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Directorate-General Energy

Swedish Forest Industries Federation  
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## Response to Consultation

### The Swedish Forest Industries Federation on "A 2030 framework for climate and energy policies"

The Swedish Forest Industries Federation represents some fifty pulp and paper manufacturers and about 125 wood mechanical companies situated in Sweden. It also represents a number of companies that are closely associated with pulp and paper or sawn timber manufacture. The Swedish forest industry is the employer of nearly 60 000 people and the value of the export was SEK 123 billion (approximately 13.5 billion €) in 2012.

#### KEY MESSAGES

- EU cannot act alone in fighting climate change. *The main focus on EUs climate ambition must be to achieve a global price on carbon.*
- *EU should have one leading climate and energy target, decreasing CO2-emissions. However, this target has to be paired with a target for industrial growth.* Only growing and prosperous companies can invest in decreased CO2-emissions.
- EU ETS delivers on its target, cost-efficient emission decrease. A pre-requisite for the future of ETS is that *industry must remain compensated through free-allocation of allowances and EU-wide compensation for the indirect effect on electricity price as long as there is no global price on carbon.*
- *Investments in electricity infrastructure (grids) should be paid by the producers of electricity*, which are the ones benefitting from the investments.
- There needs to be a firm regulation in place to make sure that the grid infrastructure as a whole is optimized and well-functioning. *The overall economic efficiency, including the cost and consequences for the end-user must be considered in all grid-investment decisions.*

## THE GLOBAL CONTEXT

The Swedish forest industry works in a global environment. Our cost competitiveness is crucial for the future of our industry. Carbon price and energy prices in Europe play an important role for where the future investments will take place as they are compared with the terms in other parts of the world. The only way to make sure that European ambitions regarding climate change does not lead to carbon or investment leakage, is to make sure there is a global price on carbon dioxide. This should be the main focus of the European Climate policy.

Not only Industry products, but also Energy is traded on a global market. Fuels such as oil, coal and gas are traded worldwide, and the prices of coal and gas in Europe are greatly affected by the fuel prices and availability in other parts of the world. Due to this situation, Europe cannot act on its own regarding CO<sub>2</sub>- and renewable energy targets, without risk for high costs for the European economy. To illustrate this we exemplify with the increased shale gas production in North America, which has led to reduced coal consumption and increased coal export out of North America leading to significantly decreased prices of coal in the EU. This means that the cost for creating a fuel switch from coal to gas in the EU has been greatly increased. At the same time the American industry benefits from low gas prices. The only way to attain fuel switches and decreased emissions without achieving negative effects for the European industry is to focus the European energy and climate policy on attaining a global agreement for decreasing CO<sub>2</sub>-emissions.

## THE TARGET

Today EU has three targets in the energy and climate policy. The targets have been overlapping and the effects of each of the targets have been difficult to evaluate. The Swedish forest industry supports the thought of having one ruling target for decreasing CO<sub>2</sub> emissions but it has to be coupled with a target for industry growth. A target for industrial growth will ensure a positive trade balance, which is a pre-requisite for Europe's ability to decrease the CO<sub>2</sub> emissions. It is important that the targets and the system built up to achieve the targets are stable over long time periods, preferably 10 to 15 years, to reduce uncertainty among industry and hence facilitate investment decisions.

## THE EMISSION TRADING SCHEME

The EU ETS has functioned well and delivered upon its targets; decreased emissions in an economical efficient way. The free allocation of allowances for the industry is a pre-requisite for the system to work, without driving the industry out of Europe. Free allocation is necessary as long as industry outside Europe does not meet the same cost for carbon. The compensation for the indirect effects of ETS on the electricity price is equally important. However, today the indirect compensation is not mandatory, and governed by the member states. This creates distortions in competitiveness within EU and the compensation in future needs to be handled EU-wide.

The EU ETS cannot be the driver of innovation. Innovation and technology development are essential for the industry sector to decrease its emissions. Innovation should therefore be favored in other ways, for example by using the credits in the NER 300 for research and development in the industry.

## THE GRIDS

The cost for investments in grid infrastructure is estimated to increase to trillions of Euros. This cost is partly due to modernization of existing grids and the creation of the common market, but mainly due to the integration of new renewable power production. This cost should not be paid by the consumer, but by the producers of electricity, which are the ones benefitting from the investments. The production cost will naturally be passed on to the consumer anyway but the overall economic efficiency of the total investments in the power sector will be increased. By allocating the cost to the producers, the competition on the energy market will force the producers to consider the grid investments associated with the production investment when deciding upon which projects shall be built.

The investment in cross national grids must always be very carefully judged against the expected utilization and real value of the extra transfer capacity they are intended to realize.

## THE SECURITY OF SUPPLY AND MARKET STRUCTURE

Energy infrastructure and energy production are national policy areas. However, the increased integration of the market, and the higher share of intermittent power production creates issues that needs to be solved at a higher level. The responsibility for security of supply lies on the regulated side of the energy markets, in the hands of the system operators. There needs to be a firm regulation in place to make sure that the infrastructure as a whole is optimized and well-functioning. The overall economic efficiency, including the cost and consequences for the end-user must be considered in all investment decisions. On the de-regulated energy production side we see how subsidies for renewable power production lowers the market price, reducing the ability to operate and invest in adjustable power production that can work as back-up in the power system. The solution to this problem is NOT the creation of new national or supra-national subsidy systems in the form of capacity markets. The solution lies in further development of the existing market, making it easier for consumers to be active on the market, incentivize producers to create new products which increase the flexibility of the market. It must be recognized that the energy production within the EU is a free market and that power producers which do not suffer from competition from outside the EU, cannot be protected by governments against market fluctuation.

## THE EU ENERGY AND CLIMATE POLICY 2030

The Swedish forest industry is in favor of long term targets and clear policy, this gives the industry predictability. The policy needs to be in-line with the global context; focus must be on attaining a global agreement for decreasing CO<sub>2</sub>-emissions. As long as there is no global agreement, the European industry must be

compensated for increased costs (direct and indirect) due to EU's climate policy. There is a great risk that the transition of energy production in Europe becomes more expensive than needed for the industrial end-consumers, lowering EU's competitiveness in the world economy with severe consequences on the economy welfare of Europe.

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For the Swedish Forest Industries Federation



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