

*SveMin represents the collated views of the Swedish mining industry including minerals, cement and lime sectors. Several of SveMin's member companies operate installations covered by the EU ETS.*

## Response to:

## Public consultation on “A 2030 framework for climate and energy policies”

### Introduction

This paper represents the aggregated views of the Swedish Mining Industry's (“SveMin”) with regards to the ongoing public consultation on “A 2030 framework for climate and energy policies”.

SveMin has chosen to provide a single document covering key areas of relevance to the Swedish mining industry of the questionnaire rather than providing single answers to each question.

### Executive Summary

Below we summarise our main viewpoints:

- SveMin strongly supports a stable and predictable climate and energy policy framework post 2020 that ensures sustainable growth and global competitiveness for EU energy-intensive industry.
- The main objective of future climate and energy policy should be secure supply of energy at competitive prices and ensuring industrial competitiveness while achieving climate reduction targets.
- Mining & metals industry is exposed to global competition and compete on costs not price – hence energy is a key factor for EU industrial competitiveness.
- EU energy policy should focus on creating a viable internal market without market distortions (such as overlapping policies and extensive subsidies to mature renewable technologies) and provide a stable regulatory framework to allow for industries to enter long-term contracts.
- A key lesson from the current EU energy policy is that there are too many targets and policies which overlap, are not aligned, and create market distortions – the 20/20/20 targets have lead to distorted price signals and have increased investor uncertainty in Europe.
- The main purpose of the ETS is to reduce CO<sub>2</sub>-emissions, not to stimulate low-carbon technologies by creating an artificially high price for emissions reductions.
- Mining industry is dependent on access to energy at internationally competitive prices and political stability to foster innovation and investments in the industry. A stable legal framework is important for any decisions and uncertainties could impede long-term investment for growth.

### Recommendations:

- There is only need for one binding target for emission reductions post 2020 and the EU ETS should be maintained as the main policy instrument. There is no need for policy instruments for energy efficiency or renewables in a long term perspective.
- The maximum emission reduction target is 30% as it is not possible to go beyond this level with current technology for certain sectors.
- Subsidies should be allowed to bring promising low-carbon and CCS technologies through the R&D phase, but once the technologies reach the commercialisation phase, all energy sources should be integrated into the market under normal market conditions, without subsidies.
- The EU should encourage natural carbon capture and storage by encouraging the inclusion of carbon offset credits from forests and support mineral carbonation as an alternative.

## SveMin response

The Commission has identified four areas which form the basis of the questionnaire. SveMin has decided not address each specific question but rather give a collated answer on each section covering several of the questions in the questionnaire.

### EU Consultation – Questionnaire

#### 1. Targets

- Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?
- Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?
- Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO<sub>2</sub> reductions for passenger cars and light commercial vehicles?
- How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?
- How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

#### SveMin Response:

##### **Future energy policy should focus on European industry competitiveness**

EU energy policy must be focused on security of supply and providing energy at internationally competitive prices for energy-intensive industries. This is achieved by focusing on creating a viable internal market without market distortions (such as overlapping policies and extensive subsidies to mature renewable technologies) and by providing a stable regulatory framework to allow for industries to enter long-term contracts. This is achieved by wholly phasing out financial support for mature renewable technologies and allowing for deployment of all conventional and unconventional energy sources (e.g. shale gas). Energy policy should be the key priority while achieving and delivering on goals for climate change.

Climate change is a global problem. Of global GHG emissions, the EU represents only 11% and its share is decreasing. The post 2020 policy framework should be designed to promote a binding international climate agreement ensuring fair conditions for European companies competing globally. Even countries in the vicinity of the EU with direct competition do not show similar ambitions which will affect the competitiveness of European industry and expose the energy-intensive industry to carbon leakage. Without a global commitment, free allocation must continue to be the key tool for sectors exposed to carbon leakage.

##### **Main inconsistency of current 2020 target is that the three binding targets overlap**

Today the three binding 20-20-20- targets are not aligned and handled politically without an understanding of how they interact. Even though the European Commission may regard all the legal instruments as being compatible with each other, for most market observants it has become evident that the climate policies, with ETS as their central instrument, are far from compatible with the energy efficiency and renewable directives as well as other energy policies (including national policies).

National energy and climate change policies need to be better aligned with EU policy and less fragmented. We find the fragmentation of the EU energy markets as a key issue – currently there is a strong interdependence between Member States in the field of energy in political, economic and technical terms but the coordination of national energy policies remains weak. For instance, the energy mix largely remains a national matter. However, due to the ever-increasing interdependence of European energy markets, in particular with regard to electricity, national energy policies and measures implemented in one Member State have an impact on other EU countries. SveMin is particularly concerned about the developments in the electricity markets whereby the well-functioning Nordic power system, which is based on market-pricing, is increasingly connected with European power markets with significant elements of market planning mechanisms such as capacity markets, carbon floor prices, feed-in-tariff subsidies and other market distortions.

### **The solution is to only have one binding target for emission reductions post 2020**

The architecture for the future energy and climate framework should be designed to build a stable base for sustainable EU growth and global EU competitiveness by setting one target and reducing uncertainty caused by too many policy instruments.

Post 2020 there should only be one binding target for CO<sub>2</sub> emission reductions, supported by non-binding goals for renewables and energy efficiency, in the transition towards a more sustainable economy in Europe. Increased share of renewables and increased energy efficiency should be considered the tools of reaching a binding CO<sub>2</sub> emission reduction target.

The GHG reduction potential of the major emitting manufacturing sectors should be examined in more detail to determine what is technically and economically possible to achieve. In case of the lime industry the potential for further GHG reductions is very limited. Around 70 % of the total CO<sub>2</sub> emissions generated in the lime production originate from the decarbonisation of the limestone when it is transformed into lime.

European industry needs a predictable, long term solution in order to enable long term strategies and business planning beyond 2020. This is particularly relevant for the metals & mining industry where investment horizons are significantly longer than in most other sectors. Setting a long-term emission reduction target would increase the predictability of the regulatory framework.

However, the emissions reduction target for 2030 must be prepared carefully and its impacts must be assessed thoroughly. It is also important that the reduction target is feasible and technically possible to achieve. For the mining and lime sector the potential to reduce emission beyond 30% is not seen as possible with current technology and should thus represent a maximum reduction target.

### **EU Consultation – Questionnaire**

#### **2. Instruments**

- *Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?*
- *How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?*
- *How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?*
- *Which measures could be envisaged to make further energy savings most cost effectively?*
- *How can EU research and innovation policies best support the achievement of the 2030 framework?*

### **SveMin response**

#### **Targets resulting in too many instruments with similar objectives create market distortions**

The current surplus of allowances demonstrates the issue of having too many overlapping targets and has resulted in a significant drop in the carbon price. The carbon price fall is mainly due to macro-economic factors but also due to stronger than expected share of renewables and the implementing of energy efficiency measures. However, the current price of carbon is not a reflection of a collapsed market, but evidence that the system works as intended.

#### **The EU ETS should be maintained as the main policy instrument – no need for policy instruments for energy efficiency or renewables**

SveMin strongly supports the EU ETS as a cap and trade market-based instrument. It is our belief that a functioning cap and trade system is the most cost-effective tool to reduce Europe's CO<sub>2</sub> emissions, and the EU ETS must remain the central instrument in EU energy and climate change policy. In a well-functioning carbon market the carbon price reflects the actual cost of abatement and creates incentives for companies to invest in energy efficiency programs and low-carbon technology.

The future ETS should be designed in order to strengthen EU industrial competitiveness, to create conditions for predictable carbon prices and to fully award low CO<sub>2</sub> emissions industry. To create long-term predictability for industry, it is crucial that the EU ETS have a stable long term cap.

#### **Carbon price is currently influenced by political forces rather than market fundamentals**

There is a high level of regulatory uncertainty in the system, often caused by political messages undermining the market fundamentals. There are clear links to sensitive votes or decisions within the EU political bodies.

SveMin is of the opinion that the markets are best left to function without political intervention – as such we view measures such as the recent backloading proposal as detrimental and encourage decision-makers to refrain from temporary measures. It is highly unfortunate when markets are driven by speculation on political decision making rather than fundamentals which has been the case with the carbon market for a prolonged period of time.

SveMin stresses the importance of having a stable regulatory environment with respect to energy and climate policies in general and EU ETS in particular. This includes the number of allowances auctioned, timeline, volumes of free allowances and carbon leakage requirements.

To further improve the functioning of the ETS the system should better reward industries that can demonstrate their CO<sub>2</sub>-efficiency on a global scale. This means taking into account the CO<sub>2</sub>-efficiency of EU installations and setting benchmarks for free allocation compared to global competitors to ensure that efficient installations are rewarded accordingly. In other words, the system must be designed to create advantage for early movers and low CO<sub>2</sub>, as opposed to a carbon tax.

Setting aside revenues for research & innovation and recycling these revenues to industry is one way to achieve this but allocating additional allowances to high performing installations is the most desirable option. We support an EU-wide, allowance-based, dynamic compensation scheme based on actual production levels.

### **Energy efficiency**

In terms of energy efficiency we do not believe in binding targets but given that this will likely remain a key objective of the EU going forward it will place additional burden on companies in terms of measuring and reporting. It is therefore unfortunate that successful national energy efficiency programmes such as the Swedish Programme for Improving Energy efficiency in Energy Intensive Industries (PfE) is not allowed to continue to due to incompatibility with state aid law. PFE began in 2004 and was designed to contribute to increasing energy efficiency in energy-intensive Swedish industrial companies by allowing companies to receive a tax exemption on electricity being used in manufacturing processes. The programme was very successful with 87 Swedish energy-intensive industrial companies achieving total energy rationalisations of 1.4 TWh. This corresponds to an annual electricity consumption of approx. 80,000 electrically heated houses. The result was twice as good as the expected 0.6 TWh that Sweden had envisaged when the programme was commenced<sup>1</sup>.

The EU should promote systems that provide incentives for energy-intensive industries to invest in resources to identify small-scale energy efficiency measures. The majority of the low-hanging fruits in terms of energy efficiency within the mining sector have already been achieved but identification of energy-saving measures is a continuous work with at times low pay-off requiring government support. Alternatively, should the objective be to accelerate energy efficiency within mining this will require significant investments in new technology and will not be possible without additional grants and support schemes.

Products of energy-intensive manufacturing industries will be required to build Europe's low carbon future, and from societal perspective it is better to produce these products in Europe rather than import them from abroad. A strong signal in support of manufacturing is needed, which could be delivered by setting a 2030 re-industrialization target in addition to any climate or energy-related targets. A re-industrialization target should be supported by all EU institutions, and be on equal footing with all other 2030 targets. Any energy and climate change policy target should not counteract the goal to increase industrial activity in the EU to 20%.

---

<sup>1</sup> Swedish Energy Agency, <http://www.energimyndigheten.se/en/About-us/Press-/Press-releases/Final-reports-from-the-Programme-for-Improving-Energy-Efficiency-in-Energy-Intensive-Industries-Companies-have-found-more-energy-savings-than-expected/>.

## EU Consultation – Questionnaire

### 3. Competitiveness and security of supply

- Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?
- What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?
- What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?
- How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?
- How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?
- How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?
- How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?
- How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

### 4. Capacity and distributional aspects

- How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?
- What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?
- Are new financing instruments or arrangements required to support the new 2030 framework?

## SveMin response:

### Mining & Metals are exposed to global competition and compete on costs not price

As long as there is a lack of comparable climate policies and targets outside the EU carbon leakage for internationally competitive industries occurs when the price of carbon is above 0 EUR/tCO<sub>2</sub>. The products produced by the sectors that SveMin represent cannot pass on the cost to its customers, without significant loss of market share. The reason being that the price of metals and raw material commodities is set on international trading places (such as the London Metals Exchange or through public trade indices) and European producers' only stand for a very small portion of world production and thereby have very low bargaining power. The sector is therefore unable to pass on the increased costs to consumers. Since the commodities produced by SveMin's member are globally traded products, an increased price will lead to a significant loss of market share.

As argued above CO<sub>2</sub>-efficient installations should be rewarded and encouraged to promote further emissions reduction by an incentive that promotes reduced CO<sub>2</sub>-emissions. Allowing industry to profit from investing in CO<sub>2</sub>-reducing technology will increase the carbon-intensive industry's innovation capacity.

The architecture for the future energy and climate framework shall be designed to build a stable base for sustainable EU growth and global EU competitiveness.

### Support for renewable energy sources (RES)

SveMin supports increased energy based on renewable sources, but different types of subsidies should be phased out to generate a true market price and to avoid market distortions. Subsidies should be addressed to bring promising low-carbon technologies through the R&D phase, but once it reaches the commercialisation phase, all energy sources should be integrated into the market under normal market conditions, without subsidies.

The design of future energy policy should progressively phase out all financial support for renewable power generators. In the meantime, policy tools should be put in place to protect trade exposed industrial consumers against all cost burdens caused by RES. Renewables need to adapt to market competition and offer new and competitive solutions.

### **Increased transmission capacity and interconnectors**

SveMin is concerned that the envisaged build-out and increase required in transmission and distribution capacity may lead to significant increases in costs for consumers. The cost of transmission and distribution of energy has to be included in the cost-benefit analysis and the EU has to ensure that future build-out and expansion of the grids does not represent an additional burden on energy-intensive industries hurting their global competitiveness.

Energy-intensive industries cannot bear the full burden of increased investment in grid expansions, connections and should be, to as large an extent as possible, be exempt from costs associated with connection to the grid and grid tariffs.

### **Long term electricity**

It is key that the EU develops a long-term framework enabling competitive long term pricing. The internal energy market has not provided long-term competitive sourcing for the competitiveness of industrial users. Furthermore, risks arising from climate policies reduce generators' interest to enter into new long-term contracts (risk factors as ETS and back-up capacity payments).

Policies should be developed to provide generators and consumers with incentives to make long-term investment decisions. Restrictions on long-term contracts are particularly problematic for energy-intensive industries. Limiting the duration of long-term contracts or introducing reopeners diminishes the ability of the contract to provide a predictable electricity cost level in the long term. As such it is an issue that should be addressed post 2020.

Finally, the EU should allow for the deployment of all conventional and unconventional energy sources, enabling competitive prices and ensuring the continued competitiveness of EU energy-intensive industry and mining.