



## CEOs OF LEADING EUROPEAN ENERGY COMPANIES' CONTRIBUTION TO THE EUROPEAN COUNCIL, 20-21 MARCH 2014

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**The European energy and climate policy is at a crossroads.** The three key pillars of competitiveness, security of supply and sustainable development can, indeed, only be achieved and combined through a set of reforms. Therefore, the Spring European Council is expected to give an ambitious political impetus for the energy and climate policy by 2030, learning from the past and designing the future for a sustainable low carbon economy based on a competitive and a reliable energy system for the industry and for European citizens.

In particular, a **more harmonized European Energy Policy is needed**. The current fragmentation of the European energy market is a matter of concern. Cooperation and coherence across Member States policies and actions with regards to energy and climate change should be enforced. A **more fluid, transparent, harmonised and interconnected internal market** will be a key step forward to increase the competitiveness of the energy sector and the industry in general. It is also time to bring back the three pillars of the energy policy together.

In that context and in the perspective of the 20-21<sup>st</sup> March European Council, **we urge Heads of State and government not only to comment on the European Commission's "package" on the energy and climate policy towards 2030, but to decide on the necessary orientations** which will allow the EU to play a leading role during COP 21 in Paris and to gain the confidence of its industry and citizens.

Therefore, **we put forward nine recommendations** to reform Europe's energy and climate policy so as to achieve the three key objectives of competitiveness, sustainability and security of supply:

1. Make Europe's energy prices more competitive.
2. Restore the ETS as a flagship climate and energy policy.
3. Achieve a global climate partnership with Europe's global competitors in international climate negotiations.
4. Adjust public support for new renewable energy sources so that they can compete and be integrated progressively into the energy system.
5. Support European leadership on green technologies including via an ambitious R&D policy.
6. Aim for a diversified cost-effective low carbon energy mix.
7. Multiply energy routes for the import of cost-effective low-carbon energy sources and enhance indigenous production.
8. Remunerate available and qualified capacities as a service provided to ensure security of supply for the energy system.
9. Achieve a more fluid, transparent and interconnected internal market.



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The European Union aims to reduce its carbon emissions by 80-95% by 2050. This ambitious vision cannot be achieved without the full involvement of the European industry and citizens. Therefore, it has to be driven in the most cost-efficient way and in combination with the strengthening of the competitiveness of the industry, and fair energy prices for European consumers.

**Recommendation 1: To make Europe's energy prices more competitive.** Europe's political leaders must strive to make energy prices affordable again. We therefore urge Member states to:

- **eliminate from electricity and gas bills all unrelated charges which do not reflect costs of production, transport and distribution.** Energy bills should be fully transparent in all Member States.
- recognize that **high retail prices are the result of additional national taxes, levies as well as other social and environmental policy costs and not of power generation components which remain quite stable.** With the retail price being dominated by the before mentioned costs, international competition of the European industry is harmed significantly and European citizens are reluctant to engage in more ambitious climate action.

To ensure cost-effectiveness of this transition, the EU-ETS should be the main instrument to reduce emissions for industry and the energy sector and to promote investments in low carbon technologies. There should be no overlapping or duplicative policy measures that interfere with the EU-ETS. So, using a single CO<sub>2</sub> reduction target and the EU-ETS as the key driver for the energy and climate policy is a priority. Other measures can complement this European policy: developing low carbon technologies, promoting energy efficient solutions. But the design of these measures must learn from the past and be improved as regards their implementation.

**Recommendation 2: To restore the ETS as the flagship climate and energy policy.**

- As from now, Member States are asked to **maintain support for a concrete and rapid reform of the ETS** considering besides back-loading other more long-term structural reforms including the **implementation of a well-balanced market stability reserve.** Indeed the CO<sub>2</sub> market should not depend on political decisions but be closely linked to the economic situation. This is a prerequisite to the confidence in this system and its full benefit for climate policy.
- Moreover, to answer the need for long term visibility of the industry, **member states are asked to endorse now a single binding target based on a reduction of CO<sub>2</sub> emissions by 2030.** The legislative proposal regarding Phase IV of the EU ETS should notably consist of **an ambitious but realistic objective to reduce CO<sub>2</sub> emissions by 2030 across all sectors of the economy.**



**Recommendation 3: To achieve a global climate partnership with Europe's global competitors (US, China and others) in international climate negotiations.**

The EU is a global leader in the fight against climate change, but it cannot act alone. Alone, it represents a mere 11% of the world's CO<sub>2</sub> emissions (and a downward trend is forecasted). Therefore, whilst it is essential for Europe to set its negotiating position (at an early stage) already with an ambitious but realistic internal binding commitment to reduce its CO<sub>2</sub> emissions by 2030, it should strive to achieve a far-reaching agreement during the future climate summit planned in Paris in 2015. Should an international agreement not be reached, additional measures should be taken to secure the competitiveness of EU industries exposed to its global competitors.

Support schemes to renewable energy sources have been useful in kick-starting renewable energy investments. Unfortunately some support schemes, badly designed, resulted in higher than expected costs for society and market distortions in the electricity market. It is now necessary to draw the lessons learned from this experience.

**Recommendation 4: To adjust public support for new renewable energy sources so that they can compete and be integrated progressively into the energy system.**

- **Member States should refrain from taking retroactive decisions** as it extremely detrimental for investors confidence.
- For new installations, **deployed renewable energy technologies (PV, on-shore wind, hydro, biomass) can gradually compete with more conventional energy sources.** This means that subsidies, if any, shall be designed in a way such as being linked to market prices and incentivize additional capacities depending on market needs. Moreover, a fair competition and a sustainable development of renewable energy sources means to advance towards reaching the same level playing field for all technologies (e.g. balancing obligations for all technologies connected to the network) and thus to aim for a gradual phasing out of subsidies for deployed technologies.
- Least mature low-carbon technologies (such as wave and tidal technologies) should benefit from strengthened R&D efforts rather than production subsidies.

The European Union has the potential to lead the innovation process to imagine tomorrow's technologies and find answers to today's challenges.

**Recommendation 5: To support European leadership on green technologies including via an ambitious R&D policy.**

**The new European program for research, technological development, and innovation – Horizon 2020 - has a key role to play in the process of a competitive low carbon transition.**



R&D should help the entire energy and industry sector to contribute towards reaching a low carbon economy system notably in engaging Europe in concrete projects such as **in smart technologies, carbon capture and storage, energy storage, demand-side response, power to gas, distribution grid modernization, shale gas (in Europe), alternative fuels infrastructure for transport, and not yet mature renewable energy sources**. In addition to European funds, a coherent and joint action of national research policies at European level should support the innovation process towards reaching a competitive level of deployment of these technologies.

In addition, a strong European economy needs a reliable and diversified energy mix and appropriate infrastructures. Diversity of energy sources (including indigenous production) and routes is at the core of the European policy.

**Recommendation 6: To aim for a diversified cost-effective low carbon energy mix.**

Renewable energy sources and low carbon conventional sources complement each other with the view to offer security of supply – in the most sustainable way – to European consumers and to support the economy on the best cost-effective basis.

**Europe needs all types of energy at the EU level.** A balanced energy mix based on appropriate market price signals is a key element of the renewed European energy policy. A cost-effective low-carbon energy supply should be driven by **fair competition among different low-carbon technologies**. Therefore national low-carbon plans should, concentrate on a common market based approach and be monitored at EU level.

**Recommendation 7: To multiply energy routes for the import of cost-effective low-carbon energy sources and enhance indigenous production.**

- In addition to a better use of existing infrastructures, the already ongoing **diversification of gas supply** resources and import routes should be supported further by properly accelerating pipeline expansion and cross border-interconnectors to ensure competition in the EU, and subsequently price competitiveness in the long run. Energy infrastructure projects should primarily be developed based on appropriate market signals. The regulatory framework in place should encourage long term investment with reasonable returns for efficient infrastructure extensions. The external dimension of the European policy must support this task of the industry by improving the energy dialogues between the European Union and producing and transit countries.

- In particular, energy must have a prominent role in the context of **negotiations on the Transatlantic Trade and Investment Partnership**. The final agreement should allow for a free export of liquefied natural gas and crude oil between the EU and the US by ensuring that trade restrictions are eliminated. In order for this potential trade to become a reality over the coming years, regional and national barriers to their shipment on both sides of the Atlantic must also be removed. This new



source of supply will allow for a more balanced differential of energy prices between the US and the European industry.

- Furthermore, **Europe must support the exploitation of its domestic energy potential**. Indeed, the use of indigenous energy sources in Europe constitutes a competitive and economic advantage for Europe. Therefore, they can play a significant stabilizing role for the price level in Europe and provide more independence from energy imports from outside the EU. Whilst always taking into account environmental concerns, rules must be clear, and reasonable so as to attract, rather than discourage these investments.

**Recommendation 8: To remunerate available and qualified capacities as a service provided to ensure security of supply in the energy system.**

**Eliminating all the distortions to the energy only market (EOM) should constitute a priority.**

However, where needed, a new market design providing a level-playing field is necessary, based on a combination of energy and capacity markets/mechanisms. Otherwise, electricity security of supply might be put at risk, justifying eventually an increasing number of unforeseen national regulatory interventions.

Therefore, **Capacity Remuneration Mechanisms (CRM) are not subsidies, but part of a new market design and a payment for a service** to provide the qualified availability to guarantee security of supply. They should be based on **European wide principles**:

- being opened not only to generators (including storage), but also to demand response, and cross-border participation where physically possible (i.e. interconnections with European countries).
- with no preference for new power plants (the use and support of existing and efficient - even if at present mothballed - power plants where possible will be a cheaper option) or for selected technologies.

Last but not least, a well-functioning EU energy market should provide a level playing field and deliver an outcome of successful energy competition in which the energy industry can respond to new opportunities, and consumers can benefit from access to a market that is reliable and affordable. Therefore, avoiding fragmentation of the EU internal market should remain a key priority objective.

**Recommendation 9: To achieve a more fluid, transparent and interconnected internal market.**

To create a common level playing field it is important to achieve a full implementation in all Member States of the 3<sup>rd</sup> Energy Package.

In addition, **cross-border EU coordination** (on CRM, renewable energy support schemes, etc.) needs strong governance in order to avoid national fragmentation.



A well-functioning and interconnected internal energy market is a key asset to improve EU's internal reliability and performance. In particular, **progress in coupling electricity markets is needed.**

To conclude, we reiterate our request for more Europe, more market, more competitiveness, stability and long-term visibility enabling the energy industry, once again, to accomplish its mission of supplying customers with clean, efficient and reliable energy.