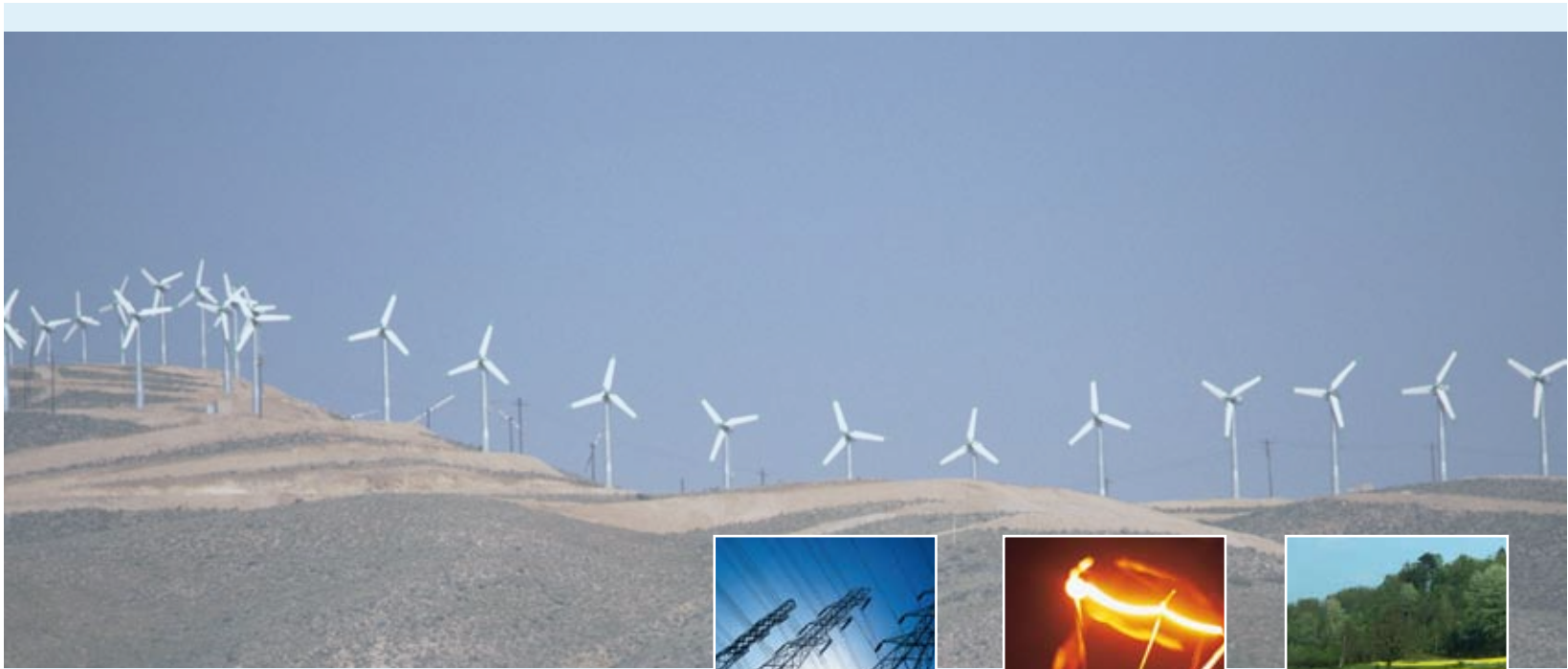


Achieving Secure, Competitive and Clean Sustainable Energy





Foreword

Energy has become a major issue for Europe, and for European industry. Europe needs the security of a cost competitive supply, together with a positive contribution on the fight against climate change. As the European Union attempts to address this issue, it will need to set practical and attainable goals to gain the support of citizens, and to foster economic growth in a globalised economy.

The European Round Table of Industrialists (ERT) wishes to contribute to this growing debate by supporting the overall objective of secure, competitive and clean sustainable energy, and emphasises the need to link all three components together to secure future EU wealth and well-being. ERT has identified, from an industrial perspective, the major issues faced by EU businesses when it comes to implementing meaningful policies dealing with Energy and Climate Change.

This position paper, which reflects the pragmatic nature of ERT's stance on the subject, has identified six areas where work is needed to make significant progress. A summarised list of recommendations has been included at the end of the paper.

ERT believes there is a real chance for the EU to assume a leadership role, as countries of the world try to grapple with the effects of Climate Change. However, this will require a multi-faceted approach involving numerous stakeholders. ERT, as an organisation consisting of major European businesses, believes that more dialogue amongst industry, policy-makers, academia and civil society is needed to address outstanding issues. We also believe that much more work needs to be done to accomplish real sustainable change.

While it is critical for the EU to succeed in involving the rest of the world in this effort, it is also essential that EU Member States implement common goals across the EU, share a common EU approach, and work with industry on this approach to Energy and Climate Change.



Jorma Ollila
Chairman
ERT
Chairman, Nokia



Bertrand Collomb
Chairman
ERT Energy & Climate Change Working Group
Honorary Chairman of Lafarge

Acknowledgements

This report has been prepared by the ERT Energy and Climate Change Working Group, chaired by Bertrand Collomb and approved in April 2007. We are grateful to ERT Member Companies for their valued participation and contribution.

**“ACHIEVING SECURE, COMPETITIVE AND CLEAN SUSTAINABLE ENERGY” -
ERT STATEMENT ON THE FUTURE OF ENERGY AND CLIMATE CHANGE POLICY
IN THE EUROPEAN UNION**

The European Round Table of Industrialists (ERT) believes that Energy and Climate Change issues have now become crucial considerations in operations of global businesses. Therefore, ERT welcomes the EU initiatives on Energy and Climate Change which were developed by the European Commission and endorsed by Member States at the 2007 Spring Council. As an organisation broadly representative of European industrial activity, ERT supports the overall objective of secure, competitive and clean sustainable energy, and emphasises the need to link all three components together to secure future “EU wealth and well-being”.

ERT believes European companies with their track record and experience in Research & Development and investments, have a critically important role to play in the pursuit of these goals. To develop this entrepreneurial capacity and to encourage participation, it is necessary for EU Member States and the EU Institutions to work with industry to address the unique challenges faced by individual industry sectors.

To reach the objective of secure, competitive and clean sustainable energy, ERT makes 6 sets of proposals – all of which are vital constituents of a proper working framework.

1. Security of supply

To achieve security of energy supply at a competitive cost, and to avoid dependency on too few supply sources, ERT believes Europe's energy policy should be fully integrated with its foreign policy. This requires some reorganisation of the competences of the Union in the applicable areas, with consideration of the simultaneous establishment of a suitable institutional framework to develop such a common policy.

There is a need for even more increased systematic and co-ordinated work amongst the EU Commissioners who are responsible for different aspects of energy policy. Recommendations from the Commission's High-Level group on Competitiveness, Energy and Climate Change should be considered as a starting point towards formalising this co-ordinated approach. An "Energy Standing Group" should be established which would involve the relevant EU Commissioners.

2. Diversity of supply

Diversity of supply makes a strong contribution to secure, competitive and clean sustainable energy. Ambitious efforts and significant funding of public-private partnerships must be directed towards the development of clean and sustainable sources of energy. These include:

- Clean coal-through carbon capture and sequestration and high-efficiency coal technology
- Nuclear, the development of which is equally necessary
- Renewables

With respect to quantified targets, such as those which have been set for renewables, bio-mass and bio-fuels, a clear regulatory framework is needed to facilitate their implementation with a view to achieving long-term economic viability. Furthermore, for renewables, a co-ordinated European approach must be put in place, and include well-defined and declining levels of subsidies in order to avoid market distortions and excessive financial burden. A full impact assessment and life cycle analysis must be conducted to understand the real potential and environmental benefits of bio-mass and bio-fuels. Additionally, the relationship with the Common Agricultural Policy (CAP) must be explored.



3. Energy efficiency

Further promotion of energy efficiency on a broad scale is the best way to reconcile economic and environmental concerns, and there remains a significant potential for improvement. European industry has been at the forefront of energy efficiency improvements, with a notable 12% increase in energy efficiency from 1990 to 2004¹. New efforts required in the short-term must take into account achievements to date, R&D efforts, and the limits of existing technologies. There must also be focus on industries where most significant progress can be obtained.

Sectors other than industry will need to contribute. Power generation and distribution, housing, transport and agriculture will have to strengthen current trends in energy efficiency improvements.

To realise the full potential of energy efficiency it is absolutely necessary to engage citizens and consumers in a stronger, more integrated approach so their behaviour contributes to energy savings. This can be accomplished by ensuring the appropriate initiatives to educate, inform and regulate are put in place, as well as incentives to influence consumer behaviour.

4. CO₂ emissions reduction

ERT supports EU leaders' intentions to lead the fight against climate change by implementing ambitious CO₂ emissions reduction objectives. As a consequence, the highest priority must be placed on delivering a truly global action programme by engaging all main emitting countries without waiting for 2012 to negotiate a new international co-operative framework.

¹ "Energy efficiency trends in industry (EU-15)" source *Odyssey - a detailed database on energy efficiency data & indicators, for the EU-15 members and Norway. (ODYSSEE and NMC are two projects between ADEME, the EIE programme of the European Commission/DGTREN and energy efficiency agencies, or their representative, in the EU-15 and Norway for ODYSSEE and in the New EU Member Countries for NMC), Sectors included chemicals, steel, cement and paper.*

Predictable long term price signals

Implementation of the Kyoto protocol in the European industry market has shown the difficulty in addressing short-term national needs, long-term goals and investment efforts within a functioning but volatile market.

In order to effectively reach ambitious emissions reduction targets, Industry needs a long-term reasonably predictable and stable CO₂ price signal which indicates how much our societies are prepared to pay to achieve objectives for CO₂ reductions. Considerable work is still required to understand how long-term price signals can emerge from the present system, and stimulate the relevant investment. Experiences with other trade systems need to be examined, and ways of monitoring the system or giving long-term CO₂ price indications are necessary, and must be researched. Given ERT Member Companies' experience, it is absolutely critical for EU Member States and EU Institutions to work with industry on this issue.

Extension to other economic sectors

Immediate extension of CO₂ emissions reduction to other economic sectors is a priority if the overall emission level of Europe is meant to be achieved. At the same time, action must be taken to preserve the international competitiveness of energy intensive industries that are directly impacted by the CO₂ constraint, and indirectly by electricity prices. Investigation into mechanisms that avoid unbearable burdens for European industry and negatively impact EU competitiveness, especially in cases of excessive carbon cost fluctuations, is needed. The example of the American SO₂ system should be studied, where long commitment periods with flexibility between periods led to a significant and lasting decrease in emissions, and a less volatile market.

The provision of maximum liquidity to the market to reduce its volatility is essential, as is the use of flexible mechanisms to encourage initiatives of European companies in emerging countries, with the additional advantage of engaging these countries in the effort. Allowing industry players to carry over the results of their actions from one period to the other is essential, as it lends continuity to their programmes.



5. Research and innovation

The merits of a CO₂ price signal alone will not be enough to provide secure, competitive and clean sustainable energy. There has to be a significant increase in research and technology development efforts. The magnitude of this effort and the investment required is massive, and necessitates the pooling of public and private initiatives, as well as national and European programmes.

It is not clear if current procedures, competition constraints and funding levels will meet this challenge. A European framework for identification and co-ordination of R&D programmes is needed to facilitate integration of major initiatives. More flexible ways of public and private co-operation are also needed.

To achieve the 3% research and development target of the Lisbon Agenda, new ways of financing are required with priorities in the overall research agenda given to themes involving energy efficiency and CO₂ reduction and mitigation. Fostering a system that brings together industry, existing universities and research centres, while avoiding duplication of policy initiatives, will be the best way of dealing with these issues.

6. Completing the internal energy market

In order to achieve a competitive energy supply rapidly and effectively, it is necessary to complete the internal energy market by removing all barriers to competition. New mechanisms for the regulation, financing and development of connecting infrastructures must be developed. It is also necessary to allow the development of long-term contracts which meet the needs of users while increasing competition among providers. A cross border regulation mechanism is required to address these issues in an efficient manner.



Conclusion

In the coming years, meeting the demand for secure, competitive and clean sustainable energy will be a major challenge for the world. Europe can play a leading role if the EU and its Member States' actions are part of a formalised coherent long-term global plan involving all main emitting countries. It has the potential to do this and be of unique value for the rest of the world, only if it combines ambitious targets, pragmatic implementation, and economic effectiveness consistent with economic growth. ERT and its Member Companies are ready to support the very considerable efforts needed to achieve this, and are willing to work and invest for its success.



Summary of recommendations

1. Security of supply

- Give the EU a broader mandate for a formalised relationship between energy policy and foreign policy
- Creation of an Energy Standing Group in the European Commission

2. Diversity of supply

- Recognise the role of nuclear and clean coal in the desired energy mix
- Establish consistent European levels and timetables of incentives for renewables

3. Energy efficiency

- Establish a programme combining educational efforts and financial incentives to engage consumers towards more energy efficient choices
- Focus on sectors where the most significant progress can be obtained

4. CO₂ emissions reduction

- Work diligently for a new international co-operation framework involving the main emitting countries
- Look for ways to obtain reasonably stable, effective but bearable CO₂ prices in the future
- Take measures to protect international competitiveness of energy intensive industries, especially in the transition period
- Facilitate initiatives by European companies in emerging markets through Kyoto flexibility mechanisms or otherwise

5. Research and innovation

- Give absolute priority to energy-related research and development efforts
- Create a new European- wide co-operative framework with increased financial resources

6. Internal energy market

- Remove barriers to competition
- Find ways to develop connecting infrastructures
- Facilitate long-term contracts between providers and users





European Round Table of Industrialists
Place des Carabiniers 18A, B-1030 Brussels
Tel. +32 2 534 31 00 Fax +32 2 534 73 48
www.ert.eu

