

Brussels, 24 February 2014

Orgalime position on Commission Proposal for a 2030 Energy and Climate Change Framework

EXECUTIVE SUMMARY

On 22 January 2014, the European Commission adopted its proposal for a 2030 Energy and Climate Change Framework, which is announced for debate at the Energy and Environment Councils on 3 and 4 March and finalisation at the European Summit on 21 March 2014.

Orgalime considers this framework essential in terms of providing the urgently needed investment signal to stimulate growth and jobs in innovative areas, in particular in low carbon and energy efficiency technologies, and to support the overall competitiveness of European industry, employment and citizens' welfare in Europe. We therefore welcome that this proposal should form part of an integrated debate with the equally newly adopted European Industrial Policy Communication aiming at increasing manufacturing in Europe. We support that the target of 20% share of industry in EU GDP by 2020 should be the overall focal target for Europe.

Secure and affordable energy supply is an important prerequisite for manufacturing industry to maintain its global competitiveness.

While **Orgalime supports the Commission's suggestion of a binding 40% lead GHG target**, we are very disappointed about the **failure to promote energy efficiency**. Given the clear benefits of energy efficiency, as confirmed by the International Energy Agency, such as to reduce energy bills and increase Europe's security of supply through less dependence on energy imports, the Commission's proposal for a 2030 Framework clearly misses the opportunity to exploit these potentials for European consumers and European industries alike. The combination of a binding GHG target with a binding RES target, as the Commission suggest, even more risks impeding Member States' flexibility to choose the technology that best meets their needs at the expense of energy efficiency.

We therefore call upon regulators to correct this conceptual error and instead to pursue a 2030 energy and policy framework with the following core elements:

An integrated approach of setting of a binding 40% lead GHG target coupled with an indicative EU 30% RES target and an indicative EU 40 % Energy Efficiency target should be at the core. These horizontal targets should be immediately accompanied by intermediate binding national corridors for RES and Energy Efficiency (meaning minimum levels to be achieved for energy efficiency and RES at national level on the road to 2030 with the 2020 targets to be retained).

Orgalime, the European Engineering Industries Association, speaks for 38 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 23 European countries. The industry employs some 10.3 million people in the EU and in 2012 accounted for some €1,840 billion of annual output. The industry not only represents some 28% of the output of manufactured products but also a third of the manufactured exports of the European Union.

www.orgalime.org

The Commission should pursue that **all existing Directives on the roll out of energy efficiency are actually implemented** (in particular the EED, EPBD, national programmes for the roll out of smart meters, Ecodesign and Energy Labelling measures).

We emphasise that if policy makers want to control prices, there are many **energy efficiency technologies that are “fit for purpose” to help control costs and ready for use** by Member States’ governments and end users. If existing EU Directives were implemented properly, prices would be reduced.

To implement these targets, **Europe needs the infrastructure**, which will be able to cope with an increased share of RES and energy efficiency technologies.

Considering the **international dimension** of this debate, we encourage the EU to make the necessary efforts to obtain a global and legally binding climate agreement at the UN-FCCC in Paris in 2015. In order to maintain Europe’s global competitiveness, it is essential that other regions of the world show a comparable degree of ambition and take similar action.

SPECIFIC COMMENTS ON THE COMMUNICATION “A POLICY FRAMEWORK FOR CLIMATE AND ENERGY IN THE PERIOD FROM 2020 to 2030”

1. An integrated, multi-faceted approach in the interest of convergence of the EU’s Industrial, Climate Change, Energy and overall EU Environment Policies

A forward looking energy and climate policy must be implemented in coherence with the EU’s Industrial Policy Agenda for a competitive Europe aiming at increasing production in Europe.

We support the integrated debate with the Industrial Policy Communication and in particular that the target of a 20% share of industry in EU GDP in 2020 should be the overall focal target for Europe.

Energy and climate change targets should generally work towards implementing this Industrial Policy target and encourage Member States to use all means to implement low carbon products and services that are produced in Europe and that serve to meeting the goals of EU Directives and Regulations, such as WEEE, RoHS, REACH or Resource Efficiency. This would in our view strengthen greater overall coherence of EU policies.

2. A binding lead 40% GHG reduction target below 1990 levels to be met by domestic measures alone and split between ETS and Non-ETS sectors is the right approach

Setting such a lead CO2 target to be achieved by 2030 coupled with right instruments can in our view help pushing Europe in the right direction, in terms of driving investments into innovative and competitive areas and of supporting the overall competitiveness of European industry, growth, jobs and citizens welfare in Europe.

Orgalime recommends its adoption to EU regulators.

3. A combination of the binding GHG target with a binding EU RES target discriminates energy efficiency despite its confirmed benefits

Setting a RES target at EU level is not of concern for Orgalime per se. European engineering industry is capable of providing both, conventional or renewable energy technology solutions.

However, the discrimination of the energy efficiency target against the RES target, for which the Commission equally suggests a binding nature, raises our serious concerns. This approach of the past has already shown that Member States' increasingly decrease their energy efficiency efforts and investments as implementation of the currently binding RES target progresses.

We believe that Member States should be left sufficient flexibility for the future choice of the mix of the RES and EE target at national level, so that they can choose the low carbon and energy efficiency technologies that are best suited to their national situation and most cost efficient.

Therefore, we suggest coupling the lead CO2 target with indicative EU targets for both, RES and Energy Efficiency. We consider 30% for RES and 40% for energy efficiency the correct level for such indicative EU targets.

*In order to maintain the momentum of the existing 2020 targets and in the light of the EU's long term 2050 commitments on Energy and Climate Change, however, we suggest to immediately accompany these indicative RES and Energy Efficiency targets with **intermediate binding national corridors for RES and Energy Efficiency** in the meaning of minimum levels to be achieved for Energy Efficiency and RES at national level on the road to 2030 with the 2020 targets to be retained. This would support legal certainty and predictability for European industry.*

4. Orgalime's call for a correction of the Commission's proposal in the area of energy efficiency is supported by many facts and evidence

The significant potential of energy efficiency and energy savings measures help for both gaining time for a global climate change agreement and for boosting growth, as has been confirmed in the 2012 World Energy Outlook¹ and recent Special Report on "Redrawing the Energy Climate Map"² of the International Energy Agency.

The EU Energy Roadmap confirms that a high energy efficiency scenario leads to lowest electricity prices. Thus, energy efficiency helps to reduce consumers' energy bills and to alleviate energy poverty.

Energy efficiency measures also play an overriding role for helping security of energy supply in Europe, as they decrease Europe's dependence on energy imports and thereby Europe's vulnerability. Security of supply in our view is not only a question of deliveries from and dependence on third countries, but first and foremost a question of stability and robustness of the European energy system as a whole. Energy efficiency helps in securing this stability and robustness of the energy system.

The ambition of the finally approved Energy Efficiency Directive remains even behind the 2020 targets. "Considering Role of Energy Efficiency in a review of the Energy Efficiency Directive to be concluded later this year", as the Commission suggests, lacks commitment and substantially delays a decision, while the benefits of energy efficiency are already confirmed.

¹ Please see <http://www.worldenergyoutlook.org/publications/weo-2012/>

² Please see <http://www.iea.org/publications/freepublications/publication/name.38764.en.html>

Investment in energy efficiency improvements throughout all market segments will boost growth and jobs in Europe. The energy efficiency target will have a positive impact on the two other targets, opening new opportunities for the EU manufacturing sector offering the technology solutions, ensuring job creation, growth and competitiveness in the EU.

Awareness of the multiple benefits of energy efficiency is increasing. However, it is not sufficiently translating into energy efficiency measures and investments. Market response and return on investment of our industry in the design development and production of low carbon and energy efficient technologies, which also follow from the more than 46 product groups targeted for implementing measures under the Ecodesign Directive, remain an issue (see 2012 CSES study findings).

Increased component and equipment efficiency is not sufficient to fully exploit the energy savings potentials. Efficiency increases on product level are often reaching their technical limits, but appropriate system engineering often result in much bigger efficiency gains. The challenge is to better exploit energy savings potentials at the system level.

5. The implementation of the EU's 2030 targets requires the necessary European energy infrastructure

Orgalime also fully understands the implications of RES on energy networks. Therefore, we ask regulators for their **support for immediate investments in smart grids and deployment of smart grids technologies**, including smart meters, demand response technologies or transmission and distribution equipment.

Actually, the more investment is driven into RES, the more investment will be needed for smart grids to guarantee the necessary grid stability for both, manufacturing operations in Europe and consumer needs.

Furthermore, overcompensation for renewable energies should be avoided, loop-currents be prevented, renewable energies need to become competitive and sustainable by themselves and bear their responsibility of balancing power. Consumer flexibility should be encouraged, smart grids be promoted, bottlenecks in transmission be abolished and no CO2 taxes should apply for installations falling under the ETS.

We see the need to balance out distorting effects of RES: high feed in tariffs reduce the availability of certain raw materials for manufacturing - there are negative impacts resulting from overcompensation for energy produced by biomass: we believe that a use of a raw material, which brings higher value added in the value chain, should be used in the value chain rather than for RES energy production.

The obligation for network operators to accept the electricity from intermittent sources at all times (whether needed or not), must be abolished. In the market design, all actors and producers should be responsible to participate in the balancing market and obtain their balance. Today, there is a problem created by loop currents between some Member States and this must be solved at EU level when the internal energy market is opened for competition.

Overall, we believe that the objective should be that renewable energy technologies become competitive, economically and environmentally sustainable by themselves. European policy should give the right directions and framework to enable investment in sustainable, low carbon technologies. Common principles for national state-aid schemes for renewable energies appear indeed helpful to prevent distortions between Member States.

We recall the Commission estimates of the potential of the demand side response at the Union scale is enormous: “peak demand could be reduced by 60 GW, approximately 10 % of EU's peak demand. In addition to demand-response, increased end-use energy efficiency reduces costs and reduces the need for investment in expensive generation facilities.”³

We support placing more emphasis on demand side flexibility than on new generation capacities for the future state aid guidelines on environmental and energy and in the area of research (in particular in the Integrated Energy Roadmap under the Strategic Energy Technology Plan or in the implementation of Horizon 2020). Priority should be given to demand side management technologies, including electricity storage solutions.

In its Internal Market Communication of November 2013 and the current consultation document on state aid guidelines on environment and energy the Commission promotes the progressive phasing out of state aids for “mature” RES while “new and immature” RES could still be supported. *We seek clarification on the definition of “mature”, “new and immature” RES.*

6. Not only targets matter, but the proper instruments to achieve them

In general, the coherence between the different policy instruments needs to be improved. For example, in the context of buildings, between the Energy Performance of Buildings Directive (Directive 2010/31/EU), the Ecodesign Directive (Directive 2009/125/EC) and the Directive on Energy Efficiency (Directive 2012/27/EU), systems and/or products going into systems are treated differently and/or inconsistently.

EU and Member States waste and resource efficiency policy measures must tie in with the existing Ecodesign Directive, including its ongoing implementation, notably on energy efficiency. Policy makers need to take consistent decisions, in particular with the objective of energy efficiency in mind, and accept that tradeoffs between different environmental parameters of a product could be required in certain cases to secure the overall sustainability, functionality and reliability of the product.

The European Emission Trading Scheme (ETS) is in theory a market based instrument that works, and which we feel should be retained as any alternative would take time to negotiate and put in place. Nevertheless, the current ETS requires significant revision to allow it to meet its objectives of reducing carbon emissions, providing incentives for industry and competitive energy prices.

The accompanying proposal to introduce an ETS market stability reserve, however, raises our concern of leading to a higher CO2 price than necessary and therefore higher prices for electricity consumers.

7. A truly functioning and completed EU internal energy market

The Commission's 2030 Framework proposal estimates 40-70bn euro cost savings through a fully integrated and competitive energy market by 2030. We fully agree with the Commission that the completion of the Internal Energy Market remains an immediate priority.

³ Commission Staff Working Document on “**Incorporating demand side flexibility, in particular demand response, in electricity markets**”, which accompanies the Commission Communication on “Public Intervention in the Electricity Market” of November 2013 (see http://ec.europa.eu/energy/gas_electricity/internal_market_en.htm).

We also share the Commission's view that the level of competition in integrated markets has an effect on progress and containment of energy prices, and that the current share of (30% and more) of taxes and levies on the final electricity price for households is somewhat considerable.

We welcome that the Commission has launched a stakeholder consultation on the energy retail market in parallel to the 2030 Framework proposal and encourage further steps to be taken in this area to support the completion of the internal energy market and to promote competitive and affordable energy for all consumers.

8. Using market based models to help energy intense industries

To combat carbon leakage, we recommend using market based models to help energy intense industries instead of state aids. It is essential for Europe's competitiveness and growth to keep value chains in Europe and to ensure competitive energy prices. We recommend the Commission to carry out investigations of appropriate tools in that respect.

9. Promoting Security of Supply

The IEA projects a 90% reliance on imported oil by 2035 for the EU (80% today), and an 80% reliance on imported gas (60% today), which increase of vulnerability to supply and energy price shocks.

We generally support the suggested three-pronged approach of the Commission's 2030 proposal:

- *To make more efforts to (....) generate energy savings from more energy efficient buildings, products, transports and services*
- *To further exploit sustainable indigenous energy sources*
- *To collectively diversify supply countries and routes for imported fossil fuels*

In this context, we remind of the need to fully exploit the potentials of energy efficiency technologies for the purpose of increasing security of supply and for the benefit of consumers, industry and Europe's overall competitiveness, growth and jobs agenda.

10. Pledging for a 40% GHG reduction target at the international level

Considering the **international dimension** of this debate, we encourage the EU to make the necessary efforts to obtain a global and legally binding climate agreement at the UN-FCCC in Paris in 2015. Other regions of the world need indeed to take similar action. Should international discussions fail to reach a binding international agreement, adjustments of EU targets may become necessary to secure the EU's overall competitiveness of EU industry and its value chains. This is all the more relevant considering the decreasing relevance of the EU's share of worldwide CO2 emissions (from 11% to 4.5% by 2030).

For further information, please contact:

Sigrid Linher, Energy and Environment Manager: sigrid.linher@orgalime.org