

Brussels, 2 July 2010

ORGALIME CONTRIBUTION TO STAKEHOLDER CONSULTATION ENERGY STRATEGY 2011-2020

INTRODUCTION

Orgalime, the European Engineering Industries Association, speaks for 33 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs some 10.6 million people in the EU and in 2009 accounted for some €1,427 billion of annual output. The industry not only represents more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union.

Energy policy is one of the key issues for European industry and, in this context, the engineering industries play a strategic role in the European Economy.

Firstly, the companies represented by Orgalime are major energy consumers. Some of them are highly energy-intensive by nature, and their majority are subject to fierce international competition. This renders them particularly vulnerable to upheavals in the energy markets. In other words, a secure and affordable energy supply is a crucial prerequisite to maintain a level playing field and ensure the competitiveness of the European engineering industries in the long run.

Secondly, Orgalime industries develop the technologies required to provide Europe with safe and sustainable energy in the future, since the engineering industry is an enabling industry and driving energy and resource efficiency on a very broad basis. Europe needs to improve the way it produces, distributes and consumes energy: low-carbon technologies, smart grids and more energy-efficient production processes will determine tomorrow's energy use. The engineering industries provide the technological solutions to the challenge that the climate change, sustainable consumption and energy security agenda pose. A regulatory framework that fosters innovation and technological development is therefore necessary for Europe to ensure a sustainable energy future and for European engineering industries to stay ahead of their international competitors.

The third factor is that Orgalime industries also contribute to a more energy efficient society. Through innovation and technology development, new and more resource effective products are put on the market. This helps decrease CO2 emissions globally, but it also needs the right framework conditions to do so. There are mainly four sectors of major importance for bringing forward technology solutions in this respect, and where our industries are central in providing modern technology and products. These are energy production and distribution, transport, buildings and industrial processes. Moreover, the ICT sector provides technology that contributes to increased efficiency in all these four sectors.

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Orgalime fully supports the objectives of a European energy strategy for the next decade. In the framework of the ELECTRA High Level Experts Group, for example, our industry has, in cooperation with the European Commission and other stakeholders, developed a series of recommendations for realizing the EU energy and climate change objectives of 20 % energy efficiency improvement, 20 % greenhouse gas emission reductions, and 20 % share of renewables by 2020 to which our industry is fully committed. We believe that if these recommendations are implemented, these targets are achievable.

For these reasons, Orgalime is committed to contributing to shaping Europe's future energy strategy. We welcome the Commission's proposals and take the opportunity to comment on the priority areas outlined in the stock-taking document.

1. A strong focus on implementing agreed policies

The first and most important focus of European energy policy must be to ensure full implementation of already enacted legislation and regulation within all member states, in order to maintain a level playing field for energy producers and consumers alike. As mentioned in the Commission's document, this particularly applies to the full-scale implementation of the 2nd and 3rd internal energy market package (e.g. fully independent Transmission Systems Operators). However, it also holds for all the other legislation and priority areas outlined in the document, such as the implementation of the recast directive 2010/31/EU on Energy Performance of Buildings (EPBD), which attracts our particular attention considering the high potential for energy efficiency improvements of the buildings sector. Since 80% of the buildings existing today will also exist in 2020, the EU's energy and climate change objectives can therefore only be realised if the energy performance of these buildings is massively improved and their modernisation is incentivised. Such objectives cannot be achieved without a fully harmonised approach and proper implementation of targets and requirements of the just recasted Directive.

We appreciate the Commission's commitment to ensuring proper implementation and maximum compliance with existing legislation. From a longer terms perspective, Member States must be encouraged or mandated to introduce measures, including market incentives, for the energy, building and industrial sectors to invest in energy efficient technologies. In the current tight fiscal environment across Europe, it is essential that funding is found to deliver savings for the future.

2. The necessary involvement of all stakeholders in the European energy infrastructure

Orgalime supports the user/consumer oriented approach to European energy infrastructures. The mentioned areas: generation, transmission storage and refining are however not complete. As explained above, equipment manufacturers are providers of key technologies. Equipment manufacturers should therefore be more intensively involved in discussions since we are the experts of the high-tech aspects in the areas of power generation, transmission storage and refining: a continuous communication platform between the stakeholders of power generation, transmission, storage, refining, and equipment manufacturers is an essential requirement to achieve a successful EU Energy Strategy.

Energy suppliers and energy service companies participate in the development of the smart grid. These companies should be provided with the necessary regulatory background for economic growth and involve the other participants as well. Balancing all the participants in the regulatory environment will directly determine the transition speed. Participants should have aligned targets, stimulated by connected or at least no competing interests. Supply and service regulations need to

be in one hand to avoid conflicting interests. e.g. service: benefiting by reducing consumption, supplier benefiting by increase.

Equipment manufacturers should be actively involved in the development of the legislative environment from the earliest phase. In this context, technical expertise of key technologies providers would be beneficial since this technical know-how could give a broader base for decisions. It would also facilitate communications with the grid participants like energy suppliers, transmission and distribution companies and consultants if there were to be a technical counterpart in the legislative groups especially the regulators group themselves.

3. Modern integrated grids

A secure energy supply depends not only on sufficient production capacities, but also on powerful and integrated grids. Orgalime welcomes and supports the Commission's intention to *build a modern pan-European grid* and to *improve the framework conditions for investments in renewing power generation and infrastructures*.

The current regulatory framework in many member states and varying political support do not create consistent conditions to develop a sustainable smart grid system in Europe, which will be sufficiently flexible to deal not only with immediate requirements due to the change in energy mix, but will offer sufficient possibilities for innovative applications in the future.

The European energy strategy should, in our view, aim at creating a flexible and intelligent energy system, which will deliver a high level of security of supply, efficiently integrate a high share of sustainable technologies, especially on the consumption side, e.g.: wind power, solar panels, biomass, electric-vehicles, heat pumps, and also offers the means to each end user to efficiently manage the energy consumption in terms of CO2 emissions and cost.

Although investments into smart grid technologies and applications will generate costs, it is necessary to highlight the economic value of smart grids applications for energy consumers as well as for society as a whole. Considering the significant potential benefits of smart grids to optimise the EU energy system as a whole, from production to distribution and consumption of energy, smart grids must become a priority area for the future energy strategy.

COMMISSION PROPOSALS FOR ACTIONS:	ORGALIME COMMENTS:
<p>Issues for consideration for the short-term:</p> <ul style="list-style-type: none"> • Strengthening cooperation and coordination at EU-level of energy networks to build a pan- European integrated, interoperable, secure and modern grid. • Improving the framework conditions for investments in renewing power generation and infrastructure. • Promoting the development of fully interoperable smart grids, inter alia to allow for decentralisation of energy production, integration of renewable energies and the completion of the internal energy market. This includes the roll-out of smart meters whereby individual consumers can better monitor their demand to reduce peaks and 	<ul style="list-style-type: none"> • We support the proposed action. • We support the proposed action. • We are also convinced that smart grids will play a crucial role in future energy supply. One of best drivers for Smart Grid is to convey renewable energy and new power stations. However, their implementation needs to be carefully planned, or else their roll-out will incur high costs and provide limited benefit. The minimum requirements

<p>transfer demand to cheap-rate periods, enter into demand-response agreements and improve energy efficiency within their homes.</p>	<p>of smart meters must be clearly defined, and their effects must be scrutinized to ensure they live up to their expectations. A realistic planning might involve a stepwise roll-out, starting with new housing estates and industrial compounds before moving on to bigger renovations and eventually to existing buildings. An important step is the realization of full-scale demonstrations of smart grids. Supplying all individual households with smart meters must be accompanied by additional information for the consumers which allow them to optimize their use of electric energy in a cost-efficient way.</p>
<p>Issues for consideration for the longer-term:</p> <ul style="list-style-type: none"> • Strengthening the role of ACER & ENTSOs to develop a more integrated regional and European energy market. 	<ul style="list-style-type: none"> • In the longer term, energy markets will have to adapt to further technological changes. Energy trading systems, price-setting and energy balancing are likely to be affected by the emerging technologies on production, distribution and consumption levels, all of which will require adequate regulatory responses. However, we need of further experience to comment on the role ACER & ENTSOs, that will be gained with the implementation 3rd energy liberalisation package.

4. Making progress towards a low-carbon energy system

Orgalime fully supports the shift towards a low carbon energy system. However, “greening” the economy will only result in opportunities, which outweigh the constraints if the innovative products find sufficient market uptake. Innovation only pays off if consumers, whether private, commercial or public, are both, willing and capable of buying higher performing products. This is unfortunately still often not the case today. Measures should therefore be undertaken to better help to stimulate the market uptake of more sustainable, energy-efficient and greener technologies.

<p>COMMISSION PROPOSALS FOR ACTIONS:</p>	<p>ORGALIME COMMENTS:</p>
<p>Issues for consideration for the short-term:</p> <ul style="list-style-type: none"> • Developing appropriate regulatory conditions for the take-off of a demand response electricity market, including at household level with smart meters and smart devices and appliances. 	<ul style="list-style-type: none"> • <i>The development of appropriate regulatory conditions for the take-off of a demand response electricity market is welcomed.</i> Smart systems are an essential technology for the EU energy security and reduce carbon emissions.

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| <ul style="list-style-type: none"> • Encouraging cities and regions to continue to develop local, integrated solutions for meeting their energy, waste management and sustainable transport and housing needs. • Using consumer-centred tools (e.g. labels, information campaigns and long-term education initiatives) to promote energy savings, smart use of energy and fuel switching by energy users. | <ul style="list-style-type: none"> • To achieve the development of local and integrated solutions, the roll out of smart metering provides an ideal opportunity for members states, energy companies and industry to raise awareness of the energy efficiency benefits available to them in domestic, commercial and industrial buildings. • Consumer-centred tools to promote energy savings are equally supported, but multiplication of labels should be avoided since the use of too many labels risks confusing consumers and increasing administrative burdens for companies. The Energy Label should in our view be considered as a reference, since it is well known by consumers and has already delivered results. • Changes in consumption patterns are crucial for realising energy efficiency improvements. Raising the awareness of consumers or end users on energy consumption is necessary to change consumptions behaviours. The roll out of smart metering and energy displays needs to be underlined, since they will play an important role in the engagement of consumers across Europe, in particular allowing consumers to adapt their behaviour and realise benefits of energy savings. We also agree that advanced meter technologies need to be consumer-friendly, since it is essential for the acceptance of technologies that they are so. In the case of smart metering the design of energy displays are already significantly better than in the past, and innovations will continue to improve. However there are many 'invisible' technologies for the end user. Significant savings can be achieved without the consumer being aware, but ultimately to their benefit. Data security is vital for the use of ICT for energy efficiency; however there are already many examples in the telecoms and ICT industries where existing solutions can be used. • Additional actions supporting the shift towards a low carbon energy system should be mentioned: <ul style="list-style-type: none"> • Strengthening a coordinated EU approach whenever subsidies support |
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Issues for consideration for the longer-term:

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| <ul style="list-style-type: none"> • Using market-based instruments to give the right price signals and incentives for energy savings, smart use of energy and fuel switching by energy users, through the emissions trading scheme (ETS), energy taxation and phasing-out of fossil fuel subsidies. | <p>sustainable energy in each country. Attention should be paid to ensure that incoming budget (such as from ETS-CO2) will be fully spent on the energy issues themselves.</p> <ul style="list-style-type: none"> • Creating new incentives to increase demand response for energy efficient and green technologies. |
| <ul style="list-style-type: none"> • Promoting green public procurement to facilitate market uptake of low-carbon | <ul style="list-style-type: none"> • At present, EU member states deploy a wide variety of <i>subsidy schemes to support sustainable energy</i>. A <i>more co-ordinated approach on European level</i> would prevent market distortions and increase transparency for both, energy producers and consumers.
The <i>use of market-based instruments</i> is sensible. Price signals must reflect true costs and not be purely politically motivated. Energy must remain affordable for consumers, including European industry, and the issue of carbon leakage must be seriously addressed. Energy taxes should not be the preferred way forward, but where they are introduced these must be internationally harmonised to ensure a level playing field for industry. Income from energy-related instruments should be reserved for energy issues and not be used for other purposes. Furthermore, it is important to stress the risks related to carbon leakage, and in particular to take into account Article 10(a).6 in ETS stating that: <i>“Member States may also adopt financial measures in favour of sectors or subsectors determined to be exposed to a significant risk of carbon leakage due to costs relating to greenhouse gas emissions passed on in electricity prices, in order to compensate for those costs and where such financial measures are in accordance with state aid rules applicable and to be adopted in this area.”</i>
To promote industrial development and competitiveness as well as prevent carbon leakage in Europe, it is crucial that this tool is dealt with in a thorough way in this document. • Promotion of green public procurement is one possible measure to facilitate market |

<p>technologies.</p> <ul style="list-style-type: none"> • Developing a more coordinated European approach towards the licensing and design certification framework for nuclear investments. 	<p>uptake of low-carbon technologies, but others are equally needed. Public procurement should not interfere with the functioning of the internal market, and should also be viewed in a global perspective. In this context, it is also important to strive for global use of internationally harmonized standards, allowing for “green” products to spread internationally. It is also noted that public procurement standards risk hampering technological development, unless combined with efforts to promote innovation.</p> <ul style="list-style-type: none"> • No particular comment.
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5. Leadership in technological innovation

As outlined in the introductory paragraphs, Orgalime industries are a key player in Europe developing key technologies to provide solutions for environmental and energy challenges. A regulatory framework that fosters research and innovation is therefore of utmost importance for European engineering industries, such as financing *the SET-plan*. It must be of highest priority to increase public and private spending on research and development in energy technology innovation to maintain EU industry competitiveness edge. However, financial support measures and public spending are not sufficient; there is also a need for a “market pull” to create “lead customers markets” to provide most innovative and best technologies, systems, products and services to satisfy customers’ needs. We believe that, for the developments of green technologies, the concept of lead markets will accelerate the development and take up of new technologies.

COMMISSION PROPOSALS FOR ACTIONS:	ORGALIME COMMENTS:
<p>Issues for consideration for the short-term:</p> <ul style="list-style-type: none"> • Implementing the European Strategic Energy Technology Plan (SET-Plan) • Promoting local energy solutions and further developing the “smart cities” initiative to promote clean and energy-efficient investments. 	<ul style="list-style-type: none"> • While we also fully endorse the objectives of the Strategic Energy Technology Plan, timely and sufficient budgeting is necessary. We are concerned with the unclear link between SET and the Environment Technology Action Plan (ETAP). An overlap must be avoided. Furthermore, industry should be consulted. • Work on <i>promoting the “smart cities” initiative</i> must start through developing cost-efficient measures and appropriate incentives.

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<p>Issues for consideration for the longer-term:</p> <ul style="list-style-type: none"> • Identify market failures and bottlenecks for private investment in innovation and explore the potential to enforce existing or to setting up new innovative financial instruments (a European low-carbon energy fund or low-carbon energy guaranteed loans for instance) to address these barriers and to leverage EU funds to stimulate private investment. • Launching a dedicated set of large industrial innovation programmes of strategic importance for European energy future. 	<ul style="list-style-type: none"> • Orgalime welcomes the Commission's analytical approach towards addressing private investment in innovation. A serious investigation of barriers and market failures should provide a sound basis for developing new financial instruments. This is a demanding task that requires further investigation and discussion. As outlined above, a carbon tax is considered problematic unless internationally harmonised. • We find it difficult to comment on the proposed launch of a dedicated set of large industrial innovation programmes, since the scope and content of such a programme is not further explained. Further information on this issue would be considered beneficial. <p>Orgalime additional proposal:</p> <ul style="list-style-type: none"> • Efficient and low carbon technologies, i.e.: smart grids technologies, must be affordable and competitive. A clear R&D and Demonstration Policy is necessary to boost innovation and accelerate the deployment of these technologies.
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6. A strong and coordinated external energy policy

While Orgalime fully support all actions to be initiated mentioned in the Commission document, we would like to comment on two specific points:

COMMISSION PROPOSALS FOR ACTIONS:	ORGALIME COMMENTS:
<p>Issues for consideration for the short-term:</p> <ul style="list-style-type: none"> • Further integrating energy markets with our neighbours (Energy Community, Eastern Partnership, Mediterranean region and Baku Initiative) through the approximation of rules and market access in order to promote diversity of supplies, a stable and predictable environment for investors and energy efficiency and renewable energies. • Ensuring that the energy and trade agenda are properly linked in pursuit of the energy goals. 	<ul style="list-style-type: none"> • A stable and secure supply of energy is crucial for all European industry. Orgalime appreciates the Commission's approach to <i>securing a diverse energy supply and addressing relevant issues on a global level.</i> • <i>Identification and elimination of trade barriers</i> are vital for the take-up of sustainable technologies on an international level. We fully support the use of internationally harmonised standards, but point out that standardisation projects need

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- Developing EU efforts and initiatives to encourage and convince third states to make international nuclear safety and security standards legally binding, in particular through reinforced cooperation with the International Atomic Energy Agency.
- Strengthening a coordinated EU approach to major infrastructure projects in third countries including through new tools such as the Caspian Development Cooperation, which promote diversification of supplies for the EU, thereby enhancing energy security such as the development of the Southern Corridor or the Mediterranean Ring.
- Intensifying efforts in the global energy organisations and initiatives (e.g. IEA, G20, WTO) to promote well-functioning, open, transparent and competitive energy markets, good governance and comprehensive energy policies.
- Deepening cooperation with consumer countries, including emerging economies, to promote adoption of sustainable energy policies and a shared view on energy security.

Issues for consideration for the longer-term:

- Promoting trade-opening initiatives for sectors such as sustainable products and technologies, and international cooperation on standardization on low carbon technologies.
- Promoting stable bilateral relations through innovative means with the EU's traditional suppliers such as Russia, Norway, Algeria etc, including possible mechanisms to leverage the EU's buying power.

to be mainly driven by industry. The term “standardization of low-carbon technologies” requires further clarification. This measure should not lead to the introduction of new administrative or financial burdens for the affected companies, and care must be taken in order not to hinder innovation in the area.

7. Protecting the EU citizens and SMEs

Orgalime very much welcomes all Commission's commitments to improving the internal energy market, thereby ensuring fair and transparent energy prices and a stable supply. We consider proper implementation of the internal market legislation as a high priority issue.

A higher degree of transparency will empower consumers, create a level playing field for producers and eventually facilitate a properly functioning market in the interest of everyone involved.

We fully agree that EU citizens need to be protected and be guaranteed a high level of safety as well as security for energy supply and uses; however, it is also the case for SMEs, and in particular

very small enterprises. The need to establish real competition in the electricity generation, transmission and distribution markets is essential to secure fair and stable energy prices. Higher energy prices, which we are currently facing, considerably impact competitiveness of industry products due to the knock on effects on production throughout the supply chain.

COMMISSION PROPOSALS FOR ACTIONS:	ORGALIME COMMENTS:
<p>Issues for consideration for the short-term:</p> <ul style="list-style-type: none"> • Implementing the existing legal provisions for the protection of vulnerable customers and developing more guidance for all consumers through the exchange of good practices (for example through the London Citizens Energy Forum). • Creating a level playing field among the energy producers through the implementation and deepening of the internal energy market, notably the full independence of Transmission System Operators to ensure equal conditions for all market players, and if necessary through further measures in particular in markets in which competition is not working efficiently. • Increasing transparency. Improving market transparency on network operation and supply which guarantees equal access to information, making pricing more transparent, increasing trust in the market and helping to avoid market manipulation. • Providing for more effective regulatory oversight both at national and EU level. • Providing with guidance on the appropriate tools to facilitate consumer participation in the energy markets through transparency and clarity of information and comparability. • Promoting access to energy savings measures for all consumers including the poorest who are often living in the least energy performing buildings and can least afford low-usage products and building insulation. • Developing high standards for the entire nuclear cycle, in particular by proposing a Community framework for radioactive waste disposal. • Proposing a longer-term perspective on nuclear medicine, covering in particular radiation protection of patients and medical staff, as well as the shortage of supply of radioisotopes. 	

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CONCLUSIONS

We thank the Commission for consulting stakeholders prior to launching its New Energy Strategy 2011-2020.

We consider the published consultation document as well balanced in general and particularly support the following proposals and elements included therein:

- Improving implementation of existing legislation
- Modernising and integrating grids, especially via better cooperation, improved framework conditions for investments in renewing power generation and infrastructure or the promotion of smart grids and smart meters
- Making progress towards a low-carbon energy system, especially through helping innovative products find sufficient market uptake
- Driving European leadership in technological innovation, especially by promoting the concept of lead markets to accelerate the development and take up of new technologies
- A strong and coordinated external energy policy to secure a stable energy supply for manufacturing industries in Europe
- Establishing real competition in the electricity generation, transmission and distribution markets is essential to secure fair and stable energy prices, which will also contribute to protecting consumers and SMEs.

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