Response from the Confederation of Paper Industries – Swindon, UK, transparency register nr 453515910702-95

Consultation on Green Paper 2030

4.1. General

Q. Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The current economic situation is very different from that in 2007 when the 20/20/20 package was agreed. Accordingly a comprehensive review of fundamental issues is required to set a proper context against which a 2030 policy framework can be set.

The European economic position is far weaker and the outlook for fossil fuel supply and price is not clear – European industry now faces far higher energy costs than those faced by competitors in North America. CCS has not developed as expected (and is not close to market deployment) renewable support packages are proving unaffordable and EU ETS is impacted by many other policies – critically there is no international agreement.

All these issues must be taken into account when drafting a new policy package.

4.2. Targets

Q. Which targets for 2030 would be most effective in driving the objectives of climate and energy policy?

The 2030 package has such a critical impact on industry and industrial policy that competitiveness issues must be fully accounted for – indeed the two policy areas should be side-by-side and fully integrated.

In consultation with paper sector colleagues from other Member States we suggest;

a. A mandatory industrial policy,

b. A strong focus on technology development and implementation,

c. EU ETS as a central tool in a global playing field,

d. No renewables target,

e. No efficiency target,

f. Flexibility in Member States' choices,

g. And completion of the energy markets.

Simply adding cost to industry and consumers does not fundamentally address climate change issues - development and use of low carbon technologies requires investment.

Efficiency and renewable targets reduces Member States' flexibility, thus inducing unnecessary costs – a single EU-wide CO2 target brings the most cost-effective economic solution delivered flexibly by each Member State. Policies interfering with the functioning of the ETS and the carbon market should be removed and politicians should refrain from political interference.

Q. 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 CO2 reductions for passenger cars and light commercial vehicles?

For sectors insensitive to carbon pricing, additional policies to promote decarbonisation can be appropriate.

Q. How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

To allow cost effective economic solution, targets should not be technology specific or at a too detailed a level – these issues should be left to Member States.

Q. 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?

Realistically by monitoring and reporting of EU import dependency and investments in energy supply.

4.3. Instruments

Q. Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

The industrial policy framework must be strengthened with implementation not by policy documents, but by legislation – this to place industrial policy alongside climate policy.

Q. How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

A single EU wide CO2 target with implementation by Member States.

Q. How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

A single CO2 target, with no renewables or energy efficiency targets. Current policies are resulting in a renationalisation of energy policies and investment via subsidised renewables – potentially with Member States competing with each other for a limited pool of investment.

Q. Which measures could be envisaged to make further energy savings most cost-effectively?

A strong innovation policy framework, with investment to support new technology development.

Q. How can EU research and innovation policies best support the achievement of the 2030 framework?

Breakthrough technology in industrial processes is required to meet long term carbon reduction targets. Taxation from carbon taxation should be re-invested to help develop and implement these new technologies.

4.4. Competitiveness and security of supply

Q. Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

A meaningful EU climate change policy can only work in the context of a global agreement resulting in comparable burdens for competing industrial installations irrespective of their location.

Q. 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?

Most energy intensive industry is capital intensive meaning that continued investment is critical to a long term future – it is the long term cost signals that are considered by investors. Accordingly (in the short term) leakage of this investment to less carbon constrained economies is critical.

Actual carbon leakage has been mitigated by the allocation of free allowances, but not fully as compensation for indirect electricity costs is not in place, nor (increasingly) will compensation cover all cost impact. As long as a genuine global agreement does not exist, Europe will have to mitigate the impact of its policies for industries producing globally traded goods, be it via free allocation under EU ETS or indirect compensation for electricity consumers. Long term confirmation of this policy is critical to secure investment.

Q. What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

Energy costs in Europe are increasingly uncompetitive. Gas and electricity prices are two to four times higher in the EU than in the US. European policy has come at the crossroads where energy costs are too high for industry to invest in Europe. A steady increase in energy taxes, levies and surcharges means that industry and end customers are exposed to higher energy costs. In this

context Member State specific polices (such as the UK only Carbon Price Floor) are particularly damaging to competition within Europe as well as outside.

Q. 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?

All efforts need to be directed towards a global agreement. In the absence of a global agreement the EU must mitigate the impact on its own industry.

Q. 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)?

All efforts need to be directed towards a global agreement. In the absence of a global agreement the EU must mitigate the impact on its own industry.

Q. How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

At least half (preferably all) of the funds raised through carbon taxation should be spent on low carbon innovation and the deployment of technologies to help de-carbonise European industry.

Q. 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?

There should be policies to find cheaper gas for Europe, including the extraction of shale gas, particularly to replace coal in electricity generation and support the continued deployment and expansion of CHP.

In particular the proper operation of the oil and gas markets should be examined and the link between oil and gas prices broken. In this context additional investment, such as LNG infrastructure will be needed.

Q. 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?

With long term support for renewables and capacity payments for conventional power plants, the concept of a liberalised energy markets is receding, especially with growing market intervention driven by Member State regulators. There is reduced support for more cross-border interconnections and the costs cannot be afforded by customers. Additional energy costs stemming from additional levies and charges, are becoming an increasing competitive burden. As we operate in a global economy, energy price differences with other regions place EU industry at a competitive disadvantage.

4.5. Capacity and distributional aspects

Q. 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?

The amount of burden sharing should be reduced as EU economies grow closer together.

Q. 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?

A good outcome of burden sharing negotiations.

Q. Are new financing instruments or arrangements required to support the new 2030 framework?

No.

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