Minutes of the Sherpa Meeting of the High Level group on Energy Intensive Industries

7th November, 2016/ 14h30-17h30

Opening by Gwen Cozigou, Director C, DG Grow. Mr Cozigou recalled that Energy Intensive Industries are fundamental for the EU economy and they face many challenges such as trade disputes, availability of inputs and high energy costs. The European Commission will soon put forward the Energy Union Package: "Clean Energy for all Europeans” Package meant at implementing the 2030 Energy and climate framework and in line with the agreement of Paris on climate change. Many initiatives have already been undertaken by the EU to reinforce the legislative framework.

Paula Pinho, Head of Unit A1, DG ENER- presented the state of play of the Commission initiatives under the Energy Union Package. Ms Pinho recalled that EU faces several challenges relating to energy security, sustainability of energy use, and affordability and competitiveness of energy costs. A global transition is occurring now in the energy system and the EU wants to be a leader in the transition to the low carbon economy but for this a strong legal framework is needed.

She recalled the five dimensions of the energy Union, mentioning the Ukraine and Russia crisis and linking this to the need for EU to reduce dependency from energy imports. This problem could be addressed by a combination of solutions: diversifying the energy sources, looking for solutions inside the EU (for example finding the necessary infrastructures), improving energy efficiency, keeping up the level of innovation and research, enhance competitiveness.

She recalled the EU 2020 targets (reduction by 20% of CO2 emissions and increasing up to 20% the share of renewable energies), stressing that targets for 2030 (a 40% cut in greenhouse gas emissions compared to 1990 levels; at least a 27% share of renewable energy consumption and at least 27% energy savings compared with the business-as-usual scenario) are more ambitious, recalling that the targets concerning the cut in greenhouse gas emission and the share of renewables and energy efficiency are binding at EU level.

After that, Ms Pinho presented an overview of the recent legislative proposals: the Security of gas supply package (February 2016); the Effort Sharing Regulation (July 2016) and the initiative on Land use, land-use change and forestry - LULUCF (July 2016). There is a need for cooperation between Member States: this requires integration between their different positions..

She then presented the upcoming initiatives composing the "Clean Energy for all Europeans” Package, which will focus on the following topics: Energy Efficiency includes the revision of the Energy Efficiency Directive (EED) and the Energy Performance of Buildings Directive (EPBD); Energy Market Design; Renewable energy; Regulation on Governance of the Energy Union.

One of the main objectives of the EED is to enable the required progress towards the national and EU energy efficiency targets for 2030; to put in place a mechanism if progress is not sufficient, while reducing the administrative burden for Member States and improving reporting on the measures and savings claimed by the Member States. The revision of EPBD will aim at strengthening the Directive to improve the quality of the building stock and avoid energy wastage in buildings by 2030 by tapping the large energy saving potential of this sector (energy use of buildings still represents about 40% of the EU’s total final energy consumption and CO2 emissions).

As regards Market Design, there are the Electricity Directive and Regulation and other pieces of legislation concerning for example ACER and a new Regulation on risk – preparedness in the electricity sector. The aim of the proposals is to build a more flexible and interconnected electricity market -. In this context, cooperation between Member States to face possible disruptions is necessary. The Energy Market is evolving rapidly and,
with the uptake of renewables, there are new challenges coming up. The objectives of the Market Design Initiative are to create a more flexible market, that react to changes in the demand, to better integrate renewables, to allow for a more active role for consumers in the energy system, to adapt the institutional framework for new competences and for regional functions, as in the case of ACER, which is the European regulator, to assess the energy market situation. The aim is to create clear principles, on the basis of which Member States discuss with each other their integration capacity. For this reason, it is important to look at the overall market, not only at the national one. In the Energy market, everything is interlinked: from the geothermal power plant to the smart-substation, to the industry and the energy storage.

The proposal for Renewable Energy Directive revises the existing legislation, readjusting to the targets of 2030 by ensuring a reliable system for the achievement of at least 27% share of RES at EU level. Its aim is to provide a better integration of renewables in the market, also by mainstreaming renewables in heating and cooling supply (which represents 40% of energy consumption). It also aims at mainstreaming renewables in transport, including advanced renewable fuels (as for transport, 90% of it relies on fossil fuels). Some key challenges of the RES Directive are the high financial cost of addressing the targets, the need to ensure regulatory stability and coordination, to foster innovation, to reduce administrative barriers, to enable cost-effective self-consumption, tapping the high RES potential in heating, cooling and transport. The costs for RES are divergent, not equally spread throughout the EU.

As for the Governance of the Energy Union, the core features are: an integrated National Energy and Climate plan, an iterative process between the Commission and Member States on the establishment and implementation of national energy and climate policies and a monitoring system. Moreover, the Governance proposal streamlines the existing planning, reporting and monitoring obligations. Every two years, Member states would report how this European plan has been implemented for the period 2021-2030. Ms Pinho underlined that, in order to have these plans operational by 2020, we need to start preparing the national Plans now.

An important issue is the Energy Prices and Costs Report: wholesale gas, electricity and oil prices have fallen since 2012; for the retail prices there was no drop and the overall share of the energy costs decreased. The second State of the Energy Union is due early 2017, concerning the state of play, policy observations and regional cooperation.

Gwen Cozigou, Director C, DG Grow, underlined that the past focus on ETS sectors was now completed with actions on non-ETS sectors; he also stressed the important role of the Market Design and that for the wholesale and retail prices there is a diversity trend within the Member States, generated by taxes and levies.

Open discussion

On the European Framework for capacity mechanism: BE underlined the need for an action by the EC on the national capacity mechanism, considering that from the European level there is a strong control of this mechanism. They also added that investments cannot wait until the entry into force of the legislation. DG-ENER explained that the EC does not plan to prohibit national capacity mechanisms, but will put forward conditions for such capacity mechanisms. Eurofer asked what kind of capacity remuneration there will be and DG-ENER drew the attention to the fact that we have capacity remuneration at national level to ensure general energy security but guiding principles will be proposed. For FR, capacity mechanisms have to be market-based and responsible and Member States need to work on a common framework.

On Renewable Energy: BE drew the attention to the support system. There are different support schemes among Member States, meaning that the official targets for 2030 are different from the national ones. It would be important to phase out from these schemes, the point is when to do it. In addition, BE raised the issue of the investment in fuels in the transport sector. DG-ENER approach is to minimize market distortions. For FR there should be new support schemes that use not only cost-based criteria. For the EIB there should be a part dedicated to the storage of renewable energies. For PL the focus should be on the renewable energies which are more market-oriented. Eurometaux underlined that 2030 targets should not lead to further costs for the industry.
On **Energy Efficiency**: Fuels Europe underlined the big potential of the building sector and suggested to distinguish between sectors that have (or don't) market signals, avoiding overlapping between ETS and non-ETS covered sectors. DG-ENER replies that there are sectors that are less respondent to price signals and that possible overlaps between ETS sectors and Energy efficiency sectors have been taken into consideration: this issue is dealt in the Impact Assessment and was also underlined by Cerame-Unie, which mentioned possible overlapping with ETS as far as co-generation is concerned and recalled the issue of thermomass. Eurometaux stressed that several industrial sectors are very close to thermodynamic limits (unlike efficiency for buildings, where there is still room for improvement). For IT, regarding the Energy Efficiency package, Member States have to intervene where is more reasonable in terms of cost-effectiveness. ES recalled that they have promoted National Renovation Plans for Energy efficiency for the year 2014 and 2020.

On **Research and Innovation**: For innovation in renewable energies, NL raised the issue of efficiency, how to reduce costs for industry by enabling efficiency and about the business-case of energy intensive industries for innovation. FTP underlined that there is not a real effort on the EU side on Research and Innovation on the energy performance in construction. For Eurofer, new technologies have to be promoted and possibly integrated in the Renewable Energy Directive. They asked whether CCU could be included in the package. On Research and Innovation for renewable energies, Cerame-Unie reported that the obstacle is viability: in ceramic sector they use mainly gas instead of renewables, so it is important to have support by H2020. DG-ENER informed that EU financial instruments to fund Research and Innovation are in place already.

On the **Electricity Market Design Initiative**: NL stressed that competitiveness should be mainstreamed all along the process and wondered whether and how Cumulative Cost assessments have been taken into consideration. BE drew the attention to the important role of the Market Design Initiative, which guarantees the security of supply and of the renewable energy system. IT underlined that the fact that each Member State is responsible for its security of supply should be taken into consideration. In this sense, Italy is adopting a capacity mechanism that is being evaluated by the European Commission. FS pointed out the need for an electricity interconnection level to ensure an integrated market, to keep the share of renewable energies and the 2030 targets. For PL, the public intervention is not enough and other mechanisms are needed. Eurometaux stressed the importance of long term contracts (LTC) for the industry. DG ENER took good note of the issue of LTC.

On **EPBD**: concerning the EPBD, Cerame-Unie underlined that energy efficiency has to be assessed at the level of the building and not at the level of the product. On the ETS legislation and the innovation fund in particular, IT suggested admitting projects that should be already part of NER 300. Referring to the EPBD, Glass alliance Europe underlined that we are below a long-term target for the renovation of the building stock. For CZ, the EPBD (along with the EED) is one of the main priorities.

RO thinks that for the **ETS** legislation some clarifications are still necessary, as for example for the eligibility of environmental safety projects. SE called for a stable ETS system. IT stressed that ETS should not discourage interventions on energy efficiency. FFB stressed that industry has benefited from ETS.

On **Energy costs and Prices**: Fuels Europe drew the attention to the fact that energy-intensive sectors have more than 2% of total cost of production in energy and that this should be considered. Regarding the Prices and Costs Report, Climate Action Network Europe considered that the total fuel emissions amount to $5.3 trillion, as reported in the IMF assessment. Traditional subsidies and tax exemptions costs for consumers and for society should be considered as a whole. With the Paris Agreement there is the total phase out of the EU subsidies, an issue that is tackled in the European semester. Now within the Energy Union, the problem is how to integrate the EU subsidies. CEFIC recalled that their industry is very energy intensive since their sector uses around 30% of all industrial energy, of which only 35% is generated by gas: therefore they have big expectations on the package but even if it is reducing, the gap with other regions of the world is still big.

Furthermore, Member States and DG-ENER acknowledged that long-term investment contracts are difficult issues to handle, underlined the importance of competitiveness (competitiveness for costs study is dealt in the EU impact assessment).
Conclusions by Gwen Cozigou, director C, DG Grow: there will be another Sherpa Meeting dedicated to Innovation at the beginning of 2017 before the High-Level Expert Group on Energy Intensive Industries, which should take place during the first quarter of 2017.