INTERNATIONAL FEDERATION
OF INDUSTRIAL ENERGY CONSUMERS

IFIEC Europe

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PRESS RELEASE

IFIEC's initial response to the EU Climate Package: Challenging climate change targets require cost-efficient solutions

The "green package" published by the European Commission on January 23 presents proposals to achieve the ambitious EU objective of "building a global low-carbon economy". This involves challenging EU-targets of 20% lower greenhouse gas (GHG) emissions and 20% renewables of the total economy energy use by 2020. The two main pillars of the package are the EU Emissions Trading Scheme (EU ETS) and the Renewables' support scheme (RES).

IFIEC Europe's members representing EU industrial energy consumers are heavily affected by the consequences of the proposed measures and will play an important role in the ecological as well as the economic success of the package.

The need for carbon reduction measures across all sectors in EU member states is fully recognised and accepted by IFIEC Europe. The concern is to avoid causing major economic damage to EU industry, with carbon leakage to countries not adopting measures equivalent to the ambitious steps the EU proposes.

The new proposals raise serious concerns and questions. IFIEC's President, Hans Grünfeld, said: "Climate change abatement at the pace and with the targets set by the EU can only succeed if cost-efficiency and avoidance of competition distortions to the EU economy are at the heart of the proposed measures. President Barroso explicitly promised to protect Europe's energy intensive industries, but the methods proposed don't remove the doubts about their effectiveness."

Auctioning to industry will consume massive finances for purchasing EU ETS allowances that will no longer be available for the necessary capital investment in the required immense CO_2 reduction measures. The Commission promises relief for sectors exposed to global competition with free allowances up to 100%. The present proposal sets another four years to identify those sectors to which relief will apply and the detailed measures. This will cause unacceptable uncertainty in most of the 2nd trading period. Any criteria and threshold for assessing exposure are also arbitrary and will provide little proof that the cost of auctioning can be included in product prices in the rapidly globalising economy. With this degree of uncertainty, the investment climate for energy intensive industries over the next years will certainly suffer.

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.

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Furthermore, the EU ETS allocation rules in the 1st and 2nd trading periods caused and still cause, immense revenues for electricity producers, making electricity unjustifiably expensive for consumers. The EU Commission believes the only way to avoid the present flaws is to move to full auctioning to the power sector. This only further damages IFIEC's member companies, which have to pay the resulting high electricity prices.

Furthermore, auctioning to electricity companies means additional revenues in the power sector will only be reduced by about 50%. The problem of electricity windfall profits won't be solved! In fact, full auctioning to the power sector will mean auction revenues to governments and "windfall profits" to those power companies having nuclear and large hydro plants. These total costs will be borne by consumers.

Hans Grünfeld further states: "Enhancement of market concentration in the power market won't be solved. It will continue to work – supported by the EU ETS rules - primarily to the benefit of the large players, and most of all those with nuclear power capacities."

IFIEC's clear statement is that given the agreed need to avoid leakage of emissions and jobs outside Europe and while the EU is alone in introducing climate change initiatives, sectors must be granted free allocation of allowances based on benchmarks related to actual production, These give the same incentive to reduce emissions as auctioning, but at significantly lower costs. IFIEC Europe considers this approach to be the most cost-efficient solution, while Border Adjustments might only be supporting.

With regard to the proposed renewable energy support scheme, there are serious fears that this could release another source of windfall profits for energy companies. IFIEC Europe therefore urges that the details of the trading scheme, which are not sufficiently worked out in the proposal, shall be designed in such a way that windfall profits and enhancement of market concentration are avoided. It is still insufficiently demonstrated how the proposed scheme can deliver in terms of effectively introducing flexibility and in providing the most cost-efficient solutions for both producers and consumers.

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