cepi confederation of european paper industries

CEPI aisbl
250 Avenue Louise, Box 80
B-1050 Brussels, Belgium

Tel +32 2 627 49 11
Fax +32 2 646 81 37

www.cepi.org
www.paperonline.org
www.cepi-sustainability.eu
www.paperforrecycling.eu

Annex to the 2030 position paper

Answers to the Green Paper Questions (based on CEPI position paper)

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? A reassessment of the fundamentals needs to be made as a new climate policy cannot simply change numbers. Europe has very different circumstances from when the 20/20/20 package was decided upon in 2007. The economy stagnates, there could soon be no shortage of fossil fuels in the world, Energy markets are failing, CCS is not foreseen soon, renewables and grids become unaffordable and the EU ETS is burdened by many interacting policies. We have no international agreement yet. All this has to 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 most effective will be a comprehensive package consisting of a competitive, environmentally sustainable industrial policy, with innovation as the core element:

a. A mandatory industrial policy,
b. A strong focus on technology development and implementation,
c. EU ETS as a central tool in a global level playing field for industry,
d. No EU-wide renewables target, but flexibility in Member States' choices,
e. No EU-wide efficiency target, but flexibility in Member States' choices,
f. And completion of the energy markets.

The 2030 package is not a decision for climate policy alone. The 2030 climate and energy package is the largest decision in industrial policy the EU will make in the coming decade. Without a strong industrial policy, climate targets make no sense. It is investments only that will bring solutions. More costs to industry and consumers are not a solution. The development and use of low carbon technologies requires investments from industry in Europe. Any policy package needs to take this into account.

A single EU-wide CO2 target brings the most cost-effective economic solution. As options become less available and more expensive, having additional efficiency and renewables targets reduces Member States' flexibility, thus inducing unnecessary costs. Multiple targets interfere with the member states fuel mix choice – which is a national competence. Policies interfering with the functioning of the ETS and the carbon market should be removed.

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 CO_2 reductions for passenger cars and light commercial vehicles? For the non-ETS sectors such as transport, insensitive to carbon pricing, additional policies to promote decarbonisation should be consistent with established 2020 policies.

Q. How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework? In order to reach the most cost-effective economic solution, targets should not be technology specific or at a too detailed level.

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? By careful 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? A strengthening of the industrial policy framework is much needed. So far industrial policy has been laid down in policy documents only, where climate policy has resulted in legislation. This situation needs a rebalance.

Q. How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives? Cost efficiency is achieved by having a single EU CO2 target and further implementation at member state level.

Q. How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment? By having one single CO2 target, and no further renewables or energy efficiency targets which have led to a renationalisation of energy policies and investment in subsidised renewables only.

Q. Which measures could be envisaged to make further energy savings most costeffectively? A strong innovation policy framework, leading investments to new technology development.

Q. How can EU research and innovation policies best support the achievement of the 2030 framework? The EU needs to promote breakthrough technology development in industrial processes, in projects, pilots, demo's, implementation. For this the funding, structure and political system are only just and only partially in place.

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? All efforts need to be directed towards a global agreement that leads to comparable burdens for competing industrial installations around the world.

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? Carbon leakage is investment leakage – it is the reduced investments in industry in Europe as can be clearly seen. The current framework has mitigated the impact by free allocation, but not fully as compensation for indirect electricity costs has not yet come into place. As long as a real 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. In this respect as much certainty has to be given to industry as possible.

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 fundamentally 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. Shale gas in the US is a driver but not the only one. A steady increase in energy taxes, levies and surcharges means that industry and end customers are exposed to higher energy costs.

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 that leads to comparable burdens for competing industrial installations around the world. This is only the case when national commitments apply to installations that compete with EU industry. As long as this cannot be secured, the EU needs to 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)? A target set in the context of a genuine global agreement. All efforts need to be directed towards a global agreement is in place that leads to comparable burdens for competing industrial installations around the world. As long as this 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. In this respect as much certainty has to be given to industry as possible.

Q. How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances? The EU needs to deliver on its promise that at least half the revenues should be spent on low carbon innovation. These funds have to be put to work to develop breakthrough technologies in the sectors concerned in Annex 1 of the ETS directive, instead of being used for all kinds of purposes.

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? The EU needs a dedicated policy to find cheaper gas for Europe, including unconventional sources, but also looking at decoupling of oil and gas prices, adding new LNG infrastructure, etc. etc.

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 support for renewables extending well beyond 2020 and capacity remuneration for conventional power plants appearing all over Europe, "liberalised" energy markets no longer exist. Markets are nationalised and investments driven by regulators. There is little appetite with member states for building more cross-border interconnection. Consumers cannot afford 1 trillion grid costs, whose benefits are still far for being assessed; Capacity payments for installations that do not run – replacing or even adding to one problem with an even larger one. The add-ons- additional levies and charges, be it for grids, renewables, CHP, efficiency – become a competitive burden. As we operate in a global economy, energy price differences with other regions in the world are simply too large.

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? Burden sharing negotiations will have to take place, based on the past and current baselines and economic and technical capacities of the different member states, as was done with the existing climate change and energy package.

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.