Regional challenges of European energy policy

Energy Dialogue
on the European Energy Union

Regional challenges of European energy policy

IHK
Industrie- und Handelskammern
in Bayern
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Preface

The Energy Dialogue on the European Energy Union was started by the Bavarian Chambers of Commerce and Industry (BIHK) and conducted with economy representatives from four other European regions (Flanders, Czech Republic, Austria and Sweden). The bilateral dialogues showed without exception that all five regions or countries – Bavaria, Flanders, Czech Republic, Austria and Sweden – face similar challenges to combine the objectives of the European Energy Union while strengthening industry and manufacturing. All regions are economic powerhouses with high-level industrial added value, and are thus very much affected by the implementation of the European Energy Union.

The European Commission started the European Energy Union in 2015 with the aim of guaranteeing the security of energy supply, solidarity and trust. The Energy Union will allow free flow of energy across borders and secure supply in every EU country and for every European. New technologies and renewed infrastructure should create new jobs and skills as companies expand exports and boost growth. It should lead to a sustainable, low-carbon and environmentally friendly economy, placing Europe at the forefront of renewable energy production and the fight against global warming. This is the promise by the European Commission.

Important groundwork has already been done. Europe has a policy framework for energy and climate for 2030, as well as an energy security strategy. Meanwhile, the long-term objective will be to develop an integrated energy market for all EU countries.

At the same time the European Energy Union aims to increase the added value of European industry. The question is whether the EU energy targets and a reinforcement of industrial added value in Europe can be achieved by means of heterogeneous national targets of the member states.

Therefore, the Energy Dialogue on the European Energy Union provides a platform for discussing experiences of industry representatives and energy producers of five regions and countries, and for working together to find an economically advantageous way that will finally lead us to an internal market.

Dr. Eberhard Sasse
President
Association of Bavarian Chambers of Commerce and Industry

Peter Driessen
CEO
Association of Bavarian Chambers of Commerce and Industry

Objectives of the European Energy Union:

- Pool resources, connect networks and unite the EU’s power when negotiating with non EU countries.
- Diversify energy sources – so Europe can quickly switch to other supply channels if the financial or political cost of importing from the East becomes too high.
- Help EU countries become less dependent on energy imports.
- Reduce Europe’s energy use by 27% or more by 2030
- Build on the EU’s target of cutting greenhouse gas emissions by a minimum of 40% by 2030
- Make the EU the world’s number one in renewable energy, and lead the fight against global warming

BIHK signed Declarations of Intent on European energy policies with Voka, WKÖ and SPCR. Please find more information on the Declarations of Intent at:

ihk-muenchen.de/Europäischer-Dialog
1. Bavaria: BIHK – Association of the Bavarian Chambers of Commerce and Industry

Bavaria is one of 16 Federal States in the world’s fourth largest economy, Germany. It is the economic powerhouse of Germany, with an area equal to 20% of Germany, 16% of Germany’s population (12.5 m) and an 18% share of Germany’s GDP (EUR 521.9 bn in 2014).

The Association of the Bavarian Chambers of Commerce and Industry (Bayerischer Industrie- und Handelskammertag e.V.), or BIHK, represents around 980,000 companies of all sizes and from all industries in Bavaria. It is the umbrella organization of nine Chambers of Commerce and Industry (CCIs). The association has been the largest industry organisation in the Free State of Bavaria since it was founded in 1909. The Bavarian CCIs represent the overall interests of industry for all industry-related legislative projects and political decisions from municipal to EU level. At the same time, policymakers also consult with the CCIs in their role as independent and objective advisors. The Bavarian CCIs furthermore support the self-organization of industry, offer services to companies and advocate fair play and sustainability in business.

In Bavaria, the share of final energy consumption accounted for by renewables is above the EU average. Here, the Bavarian CCIs represent the interests of their member companies in their efforts to secure supplies of energy and raw materials. Their activities include proactive involvement in shaping the energy transition. The objective is to optimize energy supplies in companies and establish a business-friendly energy policy that represents a satisfactory solution for all parties involved. Many of these policies originate at EU level.

The Association of Bavarian Chambers of Commerce and Industry (BIHK) has initiated a dialogue with economic organizations from four other EU member states over the different national energy policies and how to secure high-level industrial added value.
Bavaria – a pioneering economic powerhouse on its way to energy transition

The German government has set itself the target of making Germany one of the most energy-efficient and environmentally sound economies in the world, while maintaining competitive energy prices and a high level of prosperity. To implement energy transition, the Federal Government of Germany has introduced the following measures:

- Phase out all nuclear power plants by 2022
- Buildings to become climate-neutral by 2050
- Reorganization of the electricity market and expansion of the transmission grid.

The guiding principle of German and Bavarian energy policy remains the provision of a reliable, economically viable and environmentally sound energy supply.

Since 2011, Bavaria has taken decisive steps towards energy transition, increasing the proportion of renewables in net electricity generation by around 40%. In Bavaria, the share of final energy consumption accounted for by renewables is above the EU average (18.8% in 2015). Among German federal states, Bavaria is the leader in hydro-power, geothermal energy and solar energy. While energy transition imposes huge challenges for Bavaria, Bavaria, it has set itself very ambitious targets to achieve energy transition:

- Climate target: By 2025, energy-related CO₂ emissions should be further reduced to 5.5 tonnes per capita
- Efficiency target: By 2025, Bavaria will increase its primary energy productivity by at least 25% compared to 2010.
- Consumption target: By 2025, Bavaria will reduce primary energy consumption by 10% compared to 2010.
- Renewable energy expansion target: By 2025, Bavaria will further increase its share of renewables in electricity production to 70% (2014: 36.2%)
- Share of renewable energy in final energy consumption: By 2025, 20% of final energy consumption to be covered by renewable energy sources.

Fig. 1: Bavarian Energy Targets

- Reduction of electricity consumption of 10% by 2025 (compared to 2010)
- Share of renewables in electricity production by 2025
- 2 GW new assured capacity for Bavaria and Baden-Württemberg in 2022
- Reduction of greenhouse gas emissions / head and year to 5.5 t by 2025
To complete the European Energy Union, BIHK recommends:

A fully functioning, integrated European electricity market represents the best means of ensuring that electricity can be delivered to consumers – both companies and households – in the most cost-efficient way, on demand and at affordable prices; this is crucial given that European companies compete internationally. A closely inter-connected European electricity grid is vital to safeguard Europe’s energy security, to ensure a smoothly running internal market, which translates into competitive prices, and to provide the right signals to drive investments aimed at achieving the ambitious energy and climate policy targets to which the EU has committed itself.

In order to maintain competitive electricity prices and reduce the burden of additional surcharges and levies set by national and regional governments, focus should be placed on more market and less regulation. Unregulated and undistorted prices on short-term markets will give clear signals and proper guidance to all market participants and will help to efficiently maintain supply-demand balance.

At a glance:

- Security of energy supply needs to remain top priority. Rising distortions in energy supply or brownouts impose unacceptable burden on the economy.
- To ensure security of supply, the necessary infrastructure and framework should be in place in order to make best use of borders.
- Distortions to the integrated European energy market should be removed in the medium term, so that any power plant needed for security of power supply can be operated profitably.
- Renewable energy should be fully integrated into the energy markets, but on harmonized terms. While increasing the share of renewable sources in the energy mix remains one of the important targets, permanent subsidy of these sources is outdated. Renewables, too, must adapt to market signals, and subsidy rules must be geared to market conditions in order to keep costs for consumers within the bounds of competitiveness and affordability.
- The EU energy and climate targets should be realistic and strike the right balance between sustainability, security of supply, competitiveness and affordability.
2. Austria: WKÖ - Austrian Federal Economic Chamber

Austria – a motor towards the European Energy Union

As a business location, Austria is characterized by a balanced energy mix, flexible energy systems and a stable increase in energy efficiency on the one hand. On the other, Austria has a very strong industry sector which has already achieved significant reductions in energy and emission intensity. Major improvements concerning the unbundling of gross energy consumption and economic growth could be achieved.

Fig. 2: Unbundling of gross energy consumption and economic growth

Austria offers high security of supply, and the market is well integrated into the European electricity and gas grid. As a reliable partner within the European Energy Union, Austria is on track to meet Europe’s 2020 targets. Another important fact concerning the Austrian energy landscape is that the country is home to several export-oriented, innovative energy and environmental engineering companies, many of which are even market leaders in their sectors.

Austria, Germany and Luxembourg operate a common electricity bidding zone, which is regarded as a best-practice example of integration of the European electricity market. Together they form the only cross-border bidding zone in the European electricity market. This market is characterized by a wholesale market with high liquidity. The common bidding zone ensures that there is almost 100% security of electricity supply, combined with competitive prices.

Of course Austria also has to fight several challenges in the energy sector. Lengthy approval procedures impede the expansion of important grid infrastructure. Rising costs due to lack of free emissions allowances and renewable energy subsidies burden Austrian companies and challenge the country as a business location. The feared split of the Austrian-German-Luxembourg price zone would definitely have a negative impact on wholesale prices, liquidity and cost structure.

The Austrian Federal Economic Chamber (WKÖ) is convinced that these challenges can only be tackled by an integrated European energy market. Cohesion between energy, environmental and economic policy is of significant importance. Economic growth and prosperity are required to ensure that Europe remains an attractive business location in the future.
On the road to implementing the five dimensions of the European Energy Union, WKÖ calls for ...

... completion of the internal energy market, which has been promised by European policymakers for years. To put the European Energy Union into practice, trade restrictions must be removed and markets have to be fully integrated and connected. We therefore call for European market design guidelines that ensure the integration of harmonized regional concepts without distortions. Investments in the modernization and extension of the grid infrastructure are essential. We call on the European Commission to support the German-Austrian-Luxembourg electricity bidding zone and to discard the threatening idea of one-sided congestion management.

... effective protection from carbon leakage. Fair and balanced competition rules are needed as long as other regions of the world do not have comparable costs for CO₂. A reform of the EU Emissions Trading System is required, ensuring that companies producing CO₂ efficiently are granted 100% of the allowances required free of charge. Earnings from auctioned allowances must be invested in the development of low-emission technologies.

... a balanced energy mix that includes renewable as well as fossil energy sources and ensures a high security of energy supply. For this reason – and to secure equality of competition – energy subsidies must be harmonized within the EU, taking into consideration the European Guidelines on State Aid for environmental protection and energy. Grid stability has to be secured; thus the expansion and modernization of energy grids is essential, taking into account all energy sources.

... revised energy efficiency legislation that ensures economic growth and does not impede business activities. Instead of obligations, energy efficiency must be reached by means of innovative new technologies which already exist in the market or are already close to market maturity. A binding EU-wide energy efficiency goal that would go beyond the target set by the European Council in October 2014 is out of the question. Such a goal would hamper positive economic developments and reduce the Member State’s room to maneuver.

... increased funds and improved forms of financing to promote research, development and innovation. Revenues from the ETS must be earmarked for breakthrough technologies, especially in the areas of renewable energy, energy efficiency and storage technologies. The pioneering role of Austrian and European companies must be ensured while placing special focus on the industrial energy transformation and global competitiveness.
3. Czech Republic: SPCR – Confederation of Industry of the Czech Republic

Priorities for EU Energy Policy

The Energy-Only Electricity Market (EOM) should remain the European target mode.

To ensure that no harmful interference occurs within the wholesale market under any market design, natural price spikes must be explicitly allowed, particularly at times of scarcity, as these prices provide incentives for demand response, storage and flexibility of generation capacity and for imports and exports within the internal electricity market.

The SP supports improvement of short-term markets (namely moving gate closure time closer to real-time delivery or allowing shorter-term products) together with market coupling across all regions.

Capacity Remuneration Mechanism (CRM) should be available only as a last resort, when it provides a valued service for the consumers (security of supply). It must cause minimum distortion, must be market-based, technology-neutral and open to cross-border participation, and must allow for participation of demand response and storage.

Allowed CRMs have to be appropriate for ensuring a precisely pre-defined adequacy standard level based on a harmonized adequacy assessment method.

Full integration of renewable energy sources (RES) into the market is an imperative; there should be a balancing obligation and no support for new RES whenever the wholesale power prices are negative as stated in the latest State Aid Guidelines. Permanent subsidy of RES is outdated. Renewables, too, must adapt to market signals, and subsidy rules must be geared to market conditions in order to keep costs for consumers within the bounds of competitiveness and affordability.

Alongside RES, all energy sources serving the objective of gradual decarbonization will continue to have a role to play in electricity generation all over Europe.

The EU energy and climate targets should be realistic and strike the right balance between sustainability, security of supply, competitiveness and affordability.

Bidding zones should not discriminate against market participants, and market coupling has to apply to all borders.

EU ETS is the main instrument of decarbonization of the economy. Therefore, its functioning must be improved in order to incentivize industry to choose the low-carbon path.

The rights of EU member states to determine the conditions for the use of their energy resources, the national energy mix and the overall structure of their energy supply must be respected.
Position of Voka on Energy in the European Union

Voka pledges an integrated, flexible and supply secure energy system based on competition, competitiveness and robust use of energy resources within a credible regulatory framework.

To achieve this, the EU should be further encouraged to come up with good and sound proposals concerning the realization of the EU Energy Union, while national policymakers should be urged to devise policies that fit within a wider EU strategy. The EU should, furthermore, not only focus on sustainable energy initiatives, but should also define EU-wide goals concerning security of supply and competitiveness.

Within this EU Energy Union:

- Market-distorting measures should be avoided as much as possible.
- The short-term markets should be integrated as much as possible in light of the opportunities this will offer to both energy transmission companies and market players.
- A level playing field for participants to the electricity market should be created through equal access to market instruments and a Europe-wide harmonized tariff system.

The Central West European electricity market can serve as a first facilitating step towards a pan-European electricity market. This facilitating step seems desirable as further expansion of energy infrastructure is required besides better linking of the markets, particularly the spot markets. A strong European regulator is also a necessity.

Flanders should further secure its position as key player in energy transportation within Europe. A maximum and cost-efficient expansion of the grid should lead to competitive prices and should guarantee Belgian supply security at the lowest cost possible. A robust electricity grid is, moreover, crucial to optimum integration of renewable energy capacity.

Flanders should, furthermore, strive to become frontrunner in energy efficiency within the EU. It is densely populated and has many aged buildings. As a result, there are many opportunities to make buildings more energy-efficient. A big share of the Belgian vehicle fleet is made up of leased company cars and is hence renewed on average every four years. The Belgian vehicle fleet could also rapidly be converted to electricity, further contributing to achieving an energy efficient economy.

4. Flanders: Voka – Flanders Chamber of Commerce and Industry Flanders

Michel Davidts

is a specialist in the field of sustainable energy. After launching the Solar business operations for Eneco in 2007, Michel Davidts studied and developed innovation cases for biomass, wind energy, heat distribution and more. For more than 3 years, Mr. Davidts has mainly focused on electric mobility. Charging stations, interchangeability and data management are his areas of expertise. He has introduced several innovative services and platforms, such as the use of battery systems to optimize grid systems.

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Goals and visions of Sweden

Energy policy aims to create the conditions for efficient and sustainable energy use and a cost-effective Swedish energy supply with low impact on health, the environment and climate change. Energy policy also aims to facilitate the transition to an ecologically sustainable society. This will promote sound economic and social development throughout Sweden.

Other energy policy targets are contained in the Riksdag’s decision of June 2002 on guidelines for energy policy (Govt Bill 2001/02:143). In accordance with the bill ‘A Cohesive Climate and Energy Policy – Energy’, a number of new energy policy targets have been adopted (Govt. Bill 2008/09:163):

- By 2020, at least 50% of total energy consumption should come from renewable energy sources.
- By 2020, the transport sector should meet the renewable energy target of at least 10%.
- By 2020, energy efficiency should increase by 20%. This is expressed as a cross-sectoral target of a 20% reduction in energy intensity by 2020 relative to 2008.

Transport and industry are the largest emitters of greenhouse gases in Sweden. By using quantified climate and energy targets for greenhouse gas emissions, renewable energy and energy efficiency, along with specific instruments to achieve these targets, the Government is laying the foundations for long-term stable conditions for a transition from a fossil fuel-based society and a move towards sustainable energy and transport systems.

Investments in renewable energy

Measures to promote renewable energy and more efficient energy use can help strengthen Sweden’s security of supply and competitiveness, and give Swedish research and entrepreneurship a leading role in the global transition to a low carbon economy.

Stable rules

Stable rules create predictability, security and the willingness to invest, which in turn keep energy prices down and create conditions for transition. Swedish businesses and consumers must be able to rely on a secure energy supply. This requires giving companies in the energy sector long-term rules and stable operating conditions.

Commission on Energy

The Government intends to appoint a Commission on Energy for cross-party talks on energy policy with the aim of concluding a long-term sustainable energy agreement. The Government’s starting-point in these talks will be that nuclear power is to be replaced by renewable energy and energy efficiency measures, and that Sweden, in the long term, will be powered by 100% renewable energy.

Checkpoint

A checkpoint for climate and energy policy will be carried out in 2015 to analyse the actual development of energy balance and costs as well as climate impact in relation to the relevant energy and climate policy objectives, and the state of knowledge on climate change.

The CCIs in Bavaria

The Association of the Bavarian Chambers of Commerce and Industry is the umbrella organisation for the nine Bavarian Chambers of Commerce and Industry (CCIs). All Bavarian firms – excepting those in the craft trades, the liberal professions and agriculture – are compulsory members of a chamber of commerce and industry. The Association of Bavarian Chambers of Commerce and Industry therefore represents over 973,000 enterprises of all sizes and across all industries, from global corporate groups to owner-operated SMEs. The Association is therefore not beholden to a specific group of businesses, instead acting on behalf of the overall interests of the commercial sector in Bavaria. Since its inception in 1909, the Association has been the largest business organization in the Free State of Bavaria.