



Internal Market, Industry, Entrepreneurship and SMEs DG

Minutes from the 1st Sherpa Group meeting on the energy-intensive industries

8 May 2015

The preparatory Sherpa meeting for the High Level Group on energy-intensive industries (HLG EIIs) took place on the 8th of May 2015 in the premises of DG GROW. All members unanimously expressed their gratefulness to Commissioner Elżbieta Bieńkowska for the creation of this group. They also stressed the importance that this group becomes a relevant platform for advising the Commission on key strategic future initiatives.

The following issues emerged as priorities for the operational framework of energy-intensive sectors in Europe:

- Predictability of regulatory environment is essential - the current unpredictability is already leading to loss of production capacities and under-investments in Europe;
- Recognition of the crucial role of integrated value chains at the beginning of which these sectors operate (example steel - construction, machinery, automotive);
- Importance of innovation / funding opportunities (including financing of breakthrough technologies and increased risk financing).

Regarding the specific topic of ETS many members voiced:

- the need to remove the cross sectorial correction factor;
- all energy-intensive industries should be included in the carbon leakage list;
- use of the dynamic allocation of allowances;
- particular situation of border MS should be taken into account (increased risk of carbon leakage);
- use of realistic benchmarks so that the most efficient plants do not face additional costs;
- the need of a uniform compensation for indirect costs.

Industry sectors were very united concerning the priorities for the group and issues relevant for ETS reform.

As far as topics for future meetings and operational elements were concerned, most of the members were in favour of organising more than one preparatory Sherpa meeting preceding HLG meetings. They were also strongly in favour of choosing only one subject for each meeting of the HLG.

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From the discussion, the following list of issues was agreed to be discussed at next meetings of the HLG (by order of relevance):

- **Energy Union (roadmap of major initiatives);**
- **Trade (including reform of TDI and market economy status for China);**
- **Innovation (including high risk projects financing);**
- **Circular economy package;**
- **Better Regulation agenda.**

As a follow-up, Mr. Mattia Pellegrini asked members to: 1) provide written contributions both on priorities for the group as well as on ETS reform; 2) confirm presence at the meeting of May 27 and 3) suggest topic for next meeting by 20 May.

The Chair, Mr. Pettinelli, Director DG GROW, welcomed the participants to this 1st Sherpa group meeting on Energy Intensive Industries (EII) in its new form, with the presence of representatives from Member States, industry and civil society. The Chair explained that the objective of this meeting was to prepare the 27th May meeting of the High level group (HLG) on Energy Intensive Industries chaired by Commissioner Elżbieta Bieńkowska. He also explained the idea behind the creation of this group and the reasons for choosing the revision of Emission Trading Scheme (ETS) as subject for the first meeting. He informed the participants about the issues included in the draft mandate and asked for comments and complementary information during the meeting. He also explained the organisational change in DG GROW as of the 1st of June 2015.

Mattia Pellegrini, Head of Unit DG GROW, started from giving the participants some operational information and asked all participants until 20th May to: submit written contribution about mandate; confirm presence on 27th May meeting; suggest topic for next meeting. He opened the discussion asking Members States to take the floor.

The representative from France thanked the Commission for organising this initiative and underlined that industry competitiveness is very important. He expected this group to have real impact, not only declarations, and more realistic view on increasing gap in energy prices across the EU. He underlined that there is need to urgently take measures because they will impact industry decisions. He asked for clear criteria on how to assess competitiveness to protect industry. He explained that France is already working on such criteria, which will be dynamic and sensitive to different sets of measures. He also gave an example of French imports of perfumes and wine, and explained that competitiveness of these exports rely also on competitive position of glass bottle producers.

The representative from Poland underlined that the EU needs energy-intensive industries which are crucial element of the whole economy. They already produce and should be able to produce sophisticated products for the years to come. He congratulated the Commission for

creation of this group which aims at having the combined impact. He expressed his wish that this forum not only formulates policy but also examines real impacts. He advocated for industrial policy to be more visible in the context of climate and energy framework. In his opinion industrial policy must find its own mechanism to have the real impact. He expressed his disagreement that carbon leakage is only potential. He added that if businesses decide to invest outside the EU without actual relocation – it is already carbon leakage. Regarding the reform of Emission Trading Scheme (ETS) he asked for deletion of cross sectorial correction factor (CSCF) and dynamic allocation. He explained that this was crucial for companies to have an incentive to increase production. He asked to have more attention to the situation of border MS because they are more exposed to carbon leakage.

The representative from Germany added that the level-playing field within the EU is important but the real challenge is to have it internationally. He explained that level playing field must be understood through labour costs, energy prices etc. He informed that in Germany 22% of GDP comes from industry. EII contribute with 20% to this share. They employ 800.000 people in Germany directly and a bit more than 2 million people including closely related jobs, about 5% of employment. He stressed that EII play a key role at the beginning of value chains and, once they have problems, the whole economy can suffer. Germany was an excellent example that industry can help recover from economic crisis. He said that only increasing energy efficiency cannot bridge the price gap of energy costs as they are in the EU 2-3 times higher than outside according to EU and IEA findings. He explained that in Germany disinvestment rate reached -15% for energy intensive industries what means that most efficient equipment is increasingly installed outside Germany and probably also the EU. He also called for more harmonisation of energy taxation in the EU. With regard to the CO₂-emissions reductions of 2.2% per year through the ETS from 2020 onwards, various efficiency targets and findings on energy efficiency and the conclusions of the European Council in October 2014, he explained that Germany is doing a study to provide more clarity in particular with the view on future Carbon Leakage regulations.

The representative from Portugal said that this was excellent idea to have meetings of HLG on EII as back to back with coming Competitiveness Councils. This can send a strong signal about the commitment of this group. He added that for Portugal the truly integrated electricity market is a key priority. He agreed that it would be good to discuss only one subject per meeting of HLG. Sherpa meetings should be used for more technical discussions and HLG meeting to have more political meaning. He asked for position of MS to be carefully developed before the HLG meeting so as to reconcile the interest of different ministries. He underlined the importance of Market Economy Status (MES) of China to industry.

The representative from Spain informed that one of the concrete measures from the steel HGL group was the creation of national one with presence of regions and trade unions. She agreed that EII are important for Spanish economy and employ about 200 000 people. She said that the next subject for discussion should be energy/climate, environment, trade but also funding for

new technologies. She remained that Spain is still not sufficiently interconnected and remains an isolated region in terms of energy policy. She advocated that taxation policy on energy should be harmonised. She expected that carbon leakage criteria will be more effective and added that Council conclusions of October 2014 gave a clear indication. She underlined that ETS and Market Stability Reserve (MSR) have huge impact on growth and jobs, as they hamper the investments in the EU. She also called for more balancing burden between ETS and non-ETS sectors. She asked for removal of CSCF and set benchmarks not at 10% best plants but 2 best.

The representative from the Netherlands admitted that the ETS reform is important but innovation is the key matter. There is the need to invest in breakthrough technologies.

The representative from Czech Republic mentioned the sectors of steel and chemicals as of particular relevance and energy prices as a key topic for next meetings.

The representative from Belgium underlined the fact that the ETS system doesn't operate in an uniform manner and costs are different also for renewable energies. CSCF has to be removed. ETS directive overlaps with other pieces of legislation. It's important to have a sustainable use of biomass.

The representative from Romania: ETS should take into account results of MSR and negotiations in Paris. CSCF has to be removed. Future issue to be discussed: analysis of energy prices, that should continue.

The representative from Austria: It's necessary to go into technical details of ETS if we want to have an impact. In favour of dynamic allocation. Reform of ETS is decision of MS but harmonization of energy prices is more difficult. No CSCF.

The representative from UK stressed the importance of EII: steel and chemicals are needed for green economy. There is the need to support innovation. In favour of indirect compensation and this money should be used to invest in EII. For next meetings: issue of energy prices.

The representative from Sweden stressed the issue of innovation. EII must remain in low carbon economy.

The representative from Finland mentioned the topic of energy, prices and costs and better regulation as topics to be discussed as soon as possible. There should be one topic per meeting.

The representative from Italy stressed the need for HLG to cooperate with Competitiveness Council. They welcome the result of MSR. Important topic: reduction of energy costs.

The representative from EUROFER required one more meeting of the HLG on Steel to monitor implementation of the Steel Action Plan (SAP). He stressed the importance of EII,

which contribute to 80% of EU export, also for the downstream industries. Among topics of interest, apart from ETS, trade (modernization of TDIs and possible acknowledgment of Market Economy Status to China), restriction to access to raw materials, better regulation (impact assessment) were mentioned. He also mentioned the possibility of having two Sherpa meetings per HLG meeting. Concerning ETS he stressed the fact that there should be neither direct nor indirect costs at least at the level of the most efficient installations and benchmarks should be based on realistic levels. He also stressed the fact that if the steel companies cannot generate revenues (EBITDA are now lower than 3%), necessary investment in R&I is not possible.

The representative from CEPI underlined that, thanks to the questionnaire of Commissioner Cañete, EII have found an agreement on several points of common interest. He also underlined the fact that innovation is a long term strategy. He urged MS to think about the creation of mirror groups. They are against acknowledgment of MES to China (possible next topic to be discussed).

The representative from CERAMEUNIE mentioned climate and energy as priority topic: all EII should be on the carbon leakage list since they need a stable framework. In favour of indirect compensation. Stressed the importance of SMEs for their sector. Trade and the possibility of an acknowledgment of MES to China should be discussed as soon as possible at the highest level.

The representative from CEFIC has mentioned the issue of energy prices and the need to have a predictable framework that allows investments as well as their need to secure feedstock. They support decarbonisation of Europe but the results of the conference of Paris on climate change should be taken into consideration.

The representative from CEMBUREAU underlined that they are an important part of the value chain and need of a better understanding of value chains in manufacturing sector is needed (in US, as an example, building is included in energy efficiency). The current ETS system doesn't incentives investments.

The representative from FERTILIZERS EUROPE explained that their sector has unavoidable CO₂ emissions due to the chemical reactions of the industrial process. They were the only EII who didn't agree on certain common answers in Cañete's Questionnaire due to the fact that for them gas is a feedstock and not an energy source. They stressed the importance for their industry of Energy union (in particular for the different gas prices of which their members are benefiting) and of circular economy as subjects of interest.

The representative from FUELS EUROPE mentioned better regulation as top priority, in consideration of the very heavy regulatory burden that their industry has to cope with. Industrial competitiveness is a key for energy costs. Topics of interest are access to raw materials and affordable energy costs.

The representative from EUROMETAUX mentioned the importance of an adequate policy on climate: due to carbon leakage their industry has lost 36% of plants and products are replaced by imported ones of lower quality and higher carbon footprint. He stressed that their industry is high trade intensity and they are not able to pass additional ETS cost (prices are set). Of particular importance: the possible acknowledgment of MES to China. Other important topics: circular economy and responsible sourcing. Their industry is also capital intensive: there might be resources for future investments but there is need of a predictable framework.

The representative from EUROGYPSUM stressed the fact that their industry produces raw materials that are important for other industries, like cement. He also claimed that their industry has reached the physical limits in the field of energy efficiency. Their products are endlessly recyclable.

The representative from GLASS ALLIANCE EUROPE has reported a big decrease in the production; there are no new investments in Europe (but there are outside of EU). Their industry is at the beginning of the value chain. They need a predictable framework for new investments. They are particular worried by the reduction of Cross sectorial correction factor. They think that to dedicate only one meeting to ETS is too little.

The representative from ETP SMR stressed that there should be concrete measures to help attaining the goal of 20% of EU GDP coming from industry. He also underlined the importance of innovation and the fact that recycling should be increased suggesting that there should be tax exemptions to motivate industry to reuse.

The representative from ESTEP stressed that competitiveness is linked to the quality of technology; he mentioned the possibilities provided to this end by Horizon 2020, the Research Fund for Coal and Steel (RFCS, generating a return of 7€ for 1€ of investment) and SPIRE. An effective reduction of CO2 emissions can be supported via Best Available Techniques.

The representative from FTP underlined that on one hand industry is pushed to innovation but on the other hand H2020 is not addressing societal challenges and the goal of job creation.

The representative from SUSCHEM agreed that competition is important but that this should be based on innovation and not on costs. The rules of H2020 are not meeting the objectives of the programme since SMEs are still struggling with Technology Readiness Levels.

The representative from Industry All recalled the need of implementing the Steel Action Plan; she stressed the importance of creating a global level playing field in trade (which would not happen in case of acknowledgment of MES to China); she stressed the issue of energy prices and the need of predictability as well as vocational training, indicating that industrial transformations should also include re-schooling of workers.

The representative from Climate Action Europe stressed the importance of an increasing of the CSCF over the current limit. He said that ETS has to be considered as an opportunity. The

current carbon leakage list is not based on reality and many sectors take undue advantages from this.

The representative from EBRD expressed the support to climate policies stressing that they would be happy to invest in energy efficient technologies. Conventional financing is not sufficient to invest in breakthrough technologies since banks do not finance risky investments. The NER300 didn't work. The carbon leakage list is abused: only the industries that are present at the meeting have actually the right to be in. The carbon leakage list should also pay special attention to MS that are at the borders of EU since those are the ones that have an increased risk of carbon leakage.

Mr. Pellegrini, Head of unit DG GROW, resuming the discussion, has listed the following topics as relevant for future discussion:

- Energy costs and prices
- Trade (including reform of TDI and market economy status for China)
- Innovation (including high risk projects financing)
- Circular economy package
- Better Regulation agenda.

Social issues will not be treated as separate subject but will be discussed each time in parallel as natural consequence of above matters.