Position Paper 2022/137

Energy prices

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Since last autumn, Europe has been struggling with an important hike in energy prices initially largely driven by the increase in commodity prices on global markets triggered by the post-COVID-19 recovery. The military aggression and war against Ukraine and the related sanctions have exacerbated the situation, bringing energy prices to a level that is unbearable for workers and industries. The EU energy market design based on the primacy of short-term markets and on unregulated competition also has an influence on recent price developments. In the same way, the temporary interruption of production by power stations requiring maintenance operations, or being confronted with water scarcity, has added to the pressure on electricity prices. Energy price increases are firstly dramatically undermining workers' purchasing power, given their impact on households' energy bills. More broadly, energy is also among the main factors behind currently high inflation rates. Furthermore, high energy prices are making production costs soar in many industries and threatening related jobs.

To cope with this complex and volatile crisis, the EU and governments have already announced a series of measures to mitigate the impact of the price increases, but also to reduce Europe's dependence on energy imports from Russia. Discussions on measures to be taken at European, as well as at national, level are still ongoing and the policy context is rapidly changing. Hence the importance of ensuring that the voice of industrial workers is heard in this debate on Europe's current energy policy and its future.

Building on existing industriAll Europe (IAE) position papers[1] and on the recent policy brief dealing with the issue[2], the aim of this document is to put forward manufacturing, mining and energy workers' main demands to cope with the current crisis while preparing the future of the European energy system[3].

The EU must secure affordable energy supply in the short-term

Reaching the climate neutrality objective must remain the EU's objective, given the warning messages reiterated in the latest IPCC report. While the current geopolitical situation and its impact on energy supplies and costs demand the mobilisation of all available means to secure affordable energy supply for

[1] https://agenda.industriall-europe.eu/uploads/documents/2022/1/637781861870019034_Adopted-TheFit-for-55Package-Position-iAE-EN.pdf
[2] https://news.industriall-europe.eu/p/policy-brief
[3] To deal with Just Transition and the impact of inflation on workers' purchasing power, iAE has adopted two specific position papers

all in the coming months, reducing emissions by at least -55% by 2030 in order to reach Climate Neutrality has been adopted as part of the EU Climate Law.

Energy is a key foundation of our prosperity and Europe cannot replace energy imported from Russia overnight as a result of the deep energy dependence created by policy choices made in the past and the weaknesses of the EU long-term energy strategy. Energy efficiency, the use of existing low-carbon and pilotable power generation units, mandatory storage obligations, voluntary common purchase initiatives, as well as the use of available domestic energy resources, must be among the priorities of the EU to prepare Europe ahead of next winter and secure energy supply with the aim of strengthening Europe's strategic autonomy.

Reinforced efforts for supply diversification through additional gas pipeline deliveries and strengthened liquid natural gas (LNG) supplies are seen by the Commission as the main means to replace Russian gas imports in the short term in its 'Repower EU' strategy. However, a series of obstacles make this deeply uncertain for the short term, since it requires massive investment in new LNG terminals and new interconnections or new tankers to ship the LNG imports. At the same time, massively investing in LNG infrastructures could trap Europe into new dependences and deprive domestic decarbonised energy from investments that are dramatically needed to make the EU less dependent on imported energy.

The short-term potential of clean hydrogen and biomethane appears even more limited. In the same way, the acceleration of renewable energy deployment will only provide limited alternative options to the existing energy supply in the short term.

Announced measures are welcome, but they won't deliver the scale needed in the short term, neither in terms of security of supply, nor in terms of energy prices (all things being equal). The EU and national governments must therefore provide strong support to companies and households to mitigate the social and economic impact of today's high energy prices. This means giving the necessary flexibility to national governments to provide state aid, which must be conditional to bind social and climate commitments, energy tax breaks and/or energy vouchers, where needed, or to set up tax incentives for both households and businesses to invest in energy-saving measures. For industriAll Europe it must also entail ensuring that extraordinary emission trading auctioning revenues or taxation on windfall profits will contribute to financing these measures in a socially fair way. IndustriAll Europe is also making proposals to cope with high inflation rates and to reform the EU Economic Governance, both of which are crucial in the context of this debate.

Workers should not pay the price of sanctions

Even before the war in Ukraine, the rising energy prices had placed a heavy burden on the energy-intensive industries and these industries are now completely in trouble because of the war and the related sanctions. In March 2022, the European Council gave the European Commission a mandate to prepare a plan to phase out the EU's dependency on gas, oil and coal imported from Russia. The "comprehensive and ambitious plan" is due to be published by the end of May 2022, but the European Commission has

already proposed to ban oil imports from Russia within six months[4]. If a reduction of energy imports from Russia is seen by Europe as an important element of the strategy to sanction the Russian regime, such a decision is not without cost and pain. It should be borne in mind here that some sectors and some countries are highly dependent on energy supply from Russia and that alternative supply sources are often unrealistic options in the short term. The adopted sanctions, of which the social and economic consequences have not been assessed, could trigger dramatic consequences for workers already exposed to high energy prices for months.

Sanctions against Russia and Belarus are necessary to stop the war and build a just and lasting peace through negotiations, but their consequences must be borne by the largest shoulders. The impact of the adopted sanctions should therefore be urgently assessed, based on social, environmental and economic criteria. Differences among countries when it comes to energy mix and energy security of supply, as well as the strategic importance of energy-intensive industries must be taken into account here. Adopted sanctions should be accompanied by a detailed plan to shelter European industries and their workers from their consequences.

Europe's domestic energy industries are part of the answer

Making Europe more independent from energy imports calls for a more ambitious promotion of domestic carbon-free energy production at the centre of the European Green Deal. Europe's domestic energy workforce, in energy production as well as in the manufacturing of energy equipment, are part of the answer to the current energy price crisis. Shifting the European energy system towards carbon neutrality must be based on an industrial strategy that will promote European industries and their know-how in the energy supply chain, respect the technology neutrality principle, and provide adequate support for the transformation of energy-intensive industries. It requires a strong Just Transition Framework that ensures good quality jobs and truly leaves no one or region behind[5].

The '"energy efficiency first" principle must be the cornerstone of the EU energy policy alongside a highly ambitious expansion of renewable energy and other forms of decarbonised energy. This is good for the climate, good for investment and good for jobs. The Energy Efficiency Directive, the Energy Performance of Buildings Directive, the renovation wave, and circular economy strategy, must deliver quick and significant outcomes as well as long-term investment.

In the same way, aggressively accelerating the deployment of renewable energies and other decarbonised sources of electricity, such as nuclear (where they enjoy public support), will also allow the EU to produce the volume of decarbonised electricity needed to move away from fossil fuels and reach carbon neutrality[6]. The acceleration of renewable energy expansion requires faster planning and approval procedures. This must go hand in hand with the development of the electricity network (interconnections, demand-response solutions, storage, capacity mechanism). At the same time, the EU should learn the lessons from the energy crisis and avoid slipping from one form of dependency (Russian natural gas) to another

[4] https://ec.europa.eu/commission/presscorner/detail/en/speech_22_2785
[5] See industriAll Europe Just Transition Manifesto
[6] See industriAll Europe position on Europe 2050 climate neutrality plan adopted in 2019, https://news.industriall-europe.eu/p/position-papers

dependency on LNG, or on hydrogen imports from another set of countries. Supply diversification, be it for energy imports or other raw materials, equipment and products, should be in line with Europe's human rights commitments at international level, respect workers' rights locally, while not compromising domestic energy needs and environment protection.

In the same way, where fossil fuels will be needed to ensure security of supply today, it should be borne in mind that chosen energy pathways must be compatible with the EU Climate Law as well as with the Paris Agreement objectives. From a climate perspective, LNG cannot be a mid-term or long-term solution since it would lock in massive investment in fossil fuel infrastructures. If necessary, these infrastructures must be designed to be used by decarbonised energy sources at a later stage. The absolute priority for investment and infrastructure development must be in decarbonised energy and energy efficiency.

EU energy policy needs a deep renovation

The European energy system is confronted with an unprecendeted crisis, which shows the weaknesses of a system too much based on market rules.

More than 20 years after the start of energy market liberalisation in the EU, it is time to make an open and independent assessment of the way energy markets are working, especially the wholesale electricity market, where fossil fuels disproportionately influence prices. IndustriAll Europe would like to see proposals to revise the current price-setting mechanism which is based on marginal pricing, and is highly disappointed by what the European Union Agency for the Cooperation of Energy Regulators (ACER) has recently proposed[7].

In an energy system where electricity will be the main energy carrier and where electricity will be more and more decarbonised, fossil fuels cannot be electricity price setters. This is especially true if commodity and carbon prices continue to soar. Tariffs of decarbonised electricity must be detached from fossil fuels and carbon pricing. Articles 5 and 9 of the EU's Electricity Directive should be amended to ensure that final consumers pay electricity prices that reflect the costs of the generation mix used to serve their consumption. They should also allow national governments to protect services of general economic interest designed to ensure that final consumers have access to a zero emission and competitive electricity supply that reflects underlying generation costs. Access to energy being an essential service enshrined in the European Pillar of Social Rights, the EU must secure the right to energy for all households with specific legislative proposals.

As a result, industriAll Europe demands a deep reform of the EU energy market, favouring long-term contracts, contracts for differences, and instruments allowing a better control and predictability on prices[8]. The reform of the EU energy market must also provide more certainty to small consumers when it comes to energy prices. The reform should introduce in the Electricity Directive a right for household consumers

[7] https://www.acer.europa.eu/events-and-engagement/news/press-release-acer-publishes-its-final-assessment-eu-wholesale
[8] See European Commission communication of 23 March 2022 https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1936

to receive a supply offer that protects them from short-term electricity price variations. This is not the case in the current Directive.

Finally, the assessment of the EU energy system should explore possibilities to allow Member States to make a larger use of Public Service Obligation provisions to ensure that energy is dealt with as a common good in a long-term perspective, and not purely as a commodity. For instance, EU legislation should entrust public enterprises and citizens' cooperatives with a pivotal role in energy supply. Given the intensity of the energy crisis we are in and the impact of sanctions, it is urgent for the EU to request Member States to develop detailed plans ensuring that enough decarbonised energy supply will be available in Europe in the mid and long term.

Increase solidarity between Member States

All Member States are exposed to the current energy price crisis, but not always in the same way. It is of the utmost importance for the countries within the EU internal market to act in a coordinated and solidaristic way, in terms of infrastructure developments and use (storage capacity, gas terminals, energy transport infrastructures), or when it comes to diversification of supply and joint purchase contracts. Tackling the energy crisis must be the absolute political priority of the EU, and the EU must make its main policy instruments fit for purpose: Recovery Strategy, EU Budget, Macro-Economic Governance, state aids. The EIB and ECB must target and coordinate their efforts to fix the current energy price crisis.

A transparent EU Emissions Trading System

Carbon pricing through the EU Emissions Trading System (EU ETS) is an important part of the EU climate policy jigsaw, and it must drive investments towards low-carbon technologies. The volatility seen last year on the EU ETS is, to a large extent, the result of the anticipation of future compliance requirements due to the revised 2030 emission reduction target, extended scope and other provisions of the Fit for 55 package. However, this volatility raises a series of major concerns. First, it threatens to undermine the competitiveness of industrial sites that are not fully protected against carbon leakage. Second, since carbon prices are passed on to consumers through electricity costs, the EU ETS is generating regressive impacts at the expense of low- and middle-income households, especially in countries with an electricity mix relying on fossil fuels.

The European Commission must therefore properly investigate how the EU ETS is currently working and limit undue speculation and hedging. If preventing hedging and speculation is not feasible, the EU should explore how to tax excess profits that these activities generate. In the same way, the EU and Member States should mobilise extraordinary auctioning revenues to finance energy efficiency programmes and the energy system decarbonisation with a focus on compensation of the consequences of the energy price crisis for small and industrial consumers.

More broadly, an effective carbon pricing policy should be based on price predictability for the mid- and long-term. This is key to drive investments towards decarbonised solutions. Carbon price trajectories must therefore be set by policies and not left to deregulated and opaque financial markets.

Conclusion

The energy price crisis has exposed a series of structural weaknesses in Europe. An over-dependency on energy imports has exposed Europe to price volatility on global markets. A deeply fragmented and market-driven energy system, based on short-term deregulated competition, has created additional uncertainty for industries and households. Increasing precariousness in Europe, marked by 20% of citizens living at risk of poverty and social exclusion, means many are unable to cope with rising energy prices and inflation: forced to choose whether to heat or eat.

Now is the time - and the current context is an opportunity that should not be missed - to radically reform our energy markets, grids and production to: 1) rapidly place decarbonised domestic energy sources at their core, while implementing plans for up- and re-skilling of workers, 2) address energy as a strategic public good that must be affordable to all, and 3) ensure the investment and supportive framework to transform our energy-dependent industries and their workforce[9]. European energy workers play a key role on this journey. They must be involved and a Just Transition must be guaranteed.

[9] IAE demands an integrated and coherent industrial policy framework to decarbonise EIIs made of support for innovation, measures to create lead markets such as carbon contracts for difference and public procurements, and robust instruments to avoid carbon leakage such as the carbon border adjustment mechanism. For further details, consult IAE position paper on the Fit for 55 package adopted in 2021 https://news.industriall-europe.eu/p/position-papers