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NOTE

From: General Secretariat of the Council
To: The High Level Working Group on Competitiveness and Growth
Subject: Energy and Climate package: industrial competitiveness aspects

Delegations will find in Annex a note on the Energy and Climate package: industrial competitiveness aspects for the exchange of views at the meeting of the High Level Working Group on Competitiveness and Growth on 6 May 2015.

The outcome of the discussion that will be held during the meeting will be summarized in a note to be addressed by the HLG Chair to Coreper.

To facilitate the drafting of this note, Delegations are invited to also send written comments and key messages to the HLG Chair and the Council Secretariat in advance of the HLG meeting on 6 May 2015.

Energy and Climate Package: industrial competitiveness aspects

A strong energy policy that puts in place a framework for delivering the **transition to a low carbon economy** and a secure, affordable and competitive energy system is vital for the EU industrial base and future prosperity of the EU in general. The EU needs an energy system that is not only robust to geopolitical risks and unstable fuel prices, but also a motor for competitiveness, jobs and sustainable growth.

Now more than ever, Europe needs new sources of growth. EU industry needs to fully exploit the business opportunities that will be created in the transition to a sustainable economy.

It is essential to ensure coherence between environmental, climate, energy and industrial policy to create an **optimal business environment for sustainable growth and innovation**. It is of crucial importance to implement policies relating to sustainability in a way that enhances the competitiveness of European industry, while moving towards a more resource efficient, **low carbon economy**.

While industrial competitiveness has to be mainstreamed in all EU policies, sustainability also needs to be integrated into all areas of industrial policy to help European businesses to unlock first mover advantage and gain a competitive edge. For example, the 2012 Industrial Policy Communication¹ emphasised the pivotal role of both **Ecodesign** and **Energy Labelling** to significantly improve the environmental performance of products and encourage consumers to buy the most efficient products. These two pieces of legislation make an important contribution towards the objective of sustainable growth and incentivising innovation. Energy savings related to Ecodesign and Energy Labelling Regulations are estimated to be in the region of circa 2000 TWh of primary energy² per year by 2020.

¹ COM/2012/0582 final

² Ongoing Ecodesign Impact Accounting study (2013-14), VHK (https://ec.europa.eu/energy/sites/ener/files/documents/2014_06_ecodesign_impact_accounting_part1.pdf)

The issue of **energy costs** and their impact on industrial competitiveness is another key element for EU policy making in the context of the EU ambitious climate and environmental objectives and against the challenge of growing competitive pressures from the third countries. In recent years the energy price gap between the EU and major economic partners has increased. This is all even more important taking into account the slow recovery of the EU industrial output and employment after the crisis.

Retail industrial electricity prices for European countries are at very high levels, about double than in the US and second only to Japan. Retail industrial gas prices are four times as high as in the US.³ The price difference with other economies has an impact on the competitiveness of the EU industry, especially on the energy-intensive industries. In some manufacturing industries, such as aluminium, selected chemical products, glass or cement production, the share of energy costs goes up to 30-40% of total production costs and even higher.⁴ Indeed investments into them have declined steeply in the EU but not in other major economies.⁵

Another challenge the EU energy and climate policy needs to face is the **reform of the EU's Emissions Trading System (ETS)**. However, it is essential to transform the EU ETS into a tool that does not undermine the competitiveness of energy intensive European companies but helps European industry build a competitive advantage in a global economy that will face more and more carbon and resource constraints over time. The EU ETS could then be a tool which finally serves the long term objective of decarbonising the European economy.

³ DG ENER, Energy prices and costs in Europe,
<http://ec.europa.eu/energy/en/publications/energy-prices-and-costs-europe>

⁴ European Competitiveness Report 2014.

⁵ Reindustrialising Europe. Member States' Competitiveness Report 2014. SWD(2014) 278

In order to maintain international competitiveness of European industries while safeguarding ambitious environmental standards, it is important to work on the international level towards a more level playing field through **international policy dialogues**. These dialogues aim to share European sustainable and low carbon solutions with other countries and provide an opportunity to promote European technologies on important export markets.

Therefore, against this background the Members of the High Level Group on Competitiveness and Growth are asked for their opinion on:

- *What would be the priority measures to be taken in the coming period under the Energy and Climate Package to improve the EU competitiveness?*
 - *What are other important actions to foster EU industrial sustainability while reinforcing competitiveness?*
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