

ITRE Public Hearing, 23.2.2016

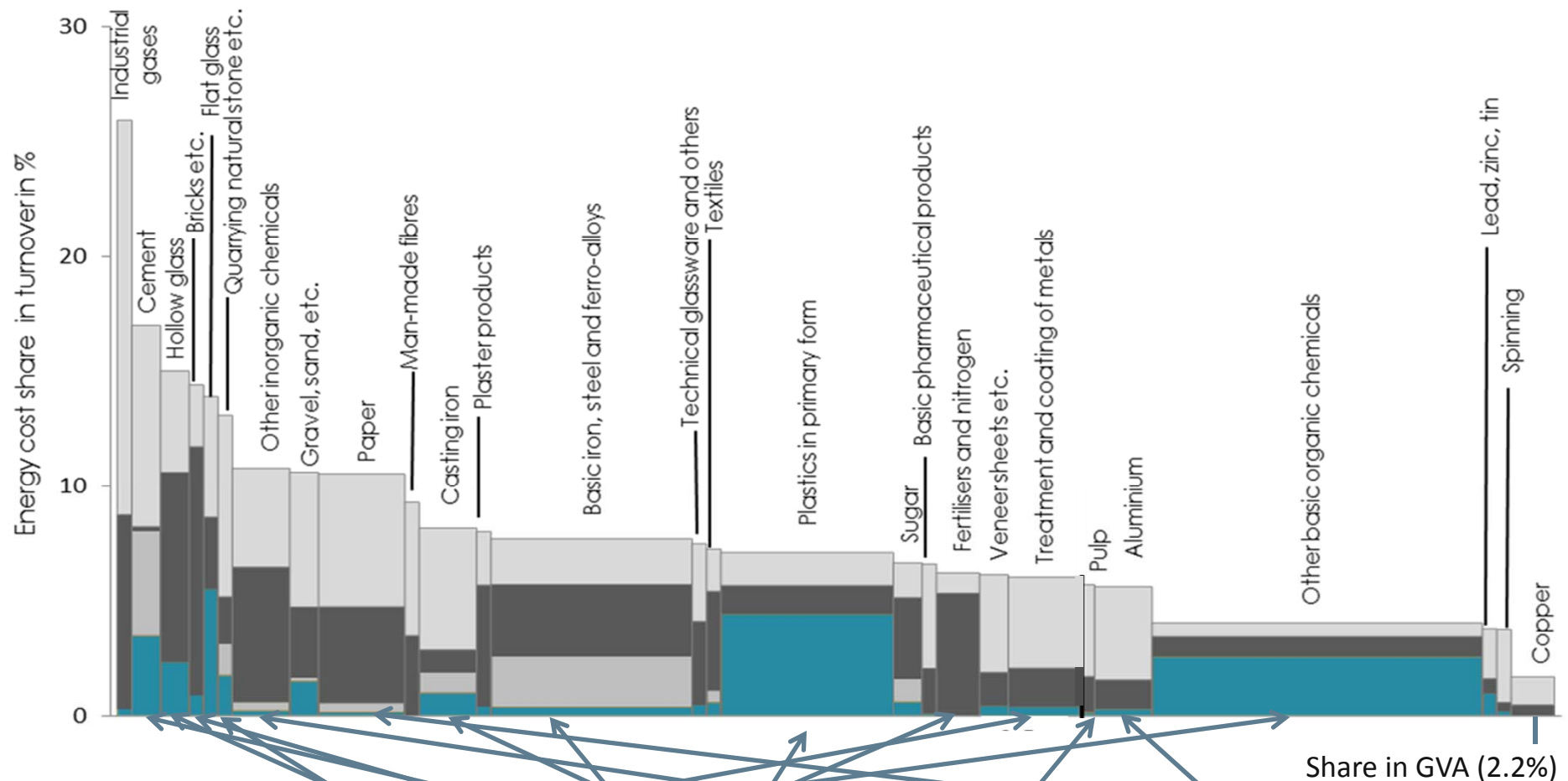
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## Energy Costs and EU Industry Competitiveness

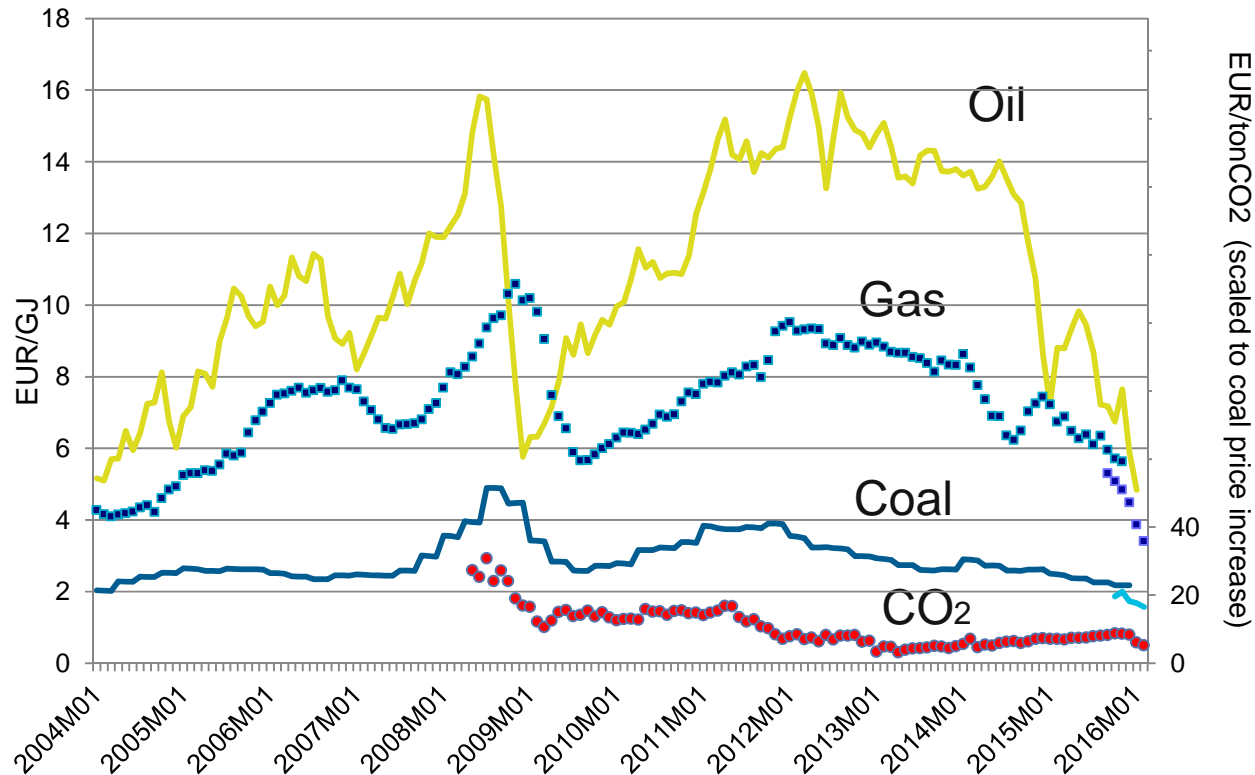
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1. Differentiate between materials producers and rest of industry
2. Energy price developments – don't miss the opportunity
3. Manage volatility
4. Make use of renewables with low cost capital
5. Realize efficiency and innovation potentials

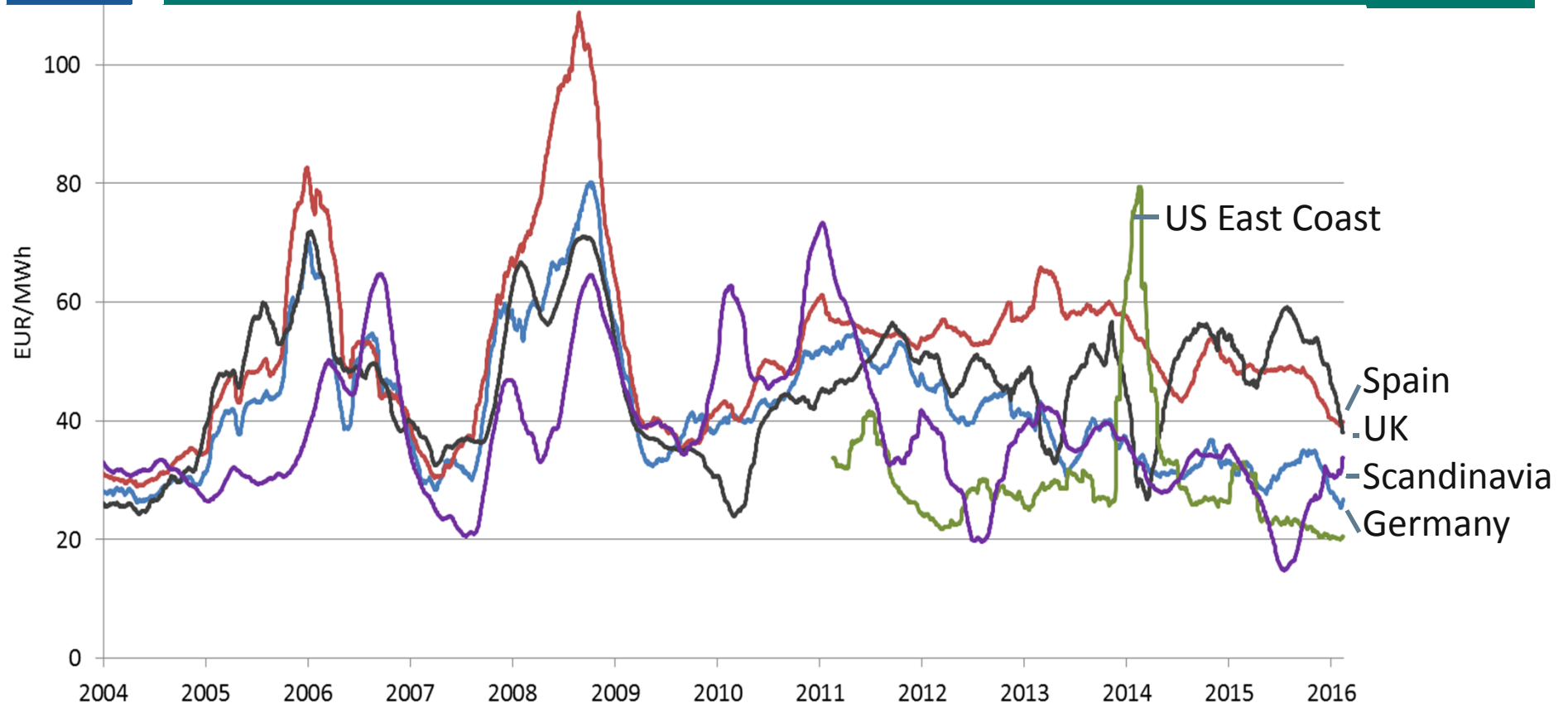


- Materials: Glas, Cement, Steel, Basic Chemicals, Pulp&Paper, Aluminum  
-> Energy costs important cost share
- Rest of industry (98% of GDP) energy costs are on average 1.6%



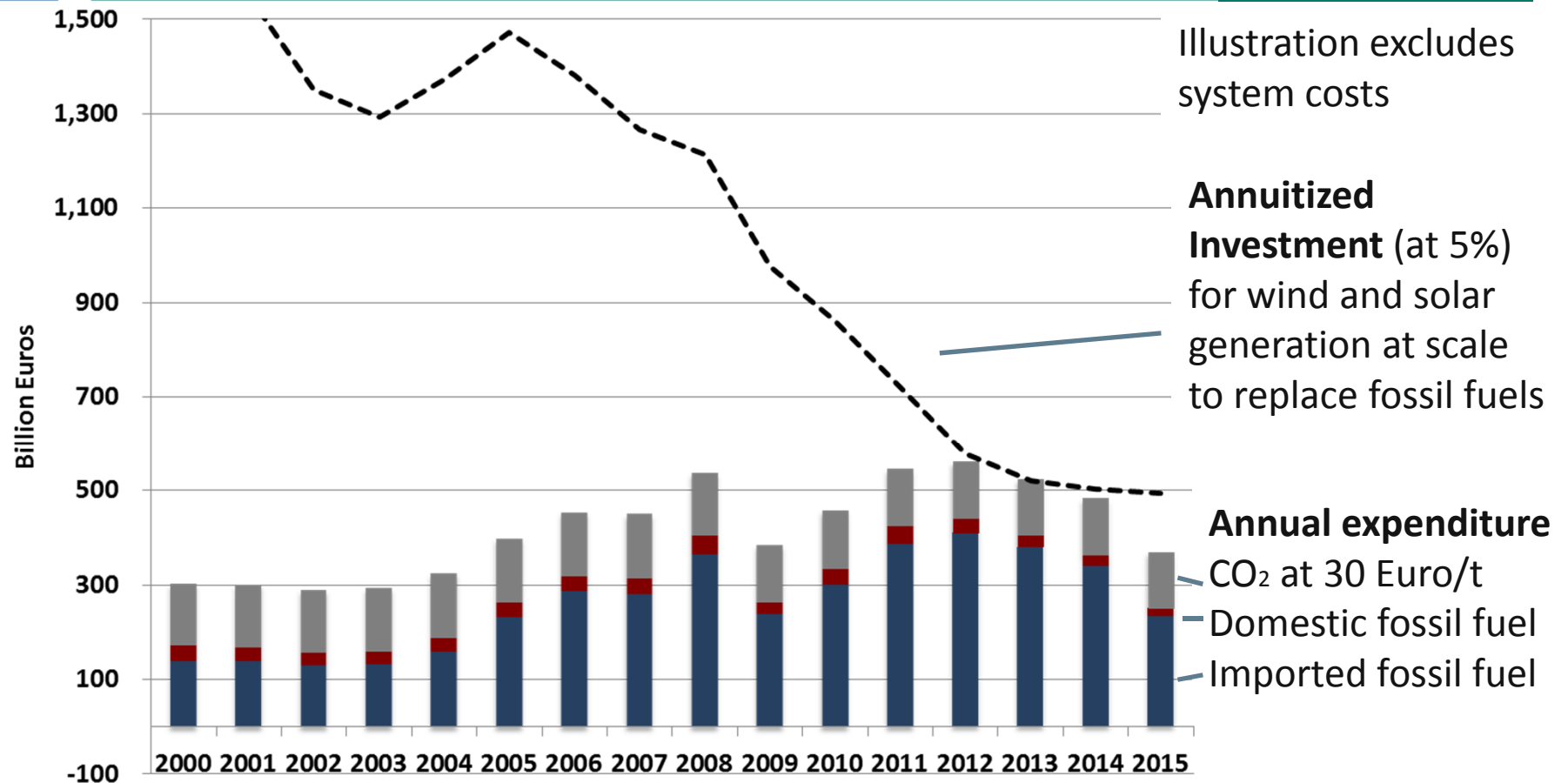
- Oil: Price fall with demand projections and new production: insure against next spike
- Gas: Price has fallen with oil price and reduced gap to US
- Coal: Price has fallen with surplus mining capacity
- CO2: Market stability reserve only works gradually
- Policy cost (RE, ETS): Limited by special provisions & state aid for materials producers

Inflation adjusted to current prices (2016), Brent prices for Oil, Bafa border prices for Gas and Coal until 2015, from TFF (gas) / Rotterdam (coal) for 2016.



Allow for hedging with mid-term contracts against variations over longer periods  
-> Create robust reference price for contracts: Intraday/real time auctions

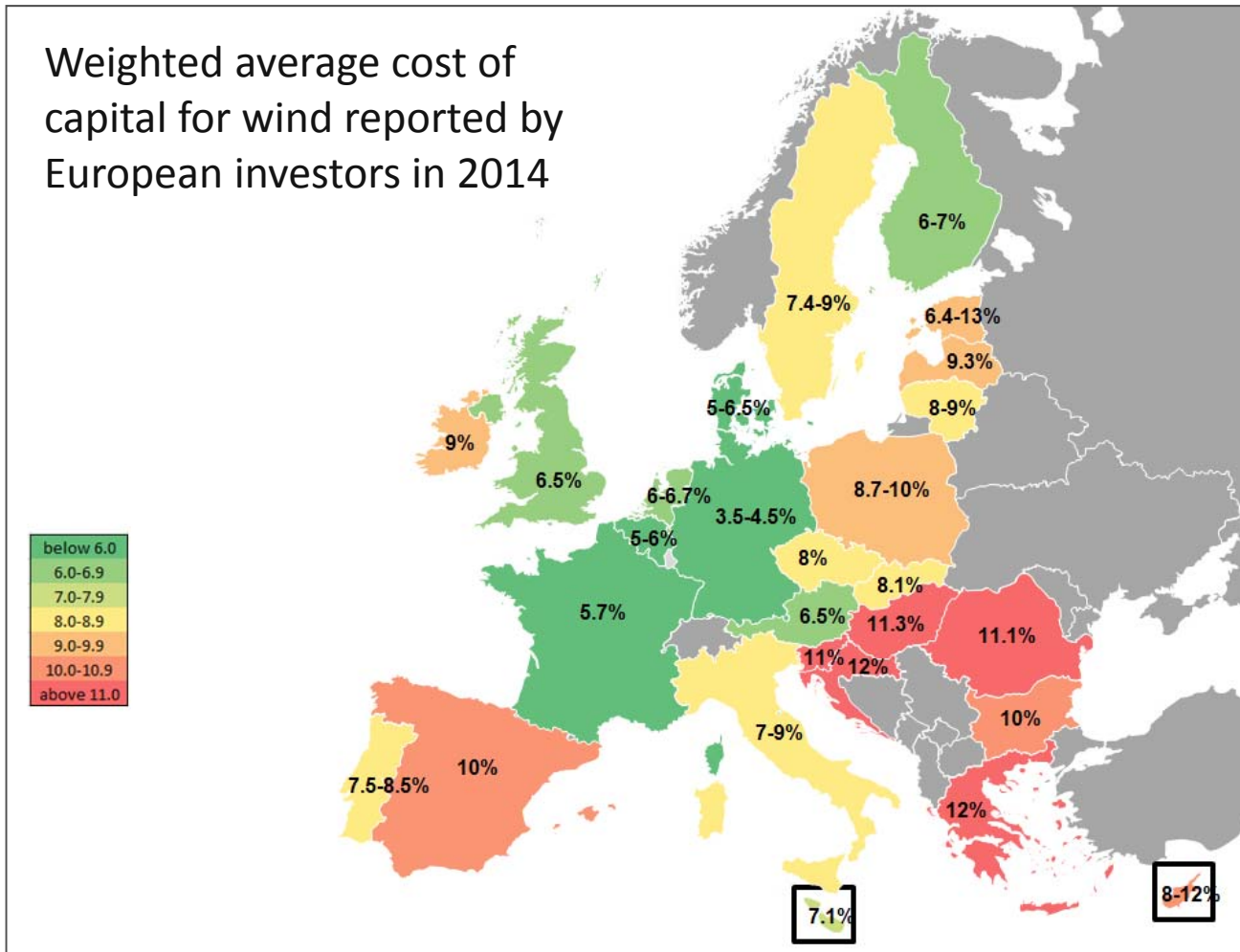
Enable industry to realize flexibility potentials to make savings from intraday variations  
-> Power market design and third parties can help realize potential

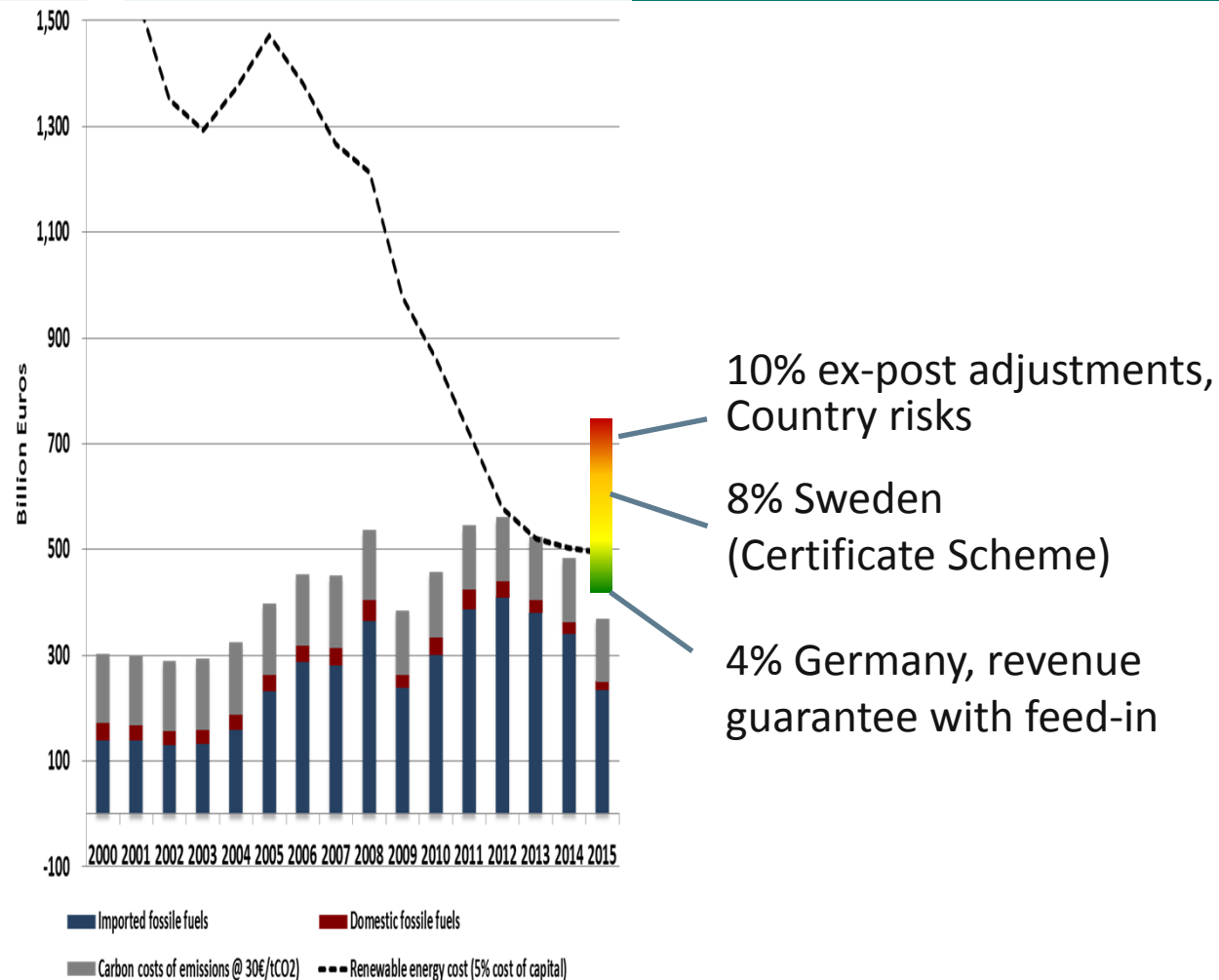


*Similar cost level for serving demand with new wind and solar as with fossil fuel:*

- *Cost of learning investment in wind and solar dominates debate but is sunk.*
- *Investment in Europe creates more jobs than importing fuels.*
- *Policy framework required for infrastructure and to address barriers.*

Financing costs high in several European countries because of (i) country situation  
(ii) policy design not addressing market imperfection and policy risk





*1. European cooperation can reduce financing cost for countries.*

*2. Policy can reduce financing cost for wind and solar by ensuring long-term stable revenue streams.*

*3. RE benefit from hedge at times of low power prices:  
Ensure consumers also benefit at times of high power prices.*

**Average industry, energy cost share 1.6%**

- Energy not priority, use standards to simplify choices
- Energy Management Systems to identify opportunities
- Additional policy to realize opportunities with more than 1-2 years pay back
  - > (i) The Energy Efficiency Directive (ii) Energy Performance of Buildings Directive (iii) Smart Financing for Smart Buildings Initiative

**Materials sectors**

- Special provisions to avoid carbon leakage risk reduce energy & carbon costs
  - > Global progress on benchmarks secures incentives for production efficiency
- Along value chain only limited incentives for innovation, investment & efficiency
  - > Post Paris focus required on effective carbon price along value chain
- EU ETS alone cannot trigger innovation in break-through process technologies
  - > Catalyze investment in modernization and innovation: NER400, Modernization fund, H2020 ... and a shared strategy (road maps etc.)

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