Clean Industrial Deal Annex

The Affordable Energy Action Plan (AEAP) – IndustriAll Europe's reaction

IndustriAll Europe welcomes the Affordable Energy Action Plan (AEAP) as a central pillar of the Clean Industrial Deal. Indeed, the AEAP proposes a wide range of measures targeted at bringing down energy prices and promoting the rollout of clean energy infrastructure as well as a European manufacturing supply chain. However, industriAll Europe regrets that the Commission fails to offer a deep structural reform and modernisation of the EU's energy regulatory framework that could ensure relieving industrial and private consumers from high energy prices while promoting resilience and decarbonisation targets.

Despite the wide acknowledgement of the Commission throughout the AEAP that gas will remain the price-setter for electricity in the next years in the EU, it remains silent on potential alternative systems and does not announce any detailed impact assessment of the current system to support a more structural reform.

High energy prices remain one of the existential challenges impacting industrial decarbonisation (and respectively defossilisation in the chemical sector) and investments in Europe at a time when it is most needed. The impacts of the energy price crisis are not only threatening jobs as companies restructure and plants close, but they also continue to drive increased cost of living and energy poverty across Europe.

While the role of renewable energy in the European power mix rose over the recent decade, the benefits of lower operational cost are not reaching consumers. Similarly, the analysis of the Draghi report predicts that gas prices will continue to drive electricity prices at least until the mid-2030s, when fossil fuel generators will be continuously displaced in the energy mix[1].

High electricity prices have a strong repercussion for Europe's energy transition: The lack of a strong signal from industry has been also impacting new renewable projects that need certainty of industrial demand. Electrification of industrial sectors, as well as heating and transport, is one of the major routes towards decarbonisation, yet electrification rates remain very low in European industry because of unsustainably high energy prices. This leaves Europe in an inertia and, without bolder action to lower energy prices, alongside massive investments in grids and storage infrastructure, Europe risks being left behind other countries.

[1] The Future of Competitiveness – Part B - in-depth analysis and recommendations, p. 9 https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf

Key messages from industriAll Europe:

- **The AEAP falls short of delivering a groundbreaking strategy that addresses high and volatile energy prices and energy transition needs**: While the Commission in several action points addresses the need to decouple electricity prices from gas prices, e.g. in the action points 2 a) focusing on long-term markets and in action point 8 on price crisis preparedness, there is no reflection or assessment on possible alternatives to modernise the current system and align it with Europe's climate and resilience targets. Indeed, industriAll Europe repeats its call for a detailed impact assessment of the current regulatory framework and proposes structural reforms for a modernised EU energy regulatory system fit for the energy transition and to deliver good industrial jobs in Europe.

- **We need a balanced approach that creates incentives for clean energy producers** to invest in the expansion of much needed low-carbon energy production infrastructure, **while creating certainty among industrial consumers** of a guaranteed and stable energy supply at competitive prices. While a welcome platform for dialogue, the tripartite contract proposed in the AEAP is no satisfying answer to address regulatory shortcomings. A more detailed assessment of alternative solutions to the current regulatory system is needed.

- **The availability of sufficient decarbonised production capacity is vital,** including for baseload, and grid stability at all times to respond to demand in real time. Increasing clean energy capacity and infrastructure across Europe is imperative to meet the expected increase in demand following electrification. All clean energy technologies should be encouraged, including CCUS, respecting national specifities and preferences.

- **Including social criteria to new renewable projects can be a powerful tool to address local resistance** to new renewable and infrastructure projects. The EU should therefore consider how national authorities can include criteria for social criteria, including local job creation, when supporting the development of renewable energy.

- **Lowering electricity taxes risks budget cuts elsewhere:** while this might support mitigating high electricity prices in the short term, it risks being problematic in the medium- to long-term, as it deprives state budgets of resources and risks budgetary cuts in other areas, with potential risks for other critical and social infrastructure.

- **Protect consumers from unfavourable contracts on the retail market.** While providing clear information to consumers on retail contracts is certainly important, it is not enough when competition fails to deliver fair contracts. We call for more stringent measures to protect consumers from unfavourable contracts. The EU framework should give Member States more flexibility to reorganise their retail markets and national authorities should be allowed to ban unfavourable contracts. The Commission respectively should clarify that the Electricity Directive permits such measures.

- **Network tariffs must be designed to sustain grids expansion needs.** Creating more efficient network tariff designs (to align tariff allocation in line with consumption) and limiting investment needs are welcome as such, but should reflect reality and address the massive need for grid expansion and modernisation.

- **Investment needs must be addressed with a comprehensive Clean Energy Investment Strategy backed by sufficient resources:** The Commission estimates investment needs of EUR 570 billion

annually between 2021 and 2030, and EUR 690bn annually from 2031 to 2040 for renewable energy, energy efficiency and grid capacity. We expect the upcoming Clean Energy Investment Strategy to comprehensively address these needs and be backed by sufficient public and private investments. Relying on state budgets to invest in energy infrastructure will inevitably lead to more fragmentation instead of integration in the context of the EU fiscal rules. In that context, we call for a revision of the EU fiscal rules to allow investment in critical energy infrastructure, resilience and good jobs across the energy supply chain.

- **The Affordable Energy Action Plan must deliver on regional cohesion** and ensure low-carbon energy infrastructure and an abundant supply of low-carbon energy at affordable and stable prices everywhere in Europe. In particular, regions with high employment shares in energy-intensive industries risk falling behind, if not adequately addressed through dedicated support and funding opportunities.

- **Promoting flexibility for demand response is essential, but is unrealistic for many energy-intensive industrial installations**: industriAll Europe strongly opposes industrial flexibility mechanisms that would use energy-intensive plants to mitigate price hikes on the electricity market. Production curtailment creates incentives for deindustrialisation and speculation, and many industrial facilities cannot stop and start at will, for technical reasons. Furthermore, there are substantial impacts on the workforce that have received no attention, from health and safety to short-term arrangements.

- **There is no Affordable Energy Action Plan without adequate investments in good energy and manufacturing jobs!** Workers are at the centre of innovation and driving the energy transition. They deserve a seat at the negotiation table to ensure the energy sector of the future is governed by good collective agreements, effective anticipation and management of change and good quality jobs.

The Commission proposes	IndustriAll Europe's analysis
Pillar I: Lowering energy costs	
• **More efficient network charges** ➔ New design of tariff methodologies for network charges to incentivise the use of flexibility and investments in electrification. If necessary, the Commission will back this with legislation. By doing that, the Commission intends to limit energy system costs and total new grid investment fees. ➔ Additional guidance on how Member States can use public budgets in compliance with State aid rules. ➔ Guidance on anticipatory investments for electricity grids	While the allocation of network tariffs is in line with consumption instead of a flat tariff - while also trying to limit the need for investments – which can be understood as a fairer way to distribute costs (and lower costs in line with consumption), the question remains how this proposal will support the parallel need of financing the grid upgrades and expansion that the Commission identified in its Grids Action Plan in October 2023. Costs to modernise and expand Europe's electricity grids were estimated at EUR 584bn until 2030. The reliance on State aid to cover additional grid upgrade costs is questionable in a context of the EU's fiscal rules. Taking into consideration the Commission's own ambition to complete the energy union and deepen the electricity market integration as specified in Pillar II/Action 5, the proposal appears incoherent if national grid infrastructure is lagging behind decarbonisation needs due to national budget constraints. By doing so, it risks fragmentation rather than integration.
• **Reducing taxes and levies** ➔ The Commission refers to the need for the final adoption of the revised Energy Taxation Directive (negotiations have stalled in the European Council) and recalls that Member States may lower national taxes and levies to the minimum excise duty and apply a reduced VAT rate of minimum 5%.	As with tariffs, lowering taxation may be an effective tool to reduce other price components than electricity. However, it inevitably leads to reduced state revenues and would require adjustments in public spending or compensation with public debt (subject to EU fiscal rules). Again, the proposal appears incoherent with the ambition to complete the energy union and European cohesion as such. As it is up to the Member States to decide on reducing electricity and VAT tax rates, the risk for fragmentation across the EU is imminent.
• **Lowering supply costs by increasing retail competition** ➔ The Commission argues that by removing the barriers and increasing competition on the retail market, consumers would be allowed to switch more easily to suppliers offering cheaper contracts or shifting consumption at times of lower prices. It further argues that flexible billing	In its position paper on the Electricity Regulation, industriAll Europe demanded electricity be considered a basic right and access to it guaranteed. We called for a retail price system that guarantees the basic needs of consumers and businesses (in particular SMEs) at regulated, stable and affordable prices, while it must incentivise private investments and crucial energy savings in line with our decarbonisation targets. In our view, relying on the market and increasing competition does not effectively guarantee price

options may prevent disconnections for economically disadvantaged groups. • **<u>Measures to address energy poverty</u>**, including through energy efficiency and **to allow consumers and communities to produce, use and sell renewable energy.**	stability and access to it. Nor can flexible billing options be considered an effective tool to prevent energy poverty. The EU framework should give Member States more flexibility to reorganise their retail markets and national authorities should be allowed to ban unfavourable contracts. While measures on energy efficiency must be certainly welcomed, it remains to be examined in detail how this is done. Especially regarding energy efficiency of building stock, the question of affordability to invest in the renovation remains. Moreover, tenants remain dependent on landlords' decisions to invest in energy efficient solutions. While the idea of consumers and communities producing, using and selling renewable energy is good, it does not take into consideration the affordability for consumers to invest in individual small-scale, renewable installations. If not backed by adequate public support schemes for renewable installations it will remain accessible to a small, economically advantaged part of society only.
• **<u>Decoupling retail electricity bills from high and volatile gas prices by promoting long-term supplier contracts, PPAs and CfDs, including:</u>** ➔ Pilot programme with EIB to de-risk PPAs for industrial consumers (with an indicative amount of EUR 500 million) ➔ Guidance to MS to design effective CfDs ➔ Support the further development of forward markets and increase hedging opportunities	The Commission promotes the implementation of existing electricity regulation, in particular through promoting long-term contracts, e.g. PPAs and CfDs, as a main tool to address high electricity prices for industrial consumers and argues that this would decouple electricity bills from high and volatile gas prices. While industriAll Europe welcomed the stronger support of long-term market mechanisms as an essential tool for industrial consumers to hedge prices, we also argued that they may not be sufficient for an in-depth reform. While the pilot programme to de-risk the uptake of PPAs for industrial consumers is welcome as a way to promote their uptake, it does not solve the underlying problems of the lack of abundant, low-carbon electricity supply, the volatility of renewable energy supply, the lack of storage capacities and grid access constraints that will continue to pose challenges in the short- and medium term. Large industrial consumers that need a constant stable electricity supply will continue to rely on spot markets to buy additional electricity if supply through renewable PPAs is limited and volatile. If not backed by a more comprehensive and structural electricity market reform, the proposed initiative might not be enough to incentivise an

	increased uptake of PPAs. Concluding PPAs now risks locking in electricity prices that are still higher compared to other countries. As such, promoting PPAs alone will not address the lack of competitiveness. Without decoupling of the electricity price from the gas price on the wholesale market, this will not shield industrial consumers with baseload needs from price volatility.
• **<u>Reduce permitting times for an accelerated energy transition through:</u>** ➔ Guidance on innovative forms of renewables deployment and on dedicated grids and storage areas ➔ Dedicated implementation support (Accele-RES implementation plan, Expert group on permitting, implementation dialogue) ➔ Exchange of best practices and identification of barriers ➔ Upgrading an online guiding tool on permitting ➔ Providing technical support (TSI) ➔ Legislative initiatives to accelerate permitting for grids, storage and renewables (together with grids package) ➔ Assess the streamlining of licensing practices for new nuclear energy technologies and publish a SMR Communication	IndustriAll Europe welcomes the continued focus on supporting Member States in reducing permitting times. At the same time, in our position paper on the European Grids Action Plan we advocated for the facilitation and fastening of permitting processes through quality public services, increased administrative capacities and funding, rather than by limiting scrutiny. Permitting procedures must continue to maintain and promote the highest social, societal and environmental standards. The Commission remains largely silent on these concerns in the AEAP. Moreover, the EU should consider how national authorities can include criteria for positive ripple effects, including local job creation, when supporting the development of renewable energy.
• **<u>Accelerating the expansion, modernisation and digitalisation of grids through:</u>** ➔ A European Grids Package (including legislative and non-legislative acts, e.g. simplify TEN-E regulation) ➔ A EIB Grids Manufacturing Package to provide counter-guarantees to grids manufacturers with an indicative amount EUR 1.5bn	The Grids Package is a welcome and necessary initiative to accelerate the energy transition and promote strategic autonomy and resilience in the EU. It remains to be seen what concrete initiatives the Commission will propose. From our point of view, the most challenging exercise is to deal with the massive investment challenge to modernise and extend grids (EUR 584bn until 2030) in a context of EU fiscal rules and most Member States are not in a position to spend without further debts. Combined with the AEAP's proposal (discussed above) to improve the tariff design in a way to incentivise efficiency and flexibility and to limit the expansion needs, this leaves a question mark on the coherency of the targets. It leaves many questions about the growing electricity demand needed to electrify different sectors, such as industry and automotive, and the massive demand by data centres.

• **Increasing system flexibility by deploying storage and demand response** ➔ Clarify the State aid requirements for non-fossil flexibility schemes ➔ Adopt new rules on demand response ➔ Seek Member States' views on a clean flexibility instrument based on PPAs and industry committing to consume clean electricity • **Guidance on promoting remuneration of flexibility in retail contracts**	While we acknowledge the vast potential of demand response measures in a continued process of sector integration, we emphasise the limitations of industrial flexibility and the challenges for the workforce. Certain installations cannot be stopped without causing damage. In other sectors, a temporary halt of production, while not impossible, will mean economic loss for companies with an impact on workers, working time and working conditions. The potential impact is changing and reduced shifts, and potential layoffs; while it is unrealistic to call in workers flexibly to run production at night, when energy use and prices are low. We ask the Commission to assess the technical feasibility and the impacts on jobs before proposing concrete instruments. A structured dialogue with the energy sector and energy-intensive industries would be welcome.
• **Ensuring well-functioning gas markets and ensuring reliable natural gas imports** ➔ Engage with reliable LNG suppliers to identify additional cost-competitive imports ➔ Propose demand aggregation for EU companies ➔ Beyond demand aggregation (Japanese model: invest in export infrastructure)	While we welcome European demand aggregation for LNG supply to cover immediate energy needs, the EU should avoid locking-in long-term dependencies that undermine the EU's energy transition efforts, investments in comprehensive and cross-border European energy infrastructure and production and resilience.
• **An energy efficiency market of European dimension** ➔ Improve access to capital and provide financial incentives to support market actors that provide energy efficiency solutions through the European Energy Efficiency Financing Coalition ➔ Explore further how to support the EIB Group programme for energy efficiency in SMEs ➔ Explore the setting up of an EU guarantee scheme (with the EIB group) to double energy efficiency services • **Give consumers access to more efficient appliances and products with longer lifetimes, through:** ➔ Strengthen national market surveillance and enforcement ➔ Update EU energy labelling and ecodesign rules	We welcome the continued focus on energy efficiency in terms of manufacturing and job potentials, foundation industries and energy-saving technologies, but also in terms of energy saving and decarbonisation potential for industry. Europe needs to maintain a leadership position in innovation and technological development and manufacturing of technologies. Therefore, the focus should be on going beyond service providers and continued efforts to innovate in energy saving technologies and in our workforce. IndustriAll Europe welcomes the initiative as an opportunity, not only in terms of increasing access to efficient appliances and products to consumers, but also to strengthen the ecodesign rules, make them holistic and take into account the social and ethical factors alongside the environmental dimension. Social requirements for sustainable products, i.e. the working conditions under which

	the products were made, must be included in the updated rules.
Pillar II: Completing the Energy Union	
To that goal, the Commission proposes to: • Launch an Energy Union Task Force; • Publish a White Paper on deeper electricity market integration; • Revise the Governance Regulation of the Energy Union; • Launch a Clean Energy Investment Strategy, an updated Nuclear Illustrative Programme (PINC) and a Fusion Strategy; • Launch an Electrification Action Plan, a Strategic Roadmap for Digitalisation and AI for the Energy Sector, and a Heating & Cooling Strategy	Completing the energy union must be the way ahead if it is to create European resilience and a stable, secure and abundant supply of a competitively priced supply of low-carbon energy. Therefore, industriAll Europe welcomes the focus on the greater coordination across the Energy Union as the only way to deal with the energy crisis, address high energy prices and facilitate and promote the self-sufficiency of the energy supply within the EU. At the same time, we recall that all countries have the right to choose their own energy mix and must contribute through sufficient investments in their own low-carbon energy infrastructures, as well as cross-border infrastructure, to ensure wider European resilience. We emphasise that the goal of European energy resilience must be backed by adequate EU funding and governed by the technological neutrality principle for low- carbon energy generation. We therefore welcome the announced Clean Energy Investment Strategy as an opportunity to promote a European energy manufacturing supply chain and good manufacturing jobs in Europe. In light of the massive investment needs, which the Commission estimates at EUR 570bn annually between 2021 and 2030 and EUR 690bn annually from 2031 to 2040 for investments in renewable energy, energy efficiency and grid capacity, the strategy must be backed by sufficient public and private investments. Particular attention must be placed on securing the supply of critical raw minerals, which must be diversified and coordinated at EU level. We welcome the announced electrification Action Plan but remind the Commission to carefully address the regional potentials of electrification of industry and assess the socio-economic impacts that will ensure the safeguarding of job and cohesion between European regions.
Pillar III: Attracting investment and ensuring delivery	
• **Establishing a tripartite contract for affordable energy for Europe's industry** between clean energy producers, industrial consumers and Member States to create investment (demand) certainty for project developers and	IndustriAll Europe welcomes any initiative that strengthens the dialogue and coordination between energy producers, energy consumers and Member States with the aim to lower electricity prices and create adequate incentives for project developers to invest in clean energy infrastructure. However, this

certainty for industry that there will be a stable and sufficient supply of energy at stable prices (building on experiences of wind charter and solar charter)	tripartite cooperation must be backed by a detailed impact assessment of the energy regulatory framework and ensure its structural revision and modernisation to ensure the energy transition is carried out in a way that is just and delivers the benefits to producers, consumers, workers and citizens alike.
Pillar IV: Being ready for potential energy crises	
• **Security of supply** ➔ Legislative proposal for a revision of the current EU energy security regulatory framework • **Price crisis preparedness** ➔ Guidance to Member States on the development and implementation of schemes to lower peak demand by introducing remuneration incentives for consumers • **Increased cross-border access to cheap electricity** ➔ TSOs and national regulatory authorities to ensure temporary increases of available cross-border capacities in certain situations and proper coordination and planning of maintenance outages across border	In the context of the recent energy crisis, a growing geopolitical crisis and increased security risks to European energy infrastructure the strengthening of the EU's security and the price crisis preparedness framework must be welcomed. Also here coordination between Member States and increased cross-border access to electricity in times of crisis must be at the core of European solidarity.
• In the final sentence of this pillar, the Commission recognises that "natural gas is overall expected to remain the main price-setter for electricity in the next years in the EU" and announces support for Member States when designing State aid measures, to empower them to address extreme price spikes and exceptional price environments and **to decouple the translation of high gas prices into electricity prices, based on proven models in emergency situations.**	Unfortunately, despite the analysis of the structural problem of gas determining electricity prices in the merit-order system the Commission only signals support for temporary measures at Member State level through State aid in emergency situations. Beyond our general criticism of avoiding a deeper revision and modernisation of the regulatory framework, the reliance on State Aid to address price spikes also bears the risk of fragmentation between Member States, which is in direct contrast to the Commission's goal to complete the energy union.