The Energy Union: drivers for success

The European chemical industry is essential in the value chain of the European economy. Operating in a fiercely competitive, international environment, we contribute €520+ billion to the EU economy, 1.1 per cent to the EU GDP, produce 17% of the world’s chemicals, and employ 1.2 million workers. While global demand for chemicals is growing, Europe’s continued low economic growth, comparatively high energy and feedstock costs as well as a very complex regulatory environment is resulting in investment leakage in chemical manufacturing.

Cefic supports the launch of the Energy Union and welcomes the Commission’s aim to alleviate constraints and enable growth and job creation. Delivering uninterrupted, competitively priced, stable and secure energy to fuel the European economy is a cornerstone to industrial competitiveness. An Energy Union achieving this goal would convince industries to invest in Europe, enabling them to be engines for European employment, growth, and competitiveness.

1- Implement the long-overdue EU Internal Energy Market
   - A properly functioning, consumer-oriented market - whilst phasing out political interference - can deliver the objective of providing stable, secure supplies of competitively priced energy
   - Distortions to the Internal Energy Market that exclude consumer choice and competition should be removed

2- Greater security of supply through import diversity, and domestic energy production
   - Allow safe and environmentally sound exploitation of indigenous sources including shale gas
   - Develop non-fossil energy sources under the condition they find a competitive low-cost pathway to market
   - Members States have to coordinate and govern the introduction of renewable energy in to the system more cost-efficiently
   - In this context, the expansion of strategic energy interconnectors, grid upgrades and gas pipeline infrastructure will help secure on-demand, free flowing energy across Europe

3- Realise the potential of energy efficiency
   - Focus on energy efficiency in sectors with the most potential such as buildings and transport
   - Recognise the EU chemical industry’s role as a provider of cost and carbon efficient solutions
   - An absolute cap on energy consumption will not bring the energy savings that Europe needs whilst encouraging growth

4- Building a carbon efficient energy mix
   - The vision of a decarbonised European energy mix needs to be balanced against economic realities
   - EU policies beyond 2020 should work with realistic goals whilst effectively safeguarding industry against carbon leakage
   - Europe’s energy intensive industries exposed to global competition should be adequately shielded from the decarbonisation cost of the power sector
   - We support a global long-term agreement at COP21 which strengthens Europe’s industrial competitiveness
   - We support an ETS which drives carbon efficiency at the lowest cost

5- The EU chemical industry is a vital research and innovation driver
   - Foster a positive political environment stimulating growth and progress in research and innovation that develops a low cost path to a competitive low-carbon economy
1. Implement the long-overdue EU Internal Energy Market

Energy costs are already higher in the EU than in the majority of competing industrialised regions around the world due to a combination of geography, expensive subsidy & support schemes and Member State energy levies & taxes. European companies pay over 40% more for electricity than in the US, and three to four times more for gas. These higher energy costs as well as a comparatively burdensome and expensive regulatory environment are contributing to the growing reality of investment leakage away from Europe to competing regions abroad. The competitiveness of Europe, and the potential for economic growth depends on safeguarding industries’ access to competitive, reliable energy supplies.

Falling behind in the investment race: capital spending intensity by region

![Graph showing capital spending intensity by region](source: Cefic Chemdata International 2014 and Cefic analysis)

Fig.1 Investment in the EU chemicals industry has been following a worrying trend

A primary objective should be a consumer-driven Energy Union delivering uninterrupted, competitively priced, stable and secure energy which also supports industries such as the chemical sector to grow, enhancing the EU’s competitiveness.

We fully support the Commission in enforcing the full implementation of the 3rd Energy Package. Customer choice and competition between energy providers needs to become the major market characteristic. Climate policy interventions such as preferential treatment of certain costly technologies (i.e. RES) must no longer disrupt the proper functioning of the IEM. Balancing, additional grid and backup costs should be borne by the respective intermittent producers.

A proper functioning IEM should improve conditions of supply to the market, facilitate the emergence of more suppliers and interconnections, provide fair contract conditions, and strive to lower prices. However, current policy failures are creating local, user-costly fragmented capacity mechanisms to compensate for intermittent delivery of renewable electricity. Such mechanisms should only be a temporary measure of last resort and if necessary, the EU should set out guidelines for their use, asserting that the producer and not the consumer should bear the additional costs of maintaining idle power plants which might only operate a few days per year.
Finally, to help deliver stable, secure supplies of competitively priced energy the Commission should seek to harmonise regulatory oversight at a national level while coordinating cooperation between Member States, and seek to do the same for grid operators. To reach such a goal it might be the case that either more powers are channelled to cross-border institutions such as ACER or the EU creates a true European regulatory body.

2. Greater security of supply through import diversity, and domestic energy production

For energy intensive industries security of competitive energy supply is paramount. Diversity of supply not only enhances security of supply, but competition between suppliers can be a major driver to wholesale energy cost reduction.

After independent impact assessment, the construction of strategic interconnectors (with for example, financial support through PCIs, the Investment Fund, CEF, etc.) and the development of a true pan-European grid system will greatly enhance security of energy supply by enabling the free flow of energy both across and into the whole of Europe. Improvements should also be made to pipeline connections between gas hubs, both across borders and within Member States; the development of regional storage capacity and cost-effective LNG import network solutions (including easier access to liquid hubs). Cooperation under a successful TTIP could also enhance the EU’s ability to diversify supply by benefitting from future US gas exports.

We strongly encourage the EU and Member States to continue development and production of indigenous conventional, and unconventional energy sources such as shale gas which should be recognised as having the potential to be important contributors to the EU’s security of supply.

Cefic believes that the most effective and cost-efficient way to address the EU’s energy challenges are through market-led solutions. The collective purchasing of gas at any time, could prove contrary to this principle and may risk undermining the proper and efficient functioning of a free and open EU energy market.

In coordinating the Energy Union, a new governance practice needs to ensure that all 28 EU Member States organise their energy policies in such a way as to build solidarity and trust on energy matters. Governments should in particular provide coordinated plans and delivery of actions according to agreed timetables. A more transparent bottom-up approach to EU energy policy with involvement of all interested stakeholders and serious consideration of unwanted side effects and cost increases is our preferred model.

3. Realise the potential of energy efficiency

Energy efficiency measures should aim to increase European competitiveness and not be detrimental to it. Europe’s chemical industry is a pioneer of energy efficiency as such measures are an important competitiveness factor in a sector where energy costs can often exceed half of the total production cost, and because globally European energy costs are higher than for our global competitors. Delivering further significant efficiency improvements would require breakthroughs in technological innovation. Extreme measures such as turning our facilities on and off as a way to balance intermittent (renewable) electricity supply would increase onsite operational and HSE risks, escalate overall energy use, raise emissions and result in inefficiency.

---

Fig. 2 EU Chemical industry’s energy intensity has been slashed in half over a 22 year period

Our industry is a solution provider to sustainable low-carbon economies, both domestically within the EU and with significant export potential, producing products which drive energy efficiency measures in all areas of life, including buildings and transport. We enable advances in energy storage, develop new material designs for creating better gas and electricity networks, and help innovate down the costs of low-carbon technologies. The revision of the Energy Efficiency Directive, foreseen for 2016, should take this in to account.

4. Building a carbon efficient energy mix

The IEA predicts that globally fossil fuels will remain the dominant energy source for the foreseeable future. In moving through the EU’s energy transition, the speed and cost of realising the wider decarbonisation of the EU energy mix has to be framed in reality.

The EC should seek to establish a technology neutral market-driven level playing field that allows all energy technologies to compete fairly without any specific subsidies to deliver the most cost-effective way to enhance industrial competitiveness. More specifically, any subsidies should only apply to non-mature technologies and for a limited time.

COP 21 in Paris provides an opportunity for realising a much needed global climate policy agreement. Any agreement should speed up the deployment of low carbon competitive technologies while avoiding distortions of competition and ensuring equitable burden sharing between Europe and other competing economies.

Sources: Eurostat and Cefic Chemdata International (2014)

*Energy intensity is measured by energy input per unit of chemicals production (including pharmaceuticals)

 Unless specified, chemical industry excludes pharmaceuticals
Unless specified, EU rulers to EU-28

Fossil fuels share in the global energy mix will be 55% in 2040. World Energy Outlook 2014, International Energy Agency
Whilst we believe the **EU ETS** is the most suitable market-based policy instrument for achieving **reductions in CO₂ emissions**, as long as global policies remain fragmented, EU measures must be strictly cost-efficient and proportionate whilst avoiding competitive disadvantages for the European economy.

**Chemicals production, greenhouse gas emissions decouple**

![Graph showing chemicals production and greenhouse gas emissions](image)

**Fig. 3 EU chemicals production and greenhouse gas emissions have decoupled**

Current measures to **prevent carbon leakage** are insufficient. For EU industries on the carbon leakage list, the incentive should be to invest in reducing emissions to the “benchmark” level, and companies meeting the benchmark should not have to bear any direct or indirect ETS costs (companies not meeting the benchmark should get free allowances up to the benchmark (as today) and have to purchase their needs beyond that). This “benchmark” level needs to be applied against a company’s most recent production rate, without adjustments, such as the CSCF, or the use of historical production rates.

5. **Recognise the EU chemical industry as a vital research and innovation driver**

The chemical industry has the technical and innovative knowledge, knowhow and experience that can deliver sustainable energy solutions to both the demand side and the supply side. As a leading solutions provider in areas such as energy efficiency in buildings, the European chemicals sector supports the need for greater investment in **research and innovation in innovative technologies**. Such investments should be **technology neutral** with financing channelled from specific **EU funding programmes** such as the NER400, Horizon 2020, SET Plan etc.
For more information please contact:
Guy Parker, Energy Manager, Cefic,
+32 2.676.73.67 or gpa@cefic.be

About Cefic
Cefic, the European Chemical Industry Council, founded in 1972, is the voice of 29,000 large, medium and small chemical companies in Europe, which provide 1.2 million jobs and account for 17% of world chemicals production.