the contribution of gas gas to re-launching European growth and jobs, 14 January 2013: http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=8592&PortalId=0&TabId=165; AmCham EU position paper on on Shale Gas Development in the EU, 14 January 2013: http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=8591&PortalId=0&TabId=165

[16] IHS CERA Report 'Sound Energy Policy for Europe: Pragmatic Pathways to a Low-Carbon Economy', 2011. Less than 50% compared to coal as set out on page 13 of the report 'Making the Green Journey Work – Optimised pathways to reach 2050 abatement targets with lower costs and improved feasibility'.

How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

AmCham EU believes that Europe's future energy mix needs all energy sources, including renewables, nuclear, coal and conventional and unconventional oil and gas. All energies should all be allowed to compete and innovate and market mechanisms to play their role.

The EU would also have a more efficient energy market, with a better energy mix between Member States, if the following were implemented:

- Ensuring the full and effective functioning of the internal energy market (gas and electricity markets);
- Better interconnection/balancing services between Member States; and
- Exploitation of indigenous fuel sources (RES and gas) compatible with the EU Roadmap.

Member States acting under the principle of subsidiarity should coordinate and communicate energy mix decisions that may affect integrated energy markets in other Member States.

Increasing competition in the European gas sector will increase efficiency and lower costs for final consumers; the creation of a truly working internal market will also deliver more resilience in the event of supply disruptions and stimulate investment.

Attractive markets for gas and pipeline capacity needed for reliable inland gas transport require markets that function properly, reflecting a well-founded and stable regulatory regime and protecting the value of the necessary regulated infrastructure investments. The EU issued three gas directives from 1998 to 2009, all of which embody the vision of competitive gas markets in the EU, but none of which have yet had that effect. While progress has been achieved, these Directives have generally failed to generate the full benefits of a truly internal European natural gas market.

Capacity and distributional aspects

How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

The impact of climate and energy policies must be considered at the EU and national levels. The Commission's analysis of impacts on Member State is very important and should be carried out properly before the new framework is established and efforts are distributed among Member States. For these reasons, AmCham EU encourages the Commission to ensure that all climate and energy policy proposals are accompanied by a transparent, independently verified and

thorough impact assessment, which identifies intended and potential unintended consequences for each Member State, industry and EU citizens.

What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

The burden-sharing mechanism is an issue for Member States to agree. Nevertheless, we believe that EU countries should be able to trade their emission obligations to maximise cost-effectiveness. Such national obligations should be legally binding alongside the EU ETS to prevent free riding/opting out of obligations. All sectors should contribute on an equitable and transparent basis to emission reduction. In the future, consistent carbon pricing across sectors should be promoted - this would ensure that emissions are reduced where most cost-effective.

Are new financing instruments or arrangements required to support the new 2030 framework?

AmCham EU is convinced that further infrastructure investments can no longer be delayed if we wish to maintain and expand Europe's infrastructure at a time when global competitors race ahead to build the growth enablers of tomorrow.

Public investments, notably in the Eurozone, have already been affected by a systematic decline during the last decades, in conjunction with a slowdown in productivity and a decline in economic growth rates.

AmCham EU therefore agrees that the European Union should fully leverage its size, GDP, budget and internal market to implement project-financing techniques to fund infrastructure for competitiveness and enable sustainable growth and jobs.

Based on existing expertise and global best practice, the introduction of a well-designed Europe 2020 Project Bond Initiative[17] could indeed significantly contribute to better coverage of the financing needs of infrastructure projects and add to reversing the significant decline in European investment over the last 30 years (the public investment ratio in the Eurozone has declined by more than 1% of GDP). The experience gained in the European Investment Bank and other partners for infrastructure project financing should be fully leveraged. Risk sharing mechanisms, subordinated debtors and credit enhancement techniques offer vast potential. AmCham EU member companies also suggest that many environment-related infrastructure investments and large-scale renewable energy projects could be considered as good candidates for these types of financial instruments.

[17] AmCham EU position paper on EU project bonds, 2 May 2011: http://www.amchameu.eu/DesktopModules/Bring2mind/DMX/Download.aspx?TabId=165&Command=Core_Download&EntryId=6581&PortalId=0&TabId=165

AmCham EU, however, stresses that project bonds cannot replace the Member States' responsibilities to maintain a high level of productive public investment and cure the inertia in implementing much needed structural reforms.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled €1.9 trillion in 2012 and directly supports more than 4.2 million jobs in Europe.

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