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Euromines response to the public consultation on the 2030 Climate and Energy Package

Introduction

This paper represents the views of the European mining industry which is a producer and a user of energy at the same time as well as a producer of a series of metal and mineral products which find their application in the whole range of energy producing and CO2 reducing technologies.

- Euromines strongly supports a stable and predictable climate and energy policy framework post 2020 that ensures sustainable growth and global competitiveness for EU industry as a whole and for the energy-intensive industries in particular.
- The main objective of future climate and energy policy should be securing supply of energy at affordable prices and ensuring industrial competitiveness while achieving appropriate climate reduction targets.
- The 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.
- The European metals and minerals mining industry is exposed to global competition and compete on costs not price – hence energy is a key factor for EU industrial competitiveness.
- The 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.
- The majority of the products produced by the sectors that Euromines represent cannot pass on the cost to its customers, without significant loss of market share. The reason being that the price of metals and minerals 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 Euromines members are globally traded products, an increased price will lead to a significant loss of market share.
- 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.

Future climate and energy policies for the European industry should therefore hinge on the following principles:

- they have to rely on a coherent set of instruments. In particular, inefficiencies stemming from overlapping policies, in particular the interaction between the CO₂, the renewable energy and the energy efficiency targets, must be addressed. This could be done have by having one single CO₂ target supported by an appropriate set of renewables and energy efficiency policies. The adequacy of these policies would be measured by the progress against the CO₂ objective.
- they have to be built 'bottom-up', based on the technical and economic abatement potentials of the sectors (sectoral approaches);

Targets

- 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 led to distorted price signals and have increased investor uncertainty in Europe.
- 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 main purpose of the ETS is to reduce CO₂-emissions, not to stimulate low-carbon technologies by creating an artificially high price for emissions reductions.
- The EU should encourage natural carbon capture and storage by encouraging the inclusion of carbon offset credits from forests.

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?

What affected most the energy and carbon markets in the past few years is the economic crisis. The EU allowance price reacted rapidly and consistently to the decreased industrial output and the bleak economic perspectives for the coming years.

The lack of coherence of the set of targets which interfere with one another also affected the markets in a way which was to be expected, but apparently not fully factored in by all stakeholders.

One striking example is the fact that a number of provisions of the energy efficiency directive capture large parts of the EU ETS sector. This duplication of measures creates huge inefficiencies. Beside these technical aspects what undermined significantly the energy and carbon markets are the repeated attempts to modify the rules (e.g. back-loading) which introduced instability and scared away investors.

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?

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. Without a global commitment, free allocation must continue to be the key tool for sectors exposed to carbon leakage.

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 all, but in particular for energy-intensive industries.

This is achieved by focusing on creating a viable internal market without market distortions 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.

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 for example national energy policies.

National energy and climate change policies need to be better aligned with EU policy and less fragmented. The fragmentation of the EU energy markets is 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 remains a largely 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.

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.

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 and minerals 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, preferably the 20% GDP target for industry should be extended beyond 2020 and somehow enshrined in the legislation.

CO2 abatement in the industry depends on the emergence of new technologies. Targets can foster the development and deployment at commercial scale of new technologies. However they can potentially squeeze sectors for which the required technologies are not there on time. For these reasons and given the uncertainty inherent to the development of new technologies, targets for the industry should not be binding, but take into consideration technological development.

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

Yes, the three targets interfere with each other, leading to economic inefficiencies. The CO2 target and the renewable energy target lead to collateral impacts which would be difficult to avoid, in

particular in the electricity sector and as a consequence in sectors consuming large amounts of electricity.

As regards the energy efficiency directive, the detrimental collateral effects stemming from it could be avoided by removing from its scope the EU ETS sector and shifting its focus on measures on the demand-side of the non-ETS sector which are cost effective and not go beyond that.

Having one single CO₂ target for the economy supported by an appropriate set of renewables and energy efficiency policies would lead to more coherence and cost-effectiveness. The adequacy of various underlying policies would be measured by the progress against the CO₂ objective.

More generally this points to the particularity of the power sector in terms of size as well as market structure. The power sector has access to lean carbon technologies ‘off the shelf’, renewable or not, and can finance them by passing on the costs on to the power users. Industrial sectors at-large cannot do that. The extent to which the renewable target interacts with the CO₂ target and affects the energy mix of the power sector pleads for differentiated targets for the power sector.

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?

As a matter of principle and in order to allow the economy to decarbonize smoothly and at appropriate pace, sectoral targets should be built ‘bottom-up’. They have to be based on the technical and economical capabilities of the various sectors to adjust to new production standards. Targets must therefore take into consideration the most cost effective technology pathway and competitiveness issues towards competitors in countries with no comparable carbon constraints.

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

Hard economy-wide targets cannot achieve this. All sectors are different and face different challenges, both in terms of market (exposure to global competition) and technologies (easy access to affordable low carbon technologies).

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?

This could be done for example by monitoring the EU net balance of energy imports. A target is not necessary. If any, it should not be binding.

4.3. Instruments

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

The current surplus of allowances demonstrates the issue with too many overlapping targets and has resulted in a significant drop in carbon price. The carbon price fall is mainly due to macro-economic factors, but also by 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. 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 CO₂ emissions industry. To create long-term predictability for industry, it is crucial that the EU ETS have a stable long term cap.

The current debate about the carbon price is currently influenced by political forces rather than market fundamentals.

Euromines wishes to stress the importance of having a long-term 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 CO₂-efficiency on a global scale. This means taking into account the CO₂-efficiency of EU installations and setting benchmarks for free allocation compared to global competitors to ensure that efficient installations are rewarded accordingly.

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.

Energy efficiency

In terms of energy efficiency Euromines does 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.

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.

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

Climate policies should encourage and not hamper the industrial production since it is this industrial production that will develop and deliver key-enabling technologies for the future decarbonisation of the EU.

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

Subsidies to renewable energy sources have a distortive effect on the energy market. They should be limited to what is needed to avoid inefficiencies and windfall profits.

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

Increased market integration is indispensable to bring costs down and avoid local capacity shortages and having recourse to capacity mechanisms. The completion of the energy market should in principle even out local discrepancies between demand and supply. The further integration of the EU energy market and the widespread use of cross-border capacity will limit the impact of intermittent renewable energy sources on generation adequacy.

In order to respond efficiently to generation inadequacy measures have to rely on market forces. Capacity mechanisms should therefore be used in last resort, i.e. after the EU energy market is fully integrated, in order to be cost-effective and limit market distortions insofar as possible. Capacity mechanisms should not become a means to subsidise utilities which are not cost-effective.

Increased transmission capacity and interconnectors

Euromines is in favour of the envisaged build-out and increase required in transmission and distribution capacity, but is concerned that it potentially may also 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.

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

An effective and cost efficient energy efficiency policy should hinge on incentives rather than obligations. In particular more incentives are needed to recover low grade energy (waste heat and pressure, waste gases).

Demand side response could also partially address at lower cost problems of generation adequacy. This option could prove a cheaper one where full use is made of the flexibility potential of industrial processes.

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

EU research and innovation policies (FP7, Horizon 2020, structural funds, national initiatives,...) are too fragmented. The structure should be streamlined further. Furthermore the funds that have to be dedicated to research and innovation have to be consistent with the level of ambition of the climate and energy objectives. Funding commitments and pledges are not enough (e.g. earmarking of EU ETS revenues), funds commensurate with the ambition of the policies pursued should be cast in legislation.

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?

Measures on the demand-side can potentially stimulate the economy and promote jobs and growth. As regards the supply-side, increasing the competitiveness of the EU industry would also stimulate the economic activity. Measures promoting the development of renewable energies and lean carbon technologies are often seen as having the capacity to create jobs and stimulate growths. If these compete on the market thanks to the support of subsidies only, then it is at expenses of other sectors of the economy. The benefits of green policies should be therefore carefully assessed in particular as regards the negative impact on sectors of the economy paying for the others.

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?

The competitiveness gap between the EU and regions with lenient climate policies is due to a combination of factors, each of which playing a critical role. The cost of the EU climate policies is one of them. However, since the economic crisis broke out, the carbon price and the CO₂ emission plunged, reducing the cost of compliance to relatively acceptable levels. Similarly the impact on power prices (indirect CO₂ costs) has remained limited. Under these circumstances carbon leakage as such seems very difficult to quantify.

The protection mechanisms put in place at the EU or national level (free allocation and exemptions from support scheme) have proved relatively effective in reducing the risk of carbon leakage. It is too early to say whether the measures in place will meet their objective up to 2020.

Of particular concern is the compensation for CO2 cost pass-through by the power sector to the consumer which Member States are allowed to grant under the EU ETS Directive..

As a matter of principle and with a view to preserving the competitiveness of European industries, best performers in sectors should incur no direct or indirect burdens resulting from climate policies. In the context of cap and trade, best performers need 100% of their allowances for free and their indirect CO2 costs have to be fully offset at least until international competition distortions are removed.

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

Energy costs – in particular power costs – have increased for various reasons, among which the RES and the EU ETS.

High energy prices will not contribute to specific CO2 reductions in the metals and minerals mining industry, but to increased costs and loss of competitiveness of the European operations and thus higher imports from other parts of the world.

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?

This could be done through an appropriate level of flexibility in the setting of the targets. The features of a potential international agreement will be complex and difficult to assess in terms of competitiveness issues. The EU rules should therefore remain simple and flexibility measures should not insofar as possible alter predictability.

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)?

Clear and coherent targets supported by an adequate policy framework should provide enough predictability as long as the EU institutions and stakeholders refrain from interfering repeatedly in the system. The recent back-loading proposal and the discussion about structural measures to reinforce the EU ETS pre-2020 is scaring away investments.

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

Funding has to be consistent with the objectives of the policy pursued. The earmarking of the auctioning revenues is an option, but as these depend on the carbon price, they may not be sufficient at the time they are raised.

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 must adopt a looking-forward strategy to exploit unconventional fuels in a sustainable way. Unjustified regulatory restrictions on the exploration and production of these fuels should be avoided. A comprehensive set of European environmental regulation is already in place which applies to the exploration and exploitation of these fuels. Should the regulatory framework be adapted to cover new types of fuels not yet exploited, it has to be done in a transparent way, based on fact and figures.

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?

Answer included in the question.

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?

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?