CONFEDERATION OF FINNISH INDUSTRIES EK

Infrastructure and Environment
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DG Energy, DG Climate

Consultation on the Green Paper on a 2030 framework for climate and energy policies

Identification of the respondent

Confederation of the Finnish Industries EK (hereinafter "EK") is a stakeholder association representing all sectors of business and all sizes of companies in Finland:

- 27 member federations
- About 16,000 member companies, of which 96 % SMEs
- Over 70 % of Finland's GDP
- Over 95 % of Finland's exports
- About 950,000 employees

EK is a member of BUSINESSEUROPE representing 41 central industrial and employers' federations from 35 countries, working together to achieve growth and competitiveness in Europe.

The identification number of the Confederation of the Finnish Industries EK in the Commission register of interest representatives is 1274604847-34.

If the responses to the consultation are published, the respondent agrees to publication of this response together with the other responses.

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Response to the consultation

EK wishes to thank for the opportunity to provide the views in this Consultation. Please, find below EK's answers to Commission's questions considering the Green paper on a 2030 framework for climate and energy policies:

4.1 General

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

The most important lesson is that we are not able to predict the future even for 5 years period. The world has changed radically only in five years' time since 2008. Three major changes in the operation and investment environment that have to be examined thoroughly before introducing post 2020 targets and actions, are:

1. Global revolution of energy market. Shale gas boom in the U.S. has put the prices of fossil fuels including coal into downwards/sideways trend instead of upward trend believed when 20-20-20 policy choices were made. "No regret" options like RES are becoming extremely expensive for Europe perhaps even hindering/delaying the growth of economy after recession in many member states. More than ever, energy is in the core of the EU's competitiveness. There is a vital need for secure availability of energy at competitive costs.

2. Prolonged economic recession in the EU. The EU must find new growth and jobs and put the most of its efforts to this issue instead of hampering the recovery e.g. by additional costs from over-regulation compared to our competitors. For climate policy, this means no more new unilateral targets. If other major countries are not taking similar actions, the EU cannot afford to proceed on deep emission reductions. Even if there will be new jobs from e.g. renewable energy, the net effects has to be very carefully evaluated. Carbon and job leakages are increasing because of cheaper energy in the U.S. and China. As the result, global emissions are not truly decreasing. Global trade has to be involved in assessments, and e.g. trends of imported products outside of the EU should also be considered. These carbon streams must be added to the emission statistics and all the impact assessments made.

3. Absence of international climate commitments. Global climate agreements must be the EU's priority. This will allow for everyone to benefit: a level playing field is created for companies, climate change mitigation is genuinely implemented and a global market is created for cleantech (a "win-win-win" solution). Above-mentioned changes (1&2) together with present global climate inaction should force the EU to take a necessary time needed for comprehensive and diverse analysis of the global climate policy situation, the EU's economic situation, "lessons learnt" from the EU's 20-20-20 targets, sectoral emission reduction potentials and costs, and competitiveness issues among other things. In addition, alternative scenarios and cost impact calculations are needed for the regrettable possibility of global climate agreement not been achieved. Also the cost estimations would change and differ more from those in 2050 Roadmaps assuming global climate agreement and still used as arguments for "no regret" options.

In addition, the EU's binding target for renewable energy has increased energy system costs and energy bills for consumers and companies in Europe. In 2011, 37 billion euros were spent to RES subsidies. This year this figure may be close to 50 billion with Germany only representing over 20 billion euros. By 2020, the figure may exceed 100 billion euros per year. Already in 2011, average cost of CO_2 emissions avoided by RES subsidies in the EU was about 170 €/t CO_2 compared to emission allowance price of some 10 euros per ton.

Furthermore, the EU is increasing imports of biomass (e.g. wood pellets). This indicates that the EU's RES target is already too high at least in some countries. Renewables

was aimed to reduce energy imports and improve security of supply in Europe. Now it seems that intermittent RES production and biomass imports are even endangering those objectives.

All these above-mentioned implications and changes must be carefully evaluated before decision on post 2020 energy and climate policy are taken.

4.2. 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?*

EK supports the principles of the EU's 2050 low carbon roadmap: -80% CO_2 by 2050. But the only solution is a global solution.

For 2030 one target only, namely global GHG reduction target, is appropriate for climate policy. We are dealing with global climate change, so the target has to be greenhouse gas reduction - and globally, because Europe has not a climate of its own. The EU's GHG emissions are decreasing globally to about 8 % by 2020 and 4–5 % by 2030. In the case of the EU's unilateral climate action, it cannot any more be named as climate policy because it would not have notable impacts on climate mitigation/warming. It could only be called as the EU's low-carbon policy.

Energy policy aiming for the year 2030 must take into account international development and emphasize competitiveness. The EU must be open to re-evaluating its position in the rapidly changing global energy market. More than ever, energy is in the core of the EU's competitiveness. There is a vital need for secure availability of energy at competitive costs. **Europe has to put cost-competitiveness, security of supply and climate objectives on an equal footing**. It must closely monitor energy competitiveness and security of supply to make sure that the three objectives are well balanced. To ensure political commitment and actions, targets to address the energy price differential with major competitors and to ensure energy security as well as relevant performance indicators such as the LCOE, the total electricity supply cost and the cost of avoided ton of CO_2 should be introduced. A binding renewable energy target for the end use of energy cannot be continued post 2020, because it would only endanger the security of supply and cost-competitiveness targets (intermittent production, biomass imports, expensive energy system costs). Also energy efficiency is a means for emission reductions, so it should not be a parallel headline target for GHG reduction target. In order to guarantee the best cost-efficiency and flexibility, all the means for emission reductions must be without binding targets.

• *Have there been inconsistences in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?*

Major inconsistences include parallel binding targets of actual problem (climate change/GHG emissions) and the means solving it (renewable energy) leading to non-

flexibility and to increase in total costs. **These can and must be avoided by taking only one post 2020 climate target**, i.e. GHG reduction target conditionally to international climate agreement or other commitments ensuring level playing field for companies despite of their location (facing same CO_2 costs globally).

• *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?*

In the emissions trading sectors, the price of greenhouse gas emissions must be the only steering mechanism. No overlapping subsidies for e.g. power production should be used post 2020 (gradual phase out of current production-based subsidy schemes). Subsidies should be targeted at R&D and demonstration of new technologies.

In non-emissions trading sectors, other instruments (taxes, regulation, and voluntary agreements) are needed. Achieving further improvements in the non-ETS sectors will be crucial, and industry must not be the only one concerned. Biofuel blending obligation and other possible regulation should be coordinated EU-wide in order to ensure one common and open market for companies providing cleantech/bioeconomy solutions.

The EU's climate measures must not lead to a competitive disadvantage for companies competing in global markets. Until the enforcement of a balanced global climate scheme, sectors exposed to carbon leakage should receive free emissions allowances (direct costs) from the EU. **Furthermore, there is a need for EU-wide and obligatory compensation system for energy-intensive companies against energy price increase due to the price of emission allowances (indirect cost effect) at the national level, e.g. from auctioning revenues.**

The increase in energy costs must be curbed both in the EU and nationally by all means available (incl. energy taxes) in order to maintain competitiveness.

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

Instead of production-based tariffs, subsidies should only be given for R&D and for pilot & demonstration projects post 2020. **Technology-neutrality has to be ensured**, and the EU must not lock only in wind and solar power, which will cumulatively get even massive 500 billion euros feed-in-tariffs during this decade. Big part of this money should go to development of other carbon neutral technologies such as fusion energy, CCS and storage technologies as well as biorefineries and cleantech solutions.

• *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?*

More than ever, energy is in the core of the EU's competitiveness. There is a vital need for secure availability of energy at competitive costs. **Europe has to put cost-competitiveness, security of supply and climate objectives on an equal footing**. It must closely monitor energy competitiveness and security of supply to make sure that

the three objectives are well balanced. To ensure political commitment and actions, targets to address the energy price differential with major competitors and to ensure energy security should be introduced. Renewable energy target cannot be continued post 2020, because it would only endanger the security of supply and cost-competitiveness targets (intermittend production, biomass imports, expensive energy system costs).

4.3. Instruments

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

Market-based instruments like (ultimately global) ETS will steer investments the most efficiently. This must be the target for post 2020, so the RES subsidies have to be phased out.

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

Market-based instruments like (ultimately global) ETS will steer investments most efficiently in order to achieve the objectives most cost-efficiently.

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

Market-based instruments like (ultimately global) ETS will steer investments most efficiently.

• *Which measures could be envisaged to make further energy savings most costeffectively?*

Only ETS and voluntary agreements (see good results in Finland from: http://www.energiatehokkuussopimukset.fi/en/activities_and_results/) for emissions trading sectors. Outside ETS also other means as standards and regulation (incl. taxes) of building, transport, agriculture and other sectors.

• *How can EU research and innovation policies best support the achievement of the 2030 framework?*

Instead of production-based tariffs, subsidies should only be given for R&D and for pilot & demonstration projects post 2020. **Technology-neutrality has to be ensured**, and the EU must not lock only in wind and solar power, which will cumulatively get even massive 500 billion euros feed-in-tariffs during this decade. Big part of this **money should go to development of other carbon neutral technologies such as fusion energy, CCS and storage technologies as well as biorefineries and cleantech solutions**.

4.4. 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?*

Global climate agreements must be the EU's priority. This will allow for everyone to benefit: a level playing field is created for companies, climate change mitigation is genuinely implemented and a global market is created for cleantech (**a "win-win-win" solution**). Global revolution of energy market and prolonged economic recession in the EU together with the present global climate inaction should force the EU to take a necessary time needed for comprehensive and diverse analysis of the global climate policy situation, the EU's economic situation, "lessons learnt" from the EU's 20-20-20 targets, sectoral emission reduction potentials and costs, and competitiveness issues among other things. In addition, alternative scenarios and cost impact calculations are needed for the regrettable possibility of global climate deal not been achieved. Also the cost estimations would change and differ more from those in 2050 Roadmaps assuming global climate agreement and still used as arguments for "no regret" options.

Governments must find ways to ensure that actions taken to address climate change can assist economic growth and development. This can only be achieved by a transparent and thorough assessment of the effectiveness, costs induced and positive impacts of climate policies over the economy and society at large.

A positive engagement in discussions with all business sectors, and in particular with those most affected, can be instrumental in supporting this process. As an example, the setting of realistic targets should be built up by consensus and through the interaction with those that are required to take the actions to meet such targets. **The development of a global carbon price would be the most effective way forward.**

• *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?*

Import of goods has been increasing in the EU, so carbon foot print has not decreased as much as compared to statistical emission reductions inside the EU. This means that industrial production and jobs have already been transferred outside the EU (carbon and job leakage).

Even if there will be new jobs from e.g. renewable energy, the net effects of the EU policies have to be very carefully evaluated. **Carbon and job leakages are increasing** because of cheaper energy in the U.S. and China. The EU must try to keep the jobs and industrial production in Europe, ie. outsourcing of emissions and jobs outside of Europe has to be avoided. The EU's climate measures should not lead to a competitive disadvantage for companies competing in global markets.

Solution: Until the enforcement of a balanced global climate scheme, sectors exposed to carbon leakage should receive **free emissions allowances** (direct costs) from the EU. Furthermore, **a full compensation against energy price increase due to the price of emission allowances (indirect cost effect) is needed until other countries**

like the U.S. and China are involved evenly in emission reduction costs. This compensation must be EU-wide and obligatory for all the Member States to implement in order to avoid relative competitiveness differences inside the EU. The easiest way of doing this would be to allocate auction revenues from ETS to energy-intensive industry.

Also the increase in energy costs must be curbed both in the EU and nationally by all means available.

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

The greatest price effects in Europe are mainly related to taxes as well as subsidies, the additional costs consumers are forced to pay to politically chosen generation types. Similar price effects are expected if capacity payments for other technologies are taken into use.

EU should encourage member states to avoid such costly governmental interactions. Power generation is one of few areas where state aid is currently allowed. This understates the use of resources from other EU-states as well as from third countries.

• *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?*

The global efforts should be taken into account when steering the EU's climate policy, especially with regard to competitiveness of the EU's industries. The risk of carbon leakage should be controlled with smart and least distortive ways of utilizing the ETS allocation, auction revenues and state aid. The ETS should be developed in a manner allowing further linking with other schemes and enabling the use of the current or future flexibility mechanisms.

The EU should also improve the cost-efficiency of its climate policies.

• *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)?*

Subsidy schemes lasting for decades will rule out all flexibility from the market. The same applies to regulation. All new regulation should be assessed also from the perspective of enabling new innovation. Focus of regulation should be only to things that need to be regulated, avoiding micro-managing.

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

The aim should be at managing the long-term cost of decarbonisation by investing in R&D and demonstration of a variety of emission reduction technologies. The first priority of the use of auction revenues should be the allocation of auction revenues to

energy-intensive industry against indirect cost effect of ETS until global climate agreement is achieved. The second priority would then be R&D and demonstration projects (both for industry and energy sectors).

• *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?*

Development of all indigenous energy resources is important. The EU should focus on EU level actions, especially support on R&D and demonstration of new technologies as technology-neutrally as possible. High RES subsidies have distorted and even ruined EU ETS driven market based energy investments.

With regard to unconventional energy resources and especially shale gas, there are three significant impacts on Europe and globally: The EU will become less competitive compared to the U.S. and later also to China, the position of the U.S. in the climate negotiations will change because of rapid decrease of CO_2 emissions and the context of global security and geopolitics will change significantly.

EU should invest in development of unconventional energy sources, but even at its best it could be only a small part of the solution. A well-functioning and fully integrated internal market with all energy options open is the key for European competitiveness.

• *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?*

An effectively functioning market is the best way to improve security of supply.

The question however seems to be more related to gas markets. Security of gas supply has not been so much questioned in Finland. However, having alternative routes (e.g. a LNG terminal funded partly by the EU) would increase security of supply as well as competition by creating a real gas market.

4.5. 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?*

Energy and climate policy should not consider these societal issues, but the EU should find other ways to compensate the poorest or the least developed countries. It is crucial for the EU's competitiveness that climate target is achieved as cost-efficiently as possible. That means that emission reductions are made there, where they are the cheapest (e.g. Eastern European countries). **Present situation as well as all the efforts (e.g. in energy-efficiency) made since 2005 must be calculated for every country and then implement a truly fair cost-based effort sharing** (if effort sharing

is even needed, because only GHG target + ETS would not allow or need to share any targets between Member States except maybe the non-ETS emissions). **Forerunners must not be penalized but rewarded.**

• *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?*

Please, see previous answer.

• *Are new financing instruments or arrangements required to support the new 2030 framework?*

Yes, **for energy-intensive industries, in addition to free allowances (direct cost effect), a full compensation against energy price increase due to the price of emission allowances (indirect cost effect) is needed until other countries like the U.S. and China are involved evenly in emission reduction costs.** This compensation must be EU-wide and obligatory for all the Member States to implement in order to avoid relative competitiveness differences inside the EU. The easiest way of doing this would be to allocate auction revenues from ETS to energy-intensive industry. This should be the first purpose of use of auction revenues, the second being R&D and demonstration projects.

SUMMARY: EK's messages for the EU's 2030 process

- Global operation environment has changed profoundly since 2008
  - 2020 targets cannot be copied into a new period
- More than ever, energy is in the core of the EU's competitiveness
  - Vital need for secure availability of energy at competitive costs
- Climate change mitigation is important – and instruments must be chosen wisely
  - Reducing emissions globally, cost efficiently and without distortion of competition
  - Market-based development instead of over-regulation
  - Consistent, clear and determined policy
- Global climate agreement must be EU's priority
  - Level playing field for companies
  - Genuine climate benefits
  - Global market for cleantech
- Only 1 binding climate target = reduction of greenhouse gas emissions
- The most effective instrument = market price of GHG emissions
  - In emissions trading sectors: only 1 instrument = global emissions trading
    - **Free emission rights & compensation of indirect costs for EU's energy-intensive industry until level playing field globally**
  - Other instruments to be used in non-emissions trading sectors