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From: General Secretariat of the Council
To: Permanent Representatives Committee

Subject: HLG Chair letter - Energy and Climate package: industrial competitiveness aspects

Delegations will find in the annex the letter by the Chair of the High Level Working Group on Competitiveness and Growth to the Permanent Representatives Committee on the discussion in the HLG on Energy and Climate package - industrial competitiveness aspects.

HIGH LEVEL WORKING GROUP
ON COMPETITIVENESS AND GROWTH

Chair

Dear Ambassadors,

On 6 May 2015, the High Level Working Group on Competitiveness and Growth (henceforth: "the HLG") held a debate on the Energy and Climate Package with regard to its industrial competitiveness aspects.

I would like to report to you on the outcome of our discussion with a view to contributing actively to the mainstreaming of improved industrial competitiveness into all policy areas, including energy and climate change policy, in line with the European Council conclusions of March 2014.

The Members of the HLG recalled the conclusions of the European Council of October 2014 on the 2030 Climate and Energy Policy Framework, which have provided important orientations for the work of the European institutions and Member States.

The HLG underlined that a balanced energy and climate policy which puts in place a framework for delivering the transition to a low-carbon economy and secure, affordable and competitive energy supplies should contribute to the EU's industrial base growth and future prosperity. The need for an EU energy system that is not only sustainable and resilient to geopolitical risks, but is also a driving force for competitiveness, jobs and sustainable growth was highlighted. Within the **framework of the Energy Union**, energy and climate policy also needs to take into account EU competitiveness as one of its guiding principles on an equal footing with other key elements. This mainstreaming should rely on concrete objectives such as reducing the gap on energy costs for industry compared to main competitors and indicators to follow the concrete implementation. Only an integrated approach will enable the maintenance and development of industrial and service activities in Europe which are globally competitive and world-beating thanks to their sustainability and superior quality and design. Therefore, energy and climate policy needs to take into consideration the impact on competitiveness and growth.

European Union Emission Trading System (EU ETS)

The HLG welcomed ongoing progress towards planned **reform of the EU ETS**, with the proposed Market Stability Reserve (MSR) mechanism, while noting concerns from some delegations about an earlier start of MSR than initially foreseen. For CO₂-efficient installations most at risk to carbon leakage, full compensation of carbon costs through free allocation is considered an important measure for securing international competitiveness. The HLG underlined that as long as there are no comparable efforts undertaken in other major economies, operationalization of 2030 framework should be in line with the need to preserve the competitiveness of EU industry.

Some members of the HLG called for a more careful and realistic definition of the benchmarks, in order to prevent carbon leakage and excessive transition costs for European industry. Carbon border adjustment could be set in a few other sectors (such as cement), to ensure a level-playing field between European production and imports, whilst allowing for the progressive reduction of free allocation in these sectors. In addition, harmonised arrangements to compensate for indirect costs should also be taken at the Union level for the most exposed sectors.

Mainstreaming of industrial competitiveness and sustainability

Discussions showed it is essential to ensure **coherence between climate, energy, trade and industrial policy**, in order to create an optimal business environment for sustainable growth and innovation.

Industrial competitiveness must be mainstreamed throughout all European policies, thus contributing to the transformation into a highly competitive, resource efficient and low carbon economy, and has to be supported by strong and sustained efforts in research and innovation, geared towards industrialization. At the same time, the principle of sustainability needs to be integrated into all areas of industrial policy, including the green economy sectors, to help European businesses to unlock first mover advantage and gain a competitive edge. The HLG encouraged the European Commission to submit its initiatives on important measures complementing the EU ETS in good time, so that maximum synergies can be achieved.

The EU must establish world leading sectors in renewable energy and low carbon technologies as well as energy efficiency and must take the industrial leadership in these technologies, to be able to gain the first movers advantage in low carbon energy equipment.

The issue of **energy prices and costs** and their impact on industrial competitiveness is a key element for EU policy making in the context of the ambitious 2030 climate and environmental objectives of the EU, and regarding the challenge of growing competitive pressure from third countries. In recent years the energy price gap between the EU and its major economic partners has increased, with implications for the competitiveness of the EU manufacturing industries, especially in aluminium, selected chemical products, glass or cement production. Energy costs and demand are both important factors for investment decisions and we need to take coordinated action in all sectors to remove the competitive disadvantage that has developed between the EU and some other major players in the world economy. This is all the more important when taking into account the slow recovery of EU industrial output and employment after the financial crisis.

The HLG emphasized that adequate protection of European industry, and in particular energy-intensive industry, has to be achieved through the most cost-efficient implementation of all policies and support for all measures, optimising energy efficiency and recognizing the contribution of energy-intensive industry to energy framework stability and long term supply security.

Predictability, transparency and simplicity of the regulatory framework are also of key importance to enabling economic actors to take the right investment decisions.

The HLG also called for efforts to improve energy infrastructure, as this is a condition for a fully functioning internal energy market. This contributes to a strengthened **security of supply** and may also be a factor for reducing price differences inside the EU. Member States confirmed their commitment to the interconnection target for electricity of 10% by 2020 and underlined the importance of European energy infrastructure projects of common interest. With regard to energy dependency, the importance of diversification of sources, supplies and routes was emphasized.

Energy efficiency

The HLG underscored the need for Member States to continue freely choosing their own energy mix, with due consideration of the general objectives in **energy efficiency and greenhouse gas emissions reduction**.

In order to secure an adequate level of investment in both energy infrastructure modernisation and the continuing improvement of the energy-efficiency of European industry, **effective funding and support mechanisms** need to be established.

Some delegations recognized the pivotal role of both **Ecodesign and Energy Labelling** in significantly improving the environmental performance of products and encouraging consumers to buy the most efficient products, thus promoting sustainable growth and incentivising innovation. They also underlined the need for fully **exploiting the emission-saving potential** to promote the use of clean technology, e.g. in the transport sector, and for better understanding relationships between sectors and value chains in the search for sustainability and optimal energy-efficiency.

External competitiveness

The HLG pointed out that ahead of the COP21, it is important to work at the international level towards a robust level playing field in order to maintain the **international competitiveness** of European industries, while safeguarding ambitious environmental standards. Dialogue in Paris should aim to share European sustainable and low carbon solutions with other countries and provide an opportunity to promote European technologies on important export markets. An ambitious, legally-binding and global agreement on reducing greenhouse gas emissions and addressing climate change would be the best solution against carbon leakage risks.

The EU should remain committed to playing a **leading role in the fight against climate change**, and while recognizing that these actions can bring large economic benefits such as lower energy import bills, should ensure that the economic burden be shared fairly among all nations competing in the global economy.

In order to avoid carbon leakage, these considerations should be **mainstreamed into the international trade policy of the European Union**, integrating the concept of the life-cycle energy footprint of products, with the aim of avoiding discrimination against EU production in comparison to imports. Some delegations indicated that care should also be taken to eliminate non-tariff barriers in third country markets against environmentally-beneficial products from the EU.

Yours sincerely,

Zaiga Liepina