



Directorate-General Energy

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Response to Consultation

The co-operation of Swedish Energy Intensive Industries, SKGS on "A 2030 framework for climate and energy policies"

Key Messages

- The main focus on EUs climate ambition must be to achieve a global climate agreement.
- A target on climate change related emissions have to be balanced by a target on competitiveness.
- SKGS is in favour of a new target or indicator to measure the security of supply at least for the power system.
- Industry must remain compensated through free-allocation of allowances in EU-ETS and EU-wide compensation for the indirect effect on electricity price as long as there is no global price on carbon.
- Investments in electricity infrastructure (grids) should be paid by the producers of electricity.
- The overall economic efficiency, including the cost and consequences for the end-user must be considered in all grid-investment decisions.

The Global context

The Swedish energy intensive industry relies on exports. The prices of our products are set on a global market and our cost competitiveness is crucial for the future of our industry. Carbon price

and energy prices in Europe play an important role for where the future investments will take place as they are compared with the terms in other parts of the world. The only way to make sure that European ambitions regarding climate change does not lead to carbon or investment leakage, is to make sure there is a global agreement to decrease emissions. This should be the main focus of the European Climate policy.

The target

Today EU has three targets in the energy and climate policy. The targets have been overlapping and the effects of each of the targets have been difficult to evaluate. The Swedish Energy Intensive Industry supports the thought of having one ruling target for decreasing CO₂ emissions but it has to be coupled with a target for industry growth. A target for industrial growth will ensure a positive trade balance, which is a pre-requisite for Europe's ability to decrease the CO₂ emissions. It is important that the targets and the system built up to achieve the targets are stable over long time periods, preferably 10 to 15 years, to reduce uncertainty among industry and hence facilitate investment decisions.

Targets on the measures available to decrease CO₂-emissions, ie targets for renewables and energy efficiency, will only lead to sub-optimization. There are also other ways of attaining decreased emissions, for instance a switch from coal or gas to nuclear power production or the use of CCS. If there is to be targets on measures, there should also be targets for these measures.

EU's energy policy rests on three pillars; competitiveness, security of supply and environmental concern. There is today much too much focus on one of these pillars, the environmental concern. This risks achieving a skewed foundation for the European industry to work from. SKGS is therefore in favor of a new target or indicator to measure the security of supply, at least for the power system. Targets for competitiveness has already been mentioned above.

The Emission Trading Scheme

The EU ETS has functioned well and delivered upon its targets; decreased emissions in an economical efficient way. The free allocation of allowances for the industry is a pre-requisite for the system to work, without driving the industry out of Europe. Free allocation is necessary as long as industry outside Europe does not meet the same cost for carbon. The compensation for the indirect effects of ETS on the electricity price is equally important. However, today the indirect compensation is not mandatory, and governed by the member states. This creates distortions in competitiveness within EU and the compensation in future needs to be handled EU-wide.

The EU ETS cannot be the driver of innovation. Innovation and technology development are essential for the industry sector to decrease its emissions. Innovation should therefore be favored in other ways, for example by using the credits in the NER 300 for research and development in the industry.

The grids

The cost for investments in grid infrastructure is estimated to increase to trillions of Euros. For the EU to remain cost competitive against other parts of the world (ie USA and China) these investments must be minimized. The cost due to modernization of existing grids are necessary, but the investments needed for integration of new renewable power production and the creation of a common market needs to be carefully analyzed based on cost efficiency. The cost for grid investments should not be paid by the consumer, but by the producers of electricity, which are the

ones benefitting from the investments. The production cost will naturally be passed on to the consumer anyway but the overall economic efficiency of the total investments in the power sector will be increased. By allocating the cost to the producers, the competition on the energy market will force the producers to consider the grid investments associated with the production investment when deciding upon which projects shall be built.

The investment in cross national grids must always be very carefully judged against the expected utilization and real value of the extra transfer capacity they are intended to realize.

The security of supply and market structure

Energy infrastructure and energy production are national policy areas. However, the increased integration of the market, and the higher share of intermittent power production creates issues that needs to be solved at a higher level. The responsibility for security of supply lies on the regulated side of the energy markets, in the hands of the system operators. There needs to be a firm regulation in place to make sure that the infrastructure as a whole is optimized and well-functioning.

The overall economic efficiency, including the cost and consequences for the end-user must be considered in all investment decisions. On the de-regulated energy production side we see how subsidies for renewable power production lowers the market price, reducing the ability to operate and invest in adjustable power production that can work as back-up in the power system. The solution to this problem is NOT the creation of new national or supra-national subsidy systems in the form of capacity markets. The solution lies in further development of the existing market, making it easier for consumers to be active on the market, incentivize producers to create new products which increase the flexibility of the market. It must be recognized that the energy production within the EU is a free market and that power producers which do not suffer from competition from outside the EU, cannot be protected by governments against market fluctuation.



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SKGS

SKGS is the co-operation of the energy intensive industry in Sweden, the Forest industry, the Chemical industry, the Mining industry and the Steel industry. These industries account for approximately 400 000 jobs, directly and indirectly in Sweden. The production is mainly located in the rural parts of Sweden, where not many other jobs are available. In the vicinity of the mills there are clusters of smaller companies supplying services such as transports and inputs to the processes. These clusters are important for regional growth. The

possibility to sell its products at competitive prices on the global market is essential for the energy intensive industry.