



## ORGALIME POSITION PAPER ON

# Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy COM (2006) 105 Final

Brussels, 22 September 2006

ORGALIME speaks for 35 trade federations representing some 130,000 companies, the vast majority of which are SMEs, in the mechanical, electrical, electronic and metalworking industries of 24 European countries. These industries employ some 10 million people and account for 1598 billion Euro of annual output, which is over a quarter of the EU's output of manufactured products and a third of the manufactured exports of the European Union.

This position paper provides Orgalime's replies to the Commission's questionnaire in the context of the above-mentioned consultation.

### **A. Competitiveness and the internal energy market**

#### **1. In order to achieve the goal of a genuine single market, what new measures should be taken at EU and MS level?**

Orgalime believes that, as a major manufacturing industry in the EU, it is essential for the competitiveness of our companies that they should be able to rely on competitive inputs, including energy, as well as adequate framework conditions in the EU. From this supply chain perspective, it is therefore important to our industry as a whole to be able to count on a reliable, secure energy supply, which moreover is competitive. In order to attain this, a genuine internal market where providers of energy are able to compete effectively is important. Given the historic evolution of the energy sector, the essential role that energy plays in the every day life of citizens and of the economy and the situation that it has enjoyed at a national level, Orgalime believes that it will be difficult to achieve a genuine single market without the support of the EU. The achievement of the internal market for products is, we believe, one of the major achievements of the EU, which underpins the competitiveness of our industry.

Orgalime takes the view that more cooperation between regulators is a precondition for improving the internal energy market. This in our view may not necessarily require the establishment of a sole EU regulator.

However, we call upon a reinforced separation of network operation from production and supply (unbundling). Programmes for investments into grids, improved network operation and the creation of a body of transmission system operator should be the way forward in the interest of avoiding blackouts and to prepare the grids for future demands<sup>1</sup>. A clear separation of production and networks is in our view vital. If the Commission decided to establish a European Grid Code, Orgalime believes that all

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<sup>1</sup> See activities of the European Technology Platform "Smart Grids"

stakeholders should be consulted. As requested before, we see a need for sufficient transmission capacities across Europe.

## **2. In order to develop a single European grid, what should a "European Grid Code" contain?**

We would support a European Grid Code if this is understood as being a kind of minimum requirement for operation, technology, safety of personnel and the public as well as security of supply. In our opinion, such a Grid Code should also improve the communication and automation technology of the networks in order to meet new demands, such as the following:

- more energy transport due to liberalised markets
- volatile and decentralised power generation
- increasing importance of power quality
- protection of infrastructure against natural catastrophes and terrorism
- necessity of energy efficiency of generation, transmission, distribution and use in industry as well as in private households

## **3. Apart from ensuring a properly functioning market, how can the EU stimulate investments in infrastructure and generation capacity?**

We believe that, besides providing the right framework conditions for developing a competitive internal market for energy, more cooperation between Member States should be promoted, as well as increased transparency in the market through regular monitoring of energy prices and delivery conditions.

It is furthermore necessary for the Commission to have a long term policy that sets minimum standards for the balance of grid and generation capacity capabilities and life expectancies, to ensure that investment is made on a sustained basis to maintain the quality of the installed physical capacity to meet the current and predicted needs of EU citizens and industry.

Regulation within a liberalised market appears to us to be a core issue: close cooperation between regulators and harmonised approaches, which would better allow for the necessary investments into the infrastructure, should be promoted.

Regarding new technologies, funding for research or for overcoming market barriers are a prerequisite to achieve the stated aim of the Green Paper, i.e.: to support European energy technologies and to create "leading markets".

## **4. How can it be ensured that all Europeans enjoy access to energy at reasonable prices?**

All points listed in the Commission's questionnaire seem relevant to us in order to enjoy access to energy at reasonable prices:

- Establish integrated and competitive electricity and gas markets
- Diversify the energy mix
- Promote efficient energy services
- Cost effective savings of energy

- Use of renewable energies
- Decrease of dependency on imported fuels

In our view, the establishment of integrated and competitive electricity and gas markets, the diversification of the energy mix and the promotion of efficient energy services should particularly foster a decrease of the EU's dependency on imported fuels.

In addition to these items, the continuously rising energy prices should be considered. Therefore, funding of development and research in new technologies (energy efficiency, new power generation, new storage technologies, the treatment of nuclear waste, etc.) can be seen as an investment towards more reasonable prices in the future. In this context, Orgalime supports the suggestion of the Green Paper for a EU Strategic Review. In our opinion, this Strategic Review should not only focus on energy generation and supply. It should equally consider power transmission and distribution following a complete system approach (for example, increased decentralised power generation should be considered in the grid design as well). Furthermore, flexibility for future developments should be granted in such a system approach in order to allow for potential new technology developments in the future (e.g. with the rise in the prices for gas and oil, new dominant energy production technologies may emerge).

#### **5. How can the internal energy market contribute to maintaining employment levels?**

We believe that the internal energy market can particularly contribute to maintaining employment levels by ensuring low energy prices and thus increasing the competitiveness of all industry sectors. Provisions for attracting investment and research in the EU's energy sector would also be helpful, in order to encourage innovation in this sector where EU manufacturers already are technology leaders in many areas, thereby not only contributing to the needs of the EU but also fostering new technology exports from the EU.

We would therefore suggest that the Commission should ensure that Directives or other instruments created in this framework do not inadvertently undermine the development of the internal market, as we believe some of the waste legislation impacting our industry has done.

#### **Any other comments on the chapter "Competitiveness and the internal energy market"?**

We are concerned that the liberalisation process has not shown similar success as the opening of other markets, such as the telecommunications (see sector enquiry of COMP report of Commissioner Kroes).

We also underline that the method of subsidising renewables does have an influence on the internal energy market.

## **B. Solidarity**

### **6. What can the Community do to prevent energy supply crises?**

In this context, we believe that the Community should:

- support the development of smart electricity networks, demand management and distributed energy generation, bearing in mind their potential to help at times of sudden shortage
- foster the cooperation on network security among transmission system operators, including the development of common security and reliability standards
- establish an observatory mechanism to identify likely shortfalls in supply and infrastructure at an early stage.

A higher level of security, e.g. against natural catastrophes or terrorist attacks, as proposed in the Green Paper, makes it necessary to guarantee a sufficiently high level of redundancy in addition to “traditional” technology for security measures, such as camera surveillance or access management. However, it appears that due to economic reasons and increased competition redundancy levels in particular are currently being reduced to a minimum. A correct framework therefore needs to be established (e.g. the “European Grid Code” as discussed under question 2).

### **7. Which measures need to be taken at Community level to manage energy supply crises if they do occur?**

It appears to us that discussions on security of supply are focused on the issues of external gas and oil supplies only. However, security of supply for electrical power should in our view be considered as well, in particular if one remembers the blackouts that occurred in 2003 and before that. Given the new demands on power networks, the stability of power systems is an issue of major importance.

## **C. Diversification of the energy mix**

### **8. What should the EU do to ensure that Europe, taken as a whole, promotes the diversification of energy supplies?**

Orgalime is of the opinion that the diversification of energy supplies must not exclude any energy source or technology.

## **D. Sustainable development**

### **9. How can a common European energy strategy best address climate change, balancing the objectives of environmental protection, competitiveness and security of supply?**

Such a European strategy should in our opinion

- focus on getting the widest possible international actions on climate: discouraging effectively manufacturers from investing in the EU when there is a demand for products only facilitates the emergence of manufacturing capacities outside the EU where other environmental standards apply. The development of EU standards, which only impact the competitiveness of manufacturers based in the EU because they are not adopted by our main competitors, only risks undermining the credibility of the EU's jobs and growth and industrial policy agendas. In the context of globalisation, there are inevitable tradeoffs for investors between different framework conditions: for many industries this will include both the security of energy supply and energy prices.
- keep Europe at the forefront of energy technology and the policies needed to encourage change: we believe that given the right framework conditions, it is through technology that solutions will be found that underpin Europe's energy policy. Our engineering industry in the EU is at the forefront of the technologies needed to improve energy production, distribution and efficiency.
- promote conditions for competitive energy prices in the interest of a competitive EU manufacturing industry in the global market: higher energy prices in the EU than in other parts of the world would only undermine the attractiveness of the EU as a manufacturing location.
- focus more on CO<sup>2</sup> and other greenhouse gases related to energy production than on energy per se in the interest of a balanced energy mix and security of energy supply: it is essential for many sectors of manufacturing to be able to count on secure and supplies of energy at competitive prices.
- carry out impact assessments on all new proposals, which take into account the international competitiveness of manufacturers in the EU.

As regards energy efficiency of products, Orgalime has made several suggestions in its contribution to the Commission's stakeholder consultation on the Green Paper Energy Efficiency<sup>2</sup> (e.g.: power factor correction, reduction of net losses, demand side management, support of energy services companies etc.).

## **10. What is important for the further development of clean and renewable energy sources in the EU?**

In general, we believe that Europe needs framework conditions that reinforce investment into renewable energy sources and into emission mitigation technologies. We support reinforcing Member State investments and to increase R&D efforts, possibly also within a Strategic European Energy Technology Plan.

### **E. Innovation and technology**

## **11. What action should be taken at both Community and national level to ensure that Europe remains a world leader in energy technologies?**

Such actions should include the establishment of a Strategic European Energy Technology Plan and the development of lead markets for innovation, which should in our view particularly apply thinking of integrated systems rather than individual products.

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<sup>2</sup> Orgalime's position is available at <http://www.orgalime.org/positions/positions.asp?id=230>

We also believe that with enlargement the Community, through encouraging a judicious allocation of structural funds, has the opportunity of developing lead markets in the EU in hi-tech infrastructures, which will support the development of these economies and the EU's jobs and growth agenda.

In this context, we see a close relation to the European Technology Platform "Smart Grids". This European Technology Platform should be supported and the results implemented.

To remain global market leaders in this area of technology, European manufacturers of energy technology equipment must rely on the internal market to underpin their innovation and provide references for their export markets. Therefore, our industry emphasises the necessity of establishing a proper framework for encouraging the required investments into infrastructure projects.

## **12. Which topics/technologies should a EU energy technology strategy focus on developing?**

Orgalime believes that it is important that a EU energy technology strategy should not discriminate one technology or source against another. In the interest of secure energy supply, we take the view that a mix of technologies to produce energy should take precedence over selecting individual ones and addressing individual topics only.

Examples of technologies, which should in our view be closer looked at, include the following: Smart grids, power quality and technologies to improvements of the trans-national grid stability (e.g. WAM - Wide area monitoring or development of new storage technologies for electricity), communication, energy efficiency e.g. improvements of existing power plants or grids.

We highlight the important role that storage technologies should play in the context of an EU energy technology strategy. In particular, emissions mitigation technologies, could, with appropriate support, have a significant impact.

## **F. External policy**

### **13. What should be the priority of a common external policy on energy?**

As global market leader in many areas of energy technology, our industry welcomes the idea of closer international co-operation. Indeed, we believe that such cooperation, while providing global benefits, may also reduce distortion of competition arising from cost factors specific to the EU's policies, as well as give rise to increased export opportunities (see Green Paper chapter 2.6. iv). European energy technologies are designed according to high environmental equipment standards, including at the level of energy efficiency.

### **14. How can the Community and Member States promote diversity of supply, especially on gas?**

Orgalime has no particular views on this issue.

## **Any other comments on the chapter "External policy"?**

Given the importance that energy plays for all economies, good external relations with producer countries are an obvious prerequisite.

## **G. European energy policy**

### **15. Do you agree that there is a need to develop a new, common European strategy for energy?**

Yes, Orgalime agrees. We take the view the Community has an essential role to play in developing and implementing such a strategy with the support of stakeholders, so as to ensure that the process initiated in the Lisbon agenda does effectively overcome traditional barriers to change.

### **16. What should be the core principles of European energy policy?**

Sustainability, competitiveness and security of supply should in our view be core principles. Furthermore, a stable and harmonised framework for the necessary investments as well as support for further research in order to achieve a high level of flexibility for future demands and challenges should form part of the core principles of a European energy policy.

### **17. What should be the core principles of individual energy policy initiatives at Member State and regional levels?**

See the answer to question 16.

### **18. Do you think that greater attention to energy at both EU and Member State level can substantially help to achieve the goals of the strategy for growth and jobs (Lisbon process)?**

Yes, we do.