

Steinzeug-Keramo - contribution to the consultation on the Green Paper “A 2030 framework for climate and energy policies”

PREAMBLE

The impact of the crisis on the EU economy, the access to new energy sources and the recent experience with international negotiations clearly show that the domestic and international context of EU climate and energy policies has changed dramatically. Therefore, the debate on the 2030 framework should give the opportunity to “think outside the box” and not only to define adjustments to existing policy instruments. This implies also a rethinking of the current cost-driven approach based on unilateral binding targets. Consequently, the 2030 framework should establish a regulatory environment that favours access to secure energy sources at internationally competitive prices and promotes investments in R&D and low carbon technologies. At the same time, the debate on climate objectives should be based on a bottom-up approach that addresses also the technical feasibility and the cost efficiency of emission reductions.

Therefore Steinzeug -Keramo encourages the EC officials to take the opportunity of this consultation to discuss in depth if the current Cap-and-Trade System shall remain also for the period 2020-2030 or if, due to the previous experiences made with the system, something quite new should be discussed and established.

Based on the current framework conditions (e.g. economic crisis) a future solution should fulfill the following requirements:

- To secure the international competitiveness of the European industry
- To secure and start the EU re-industrialization
- To respond flexible to new market developments
- To reduce the administrative expenditures and burdens

Therefore Steinzeug-Keramo supports the creation of an incentive scheme instead of changes to the current system. A new scheme should take into account market developments and the international competitiveness of the European industry at the least possible costs and administrative burdens.

Steinzeug-Keramo welcomes the launch of the debate on the 2030 framework for climate and energy policies that followed the publication of the European Commission's green paper on this subject. A predictable regulatory framework is essential for a sector with long-term investment cycles like ceramics. Indeed, European and national policies in the field of climate and energy have a major impact on the competitiveness of the ceramic industry. On one side, for most of the sectors represented by our European ceramic association Cerame-Unie, energy represents up to 30-35% of production costs. On the other side, more than 1,000 ceramic installations are included in the EU Emissions Trading System-ETS and represent around 10% of total ETS installations but less than 0.5% of emissions.

With this paper, Steinzeug-Keramo presents its contribution to the consultation on the Green Paper "A 2030 framework for climate and energy policies".

A different European and international context

A transparent debate cannot ignore that major developments at European and international level have modified significantly the context within which the 2030 framework will be defined. In particular, we would like to draw the attention on the following elements:

- **The economic crisis:** since 2008 the economic recession that followed the financial crisis has severely affected the financial ability of European businesses, households and governments. In the case of the European ceramic industry, this meant that the production value in 2012 was 30% lower than 2007. The economic and social consequences of this crisis have confirmed the essential role the industry plays in delivering jobs and growth. At this stage, the signals of recovery remain very uncertain, and the return to pre-crisis levels is not expected in the short or medium terms. It is therefore essential that the climate and energy framework takes into account this situation and does not create an unmanageable financial burden. For instance, the feasibility of the investments foreseen in the 2050 Competitive Low-carbon Economy Roadmap (€270 billion a year over the next four decades) requires a transparent debate with all interested stakeholders.
- **Access to new energy sources and divergence in international prices:** one of the assumptions of the 2020 climate and energy package was that access to traditional energy sources would be restricted over time with an increasing impact on prices. However, recent technological developments have offered the opportunity to exploit new sources such as unconventional hydrocarbons. In the case of the USA, the access to shale gas will make them a net exporter in few years, solving their dependence on third countries. This has resulted in an increasing divergence of energy prices in the EU compared to other major industrial economies. For instance, in 2012 industry gas prices in the USA were more than four times lower than in the EU. Of course, other elements, such as the linkage of oil and gas prices and the regulatory costs have affected such trend.
- **International negotiations and third countries' strategies:** the experience of the last years has demonstrated that the process towards an international climate agreement requires

difficult negotiations that take much more time than it was initially foreseen. The results of the Copenhagen summit put into question also the effectiveness of the European strategy to use the conditional 30% target as leverage in the negotiations. Although positive developments have been registered in the last years, an international scenario of fragmented action seems the most likely in short and medium term. More broadly, the recent experience has shown that third countries may prefer alternative strategies to binding commitments, such as developing an internal R&D framework that favours investments in low carbon technologies. At the same time, the shale gas exploitation in the USA has confirmed that breakthrough technologies may offer unexpected opportunities to cut emissions.

Lessons from the current climate and energy package

In addition to the acknowledgment of a different European and international, it is essential that debate on the 2030 framework addresses the lessons learned from the 2020 climate and energy package in a proper way.

- **Impact of the national and European regulatory framework on energy prices and competitiveness:** as demonstrated by the recent trends in energy prices, national and European climate and energy policies have a direct and indirect impact on competitiveness of European businesses. The increasing trend of energy prices is expected to continue also in the future. In the case of the European ceramic industry, national decisions on levies and taxes affect local energy prices heavily. Furthermore, the direct impact of European policies will be better appreciated as a result of the increased number of installations covered by the EU ETS as of 2013 for the first time. At the same time, strict rules on free allocation based on the average of the best 10% performers have entered into force only this year. This experience shows the need to assess the cumulative impact of national and European policies. Last but not least, it is of great concern the indirect impact of the EU ETS through higher electricity prices (which is expected to increase in the next years) due to the exclusion of the ceramic industry from the list of sector eligible for state-aid compensation. There are some highly electro intensive ceramic manufacturing processes, for example technical ceramics and refractories manufactured in Electric Arc Furnaces and Electric induction furnaces at > 2000°C. Finally, several studies have shown that the reduction of emissions related to the manufacturing of EU products is accompanied frequently by the increase of total emissions embedded in imported products from third countries.
- **Overlapping of European policies:** the 2020 climate and energy package was based on the three targets concerning energy efficiency, renewables and GHG emissions. The legislation adopted to meet such targets (mainly EU ETS Directive, Renewables Directive and Energy Efficiency Directive) has a partially overlapping scope that creates trade-offs and inefficiencies. For instance, the adoption of the EED was followed by a decrease of the carbon price because it introduced new obligations for installations covered by the EU ETS. At the same time, the ETS carbon price does not show fully the costs related to the development of renewables.

Policy recommendations

On the basis of the previous considerations, Steinzeug-Keramo would like to draw the attention to the following policy recommendations that we believe are relevant for defining the 2030 policy framework.

- **A comprehensive 2030 strategy for growth:** the discussion on the 2030 framework is an interesting opportunity to define a clear strategy to boost the European recovery. However, in order to be successful and effective, it needs to embrace all aspects that affect the competitiveness of the EU economy. The starting point of such strategy would be to identify a clear target to assess the ability of the EU to access affordable and secure energy supply. One option would be to set a target on the difference of retail energy prices between the EU and major trading countries. Another possibility would be to define a percentage reduction of regulatory costs on final energy prices as a 2030 objective. Such targets should be accompanied by concrete policy initiatives such as in the field of oil-gas prices linkage and unconventional energy sources exploitation. Furthermore, the strategy should address the trade-offs between different European policy tools and between European and national policies. One possible option to tackle the first challenge may be the definition of a unique European climate target on GHG emissions that is not accompanied with energy efficiency and renewable targets.
- **Rethinking the cost-driven approach:** one of the assumptions of the current climate and energy framework is that investments will be driven by higher costs (through either energy prices or carbon price). However, as explained above the international context as well as the financial ability of European actors have changed severely. This is even more relevant if the scenario of fragmented climate action is confirmed in short and medium term. Therefore, the priority of the new package should be to establish a framework that favours investments by promoting R&D and early development of breakthrough technologies rather than further increasing regulatory costs. Such approach will have to take into account also consumed or embedded emissions from imported products to ensure that Europe is not simply decarbonising by deindustrialising.
- **A bottom-up approach based on technical feasibility and cost efficiency:** in the absence of a legally binding international agreement with comparable effort for industries in competing countries, the EU should also rethink the approach of unilateral targets based on long term strategy (such as the 2050 Competitive Low Carbon Roadmap). Indeed, without the necessary commitments from major emitting countries, the decarbonisation of the EU will be a strategy of economic policy rather than a pure environmental choice. Therefore, it has to be implemented in a comprehensive industrial policy. Furthermore, a linear path to 2050 objectives is not necessarily the most cost-efficient one, as breakthrough technologies may offer new and unexpected solutions in the long term. Therefore, it is essential that the commitment to emission reductions takes into account what is technically feasible and

economically cost-efficient for interested sectors. This should entail also a greater focus on the untapped emission reduction potential in non-ETS sectors, such as buildings.

- **A “fitness check” for the EU ETS:** the debate on the 2030 climate and energy framework offers also an opportunity to discuss some elements of the EU ETS that will need an update after the third trading period. Such check should aim at reducing the regulatory unpredictability that is caused by some of the existing provisions (e.g. revision of the carbon leakage list, cross sectoral factor, etc.).
 - **Carbon leakage beyond 2020:** in the absence of a legally binding agreement that levels the playing field with competing partners, it is essential that the free allocation for sectors exposed to the risk of carbon leakage is extended also beyond 2020, as the current rules would expire by 2027. Such risk should consider the cumulative costs of EU climate and energy policies. Furthermore, the validity period of the carbon leakage list should be extended to the entire trading period in order to increase the legal stability and predictability.
 - **The scope:** the current ETS includes a very high number of installations that report annual emissions below 25 kt. As a result, more than 70% of the installations represent around 10% of total emissions. The fitness check of the scope should assess the administrative burden on small installations and investigate possible alternative measures. Furthermore, it should also evaluate whether diversified policy instruments may be necessary between the industry and the power sector in light of the different impact of carbon prices.
 - **No direct or indirect costs for best performers:** in the current framework even best performing installations may face additional costs as a result of the rules on free allocation and indirect compensation. For instance, all ceramic sectors are excluded from the list of sectors eligible for indirect compensation (that does not cover the full indirect costs anyway). As a general approach, the 2030 framework should aim at enhancing the competitiveness of best performers by avoiding any additional direct or indirect cost.
- **Diversify domestic and international energy sources:** the 2030 framework should promote the exploration and exploitation of unconventional sources in a sustainable manner. Furthermore, it should develop a concrete external energy strategy to improve relations with major supplying countries.

K.-H. Flick

Director Competence Center Sewer Systems

Frechen, 02-07-2013