AmCham EU's response to Framework 2030 for Energy and Climate

A competitive EU energy and climate strategy for 2030 and beyond

Executive summary

The American Chamber of Commerce to the European Union (AmCham EU) has a keen interest in EU energy and climate policies, and promotes a balanced approach between the objectives of security of supply, sustainability and competitiveness to transition to a low-carbon economy at the lowest possible cost. If the EU wants to both relaunch investments and drive the move towards a low carbon economy, it must improve the governance, clarity and predictability of the policy package and legislative tools to drive the full spectrum of those investments.

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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 €2 trillion in 2013 and directly supports more than 4.3 million jobs in Europe.

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POSITION PAPER

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21 May 2014

Introduction

The American Chamber of Commerce to the European Union (AmCham EU) is the voice of companies of American parentage committed to Europe. As companies with a strong investment presence in Europe, AmCham EU members welcome the opportunity to contribute to the European Commission's 2030 Climate and Energy package. We have a keen interest in EU energy and climate policies, and promote a **balanced approach between the objectives of security of supply, sustainability and competitiveness to transition to a low-carbon economy at the lowest possible cost.**

We therefore support:

- **The completion of the internal energy market**. Despite progress in liberalisation, there are still outstanding issues that impede progress to a fully integrated market and, in turn, more competitive prices for domestic and industrial customers.

- **A diverse mix of energy sources, including renewables, nuclear, coal and conventional and unconventional oil and gas**. All energy sources should be allowed to compete and innovate on a level playing field. Technological and tax neutrality should be the rule and market mechanisms should play their role.

- **Leveraging the potential of energy efficiency**. Significant energy efficiency gains can be harvested in areas such as the buildings sector or on the supply-side, including power generation, transmission and distribution, provided that a stable and technology neutral policy framework ensures sufficient returns on investment. A sound cost/effectiveness analysis must back any extension of energy efficiency/GHG reduction requirements to existing or new areas.

- **Investing in infrastructure**. Energy grid developments, network updates, addressing bottlenecks, deploying cross-border links, exchanging information on major national decisions and building new connections are crucial for Europe's competitiveness. Properly functioning markets, access to finance and a stable regulatory and fiscal environment will help attract the needed investments.

- **Integrating the external dimension of energy and climate policies**. The challenges are increasingly of a global nature and it is time to move from unilateral approaches to more global strategies. With growing global demand, diverging prices and competition for energy sources, a safe and continuing **supply** of energy is necessary for the region's economic competiveness and to keep attracting investment into the EU. Europe's contribution to the decarbonisation of the global economy to tackle climate change cannot be done in isolation from the actions of other developed and emerging economies. Low carbon **technologies** are increasingly developed worldwide, challenging Europe's technological leadership. EU policy-makers will need to calibrate carefully both the opportunities and risks to European business arising from global competition and the transition to the low-carbon economy.

AmCham EU members acknowledge the **ambitious post-2020 target of** reducing domestic greenhouse gas (GHG) emissions in Europe by **40% by 2030**. Efforts have already been engaged in many sectors of the European economy to reach the current level of achievements over the last three decades. Europe should define, and implement, the policy framework that will lead the transition to a low-carbon economy at the lowest possible cost, while pursuing the goals of security of supply, sustainability and competitiveness.

However, doing so in isolation from the actions of other developed and emerging economies could have limited impact on global emissions or on the 2°C objective. Moreover, it could compromise current and future growth and jobs in Europe, and generate increasing global carbon emissions as a result of carbon leakage. At the same time, we acknowledge the opportunities that accompany the emissions reduction target with the development of a low carbon economy in Europe. AmCham EU therefore continues to stress that a global approach to reducing GHG emissions is essential to mitigating climate change. Since a European-only ambitious climate target set without an international agreement could have a negative impact on competitiveness and investment, we encourage the EU to opt for a flexible approach, with the perspective of the **international developments and commitments taken by other parties on the road to the 2015 Climate Conference in Paris.**

AmCham EU stresses that in order to relaunch investments and drive the move towards a low carbon economy, the EU must improve the governance, clarity and predictability of the 2030 policy package. To this end, we would like to put forward the following recommendations:

EU institutions and national governments must have the political will to **implement** the policies that have already been jointly agreed, and deliver on the liberalisation of energy markets, investments in infrastructure and modernisation of networks, and harvesting of energy efficiency potentials.

- EU institutions and national governments must also provide for **predictability and long-term frameworks** and avoid volatile and market distorting support schemes or interventions to ensure continued investment in Europe and citizen buy-in. The impact of **tax levies** on energy cannot be underestimated to assess the difference between stable wholesale prices and rising retail prices. A piecemeal approach to the structural reform of the EU's **Emission Trading Scheme** should also be avoided.

- **National energy policies** must be coordinated with a **governance** system and **indicators** robust enough to guarantee the coherence of initiatives and a level playing field while factoring local potentials, opportunities, and achievements. This will especially be critical to deliver on 2030 ambitions for **renewable energies** and energy **efficiency.** The European Commission's approach to **shale gas** is a positive demonstration of the need to allow the sustainable exploration and exploitation of unconventional energy sources.

Energy and climate policies cannot be addressed in isolation of others European priorities such as the need for growth and jobs, competitiveness and security. We therefore welcome the inclusion in the 2030 energy and climate package of an unprecedented **cost dimension** and that it was released in conjunction with the **industrial renaissance** communication. We however regret that the different initiatives are not better integrated and connected, and somewhat remain in different silos. Energy and climate policies are and will remain highly interlinked with industrial policies as stressed by the European Council (20-21 March 2014). Energy costs are paramount to Europe's competitiveness and

the very high energy prices in the EU are impacting the region's ability to compete on a global scene and its longer term stability, growth and security.

Energy efficiency

AmCham EU believes that energy efficiency is key to help Europe reduce its energy dependency, bring down energy costs and lowering its GHG emissions. AmCham EU member companies have implemented energy efficiency measures in their manufacturing operations and many also provide products that produce energy efficiency improvements when used.

We are awaiting with interest the outcome of the Commission's review on energy efficiency. In the meantime, we would nevertheless like to stress the great potential of energy efficiency in the building sector and how this should be fully and effectively exploited.

In the buildings sector markets alone do not drive energy efficiency, as has been shown by many studies. Buildings consume almost 40% of the energy in the EU, and savings opportunities are substantial and broad. Regulation and political prioritisation are needed to drive uptake of energy efficient new buildings or refurbishments. The implementation of the EU's Buildings Directive has been slow and the more recent Energy Efficiency Directive lacked ambition, particularly with its weak public sector targets. AmCham EU agrees with the European Parliament's objective of an 80% energy consumption reduction in the EU's entire building stock by 2050. Therefore, a sectoral target for energy efficiency in buildings would help drive this to become a political priority for the EU, and send a signal to industry that this is a good sector for investment.

Energy costs

Energy costs paid by industry in Europe are among the highest in the world and are continuing to rise: electricity retail prices for industry are more than double those in the US and industry gas retail prices are three to four times higher than in the US. As pointed out by the European Commission in its Communication on Energy Costs, the energy cost differential between EU companies and their global competitors is a direct consequence of the continued increase in EU energy prices and costs. This is particularly true for electricity where costs have risen despite a decreased consumption.

High energy costs are severely impacting the competitiveness and investment decisions of the EU manufacturing industry. High costs are the main cause of the divestment escalation in the EU of energy-intensive industries exposed to global competition and producing globally priced commodities (e.g. aluminium, chemicals). Production levels in energy-intensive industries have drastically decreased since 2008. The International Energy Agency[1] has warned that the EU will lose one third of its energy-intensive industries over the next two decades if its energy prices do not decrease. This phenomenon is also impacting their industrial value chains, which include also SMEs.

The ambitious climate and energy targets put forward by the Commission will have major implications for the carbon and energy costs of key parts of the manufacturing sector. AmCham EU, therefore, strongly welcomes the fact that, after their first debate on the 2030 package, EU leaders have asked the Commission to 'develop measures to prevent potential carbon leakage' and have called 'for long-term

[1] The IEA World Energy Outlook 2013

planning security for industrial investment in order to ensure the competitiveness of Europe's energy-intensive industries'.

AmCham EU fully endorses these requests because they are vital to support our members in their investment decisions for the period beyond 2020, which are already under consideration.

It is thus imperative to provide a clear vision of the level of protection from increased energy costs related to climate mitigation policies that EU manufacturing industries can rely upon after 2020, with a particular focus on energy-intensive industries exposed to global competition. Furthermore, it is essential to ensure effective protection across the entire EU from EU carbon costs impacting energy prices – i.e. ETS indirect costs. While these costs have a major impact on energy-intensive industries[2], their compensation is today left to the will/ability of the national governments to support their industries, and to date only four Member States have set up meaningful compensation mechanisms.

ETS reform

AmCham EU supports an EU ETS based on the following principles:

- A stable regulatory regime that is market-based and eschews arbitrary interventions;
- Providing a predictable, long-term framework, giving clear policy signals to business and the investment community;
- Avoiding damaging European competiveness, allocating CO_2 emissions as cost effectively as possible while ensuring carbon leakage protection for the energy intensive industry in the absence of an international agreement.

AmCham EU has been a consistent supporter of a global carbon market as one of the principal means of combatting and mitigating climate change. AmCham EU has also regularly singled out the importance of a stable and strong EU Emissions Trading Scheme to support the EU's decarbonisaton strategy.

As an initial contribution to this discussion, we would like to share the following recommendations. First, we understand the rationale for the Market Stability Reserve, which is to address the fundamental issue of lack of responsiveness and flexibility, and therefore to avoid repeated market interventions of the backloading type. But we have substantial reservations about the weight of expectation that will be placed on the reserve – if the ETS is to be an effective policy instrument, other measures (see below) need to be considered. Second, we worry about the lack of prior consultation on the reserve proposal (there was no mention of it in the ETS consultation which the Commission ran last year), and we therefore call for a thorough discussion about how the reserve would work (with adequate visibility and transparency) and its potential implications for business.

Against that background, we hope that policy-makers will revisit the original Commission options for structural reform and consider, particularly as they start to consider the rules of engagement for phase IV in the post-2020 period, other measures, e.g. the questions of widening the scope of the ETS and

[2] As an example, these costs can be up to €110 per tonne of aluminium produced in Europe. CEPS 'Assessment of the cumulative cost impact for the aluminium industry', 2013. http://ec.europa.eu/enterprise/sectors/metals-minerals/files/final-report-aluminium_en.pdf

access to international credits for regulated entities.[3] AmCham EU believes that there should be as level a business playing field as practical for tackling emissions mitigation. Other emissions trading schemes have decided to extend their ETS coverage to a wider spectrum of schemes than in Europe; we think that the EU should at least examine the case for doing the same. On international credits, these have been helpful to European companies in terms of mitigating their carbon compliance costs, and we were surprised to see the Commission makes no mention of the continued use of international credits in phase IV. Commonly recognised international credits could also play a role in helping to connect carbon pricing schemes around the world. We therefore call on policy-makers to examine this question as well.

In considering future reform, European policy-makers will also need to take into account key issues around costs and competiveness that apply in particular to energy-intensive sectors. Energy-intensive industries exposed to the risk of carbon leakage have so far received no clarity as to the rules for free allocation and compensation of the ETS indirect costs beyond 2020. Taking into account the elements of any future international agreement, the provisions for carbon leakage and compensation for indirect costs in the ETS Directive should be extended beyond 2020 when qualifying installations will be receiving far fewer allowances than they do today.

Moreover, in line with a proposed 2030 GHG emissions reduction target of 40%, we also note the Commission's proposal to increase the Linear Reduction Factor (LRF), from 1.74% to 2.2% with effect from 2021. If implemented, one would expect this increased LRF to force the carbon price upward, with implications for competitiveness.

In short, AmCham EU would welcome an ambitious and far-reaching discussion with the EU institutions – based on the core principles detailed above - about the future shape and operations of the ETS, especially for phase IV. Business requires clarity on the ETS's future because it is the cornerstone of EU climate policy, and structural reform requires a longer-term vision. There are many outstanding issues on the future of the ETS. The sooner all the participants in the carbon market get clarity about its post 2020 future, the better the ETS will function.

Shale gas

AmCham EU recognises that key to delivering energy security in the long-term is to ensure a diverse energy mix and avoiding over-reliance on one source or fuel. Natural gas will remain a key element in the European energy mix, especially in light of the EU's threefold objectives of sustainability, security of supply and competiveness of energy.

We therefore support an agnostic and objective-based case for shale gas exploration in the EU that should focus on three main areas:

- **Security of supply** – meeting the EU's future energy requirements.
- **Environmental sustainability** – reducing carbon emissions and promoting sustainable extraction. Our members promote the highest standards and good practice for well bore construction, casing, cementing and completion and throughout the drilling and hydraulic fracturing process. They fully support the public disclosure of chemicals used in hydraulic

[3] For more information, please see AmCham EU's response to the Commissions 'state of the carbon market' report.

fracturing in Europe, according to the REACH Regulation and Association of Oil and Gas Producers (OGP) disclosure website (www.NGSFacts.org).

- **Economic benefits** – ensuring the EU benefits from the exploitation of energy resources; maximises competitiveness, growth, jobs and availability of affordable energy.

It is likely to be years before the full potential of shale gas for Europe is realised. While more work needs to be done to determine if commercial deposits are present, it is important that companies should be allowed to conduct exploration in order to gather geological data and evaluate the economic potential of the resource, support refinement of a robust regulatory framework and, if required, demonstrate industry good practices. This will be vital to building government/public confidence in the industry.

Renewable energy

AmCham EU supports an efficient policy for cost-effective renewables at the European level and the modernisation of the European grid infrastructure. Such infrastructure development is a prerequisite for the efficient and cost-effective uptake of renewable energy, a future EU framework with a continuously growing renewable electricity share needs to facilitate the related grid evolution and system requirements

Moreover, strong EU governance and better alignment between Member States are needed to further enhance the capacities and the market based penetration of renewable energy sources in Member States, therefore ensure the security of supply. We encourage the Commission to further promote the integration and competition of renewables on the European energy market, as outlined in the governance paper and the new state aid guidelines for energy.

In order to give certainty to investors, stimulate further innovation and ensure cost-effective security of supply, the Commission should be more concrete on its plans and the corresponding measures. The new governance system needs to clarify further how the Member States will implement the proposed overall EU binding target for renewable energy of at least 27%. Currently Member States have GDP-based national renewable energy targets until 2020, but it is not clear on what the new national plans will be based on or how Member States will define their domestic approaches to reach the overall EU renewable energy target. Good governance on the EU level should also be linked with the new ETS system and the 40% reduction target to ensure that further development and deployment of renewables is efficient and market oriented. Furthermore the European Parliament should be included into the decision-making process and not having only an informative role.

Regarding biomass, we support the Commission's position that a better approach on biomass policy is needed. An improved and coherent biomass policy should foster maximum resource efficient use of biomass, deliver robust and verifiable greenhouse gas savings, and facilitate fair competition between various uses of biomass resources.

Transport

As far as the transport sector is concerned, the 2030 Framework points out, *inter alia*, that the focus of policy development should be on further development and deployment of sustainable second and third generation biofuels, and that further reduction of emissions from transport will also require extensive

innovation in, and deployment of, alternative fuels. This is particularly relevant for the aviation sector, which has no practical alternatives to liquid hydrocarbon fuels over the long-term because of range, weight, temperature and other safety and aircraft operating requirements. Sustainable biofuels have the potential, over time, to enable the aviation industry to reduce its carbon footprint and become more energy sustainable. The industry has been focusing on advanced biofuels that do not compete with food sources and require minimal land, water and energy to produce. For the post-2020 period, building on its support for the White Paper's target of a 40% use of sustainable low carbon fuels in aviation by 2050, AmCham EU urges the Commission to keep the focus on advancing the development of second and third generation biofuels. In addition, we urge the Commission to consider what role the EU will want to continue to play in the development of the next generation of cost effective and sustainable biofuels technologies.

Cost effective sustainable renewable energy within the transport sector will be part of the solution to reduce GHG emissions and its effectiveness will also depend on the fuel quality. For the automotive industry, the quality of the fuel remains extremely important. That is irrespective of whether it is pure hydrocarbon petrol or diesel fuel, a current biofuel made from food-based biomass or a future biofuel made from non-food based biomass. Robust standards from the European Committee for Standardization (CEN) are required to ensure the quality of all (bio-) fuels, as well as to ensure compliance with future vehicle emission and CO_2 legislation and development of vehicle powertrain technology. Multiplication of grades needs to be avoided to prevent consumer confusion and ensure consumers can travel throughout Europe easily. These developments will need to be continuously matched by improved (bio-) fuel quality together with new fuel performance standards. Furthermore, the pathway for general market fuels needs to be fully harmonised between all Member States and all transport modes and other energy consumption activities must contribute to reduce GHG emissions based on a uniform and predictable CO_2 price across the economy.

In addition, AmCham EU strongly supports a global solution at ICAO and IMO level to address the issue of aviation and maritime emissions, respectively, as well as active Commission engagement with these organisations. On aviation, AmCham EU urges all stakeholders to build on ICAO progress toward developing a global scheme and to maintain a spirit of constructive international cooperation ahead of the next ICAO Assembly in 2016 in order to achieve by 2020 a global solution to the global problem that aviation emissions pose.