

SUMMARY

The impact of energy policy on industrial competitiveness in France

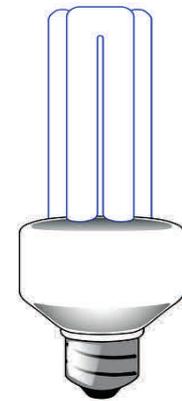
Recommendations for an energy policy supporting competitiveness

Energy policy in France must combine security of energy supply, environmental protection and energy prices (electricity, gas) that preserve the external competitiveness of the manufacturing sector. Those requirements must drive French national debate on energy transition.

The country features notable assets to exploit: its electricity is produced domestically, at a low carbon emission level, and at a relatively competitive price; several French companies ranks among the world leaders in energy utilities and sectors. However two major types of issues remain to be addressed : the first one relates to the evolution of the global energy context (upward trend of energy prices, energy markets volatility, deepening gap between gas and electricity prices in Europe and in the United States); the second one is linked to France's own energy situation (energy import costs that burden the national trade deficit, rise of the taxes that fund public support to renewable energy, gradual erosion of the competitiveness advantage that has resulted for a long time from electricity prices 20% to 30% lower than the average in Europe).

These issues pose a direct threat to the cost competitiveness of the most electricity or gas intensive industries, whose energy costs amount to a large share of, either their production costs (from 40% to 75% for the chemical, steel, and energy production sectors, etc.), or their operating costs (transport). For those industries, the situation is deeply worsened by the absence of an adequate political and regulatory framework. On the contrary, the costs resulting from energy and climate action regulations add up to the costs of energy supply. Furthermore, certain energy producing industries are in need of public policies that would help them to structure themselves and to become more competitive not only in the domestic market but also in the global market.

Only a competitive manufacturing sector can contribute to the prosperity of our economy, play a key role in environmental protection, and be a motor of innovation, which is essential to secure economic growth and to maintain a strong industrial basis in France as well as in Europe.



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Cercle de l'Industrie

Based in Paris and Brussels, Cercle de l'Industrie is a forum for dialogue and exchange.

It brings together the Chairmen of large businesses in all industrial sectors and policy-makers.

En 2011, member companies of Cercle de l'Industrie had a turnover of around 850 billions euros. They employed 2,5 million people.

French industrialists would like to be associated to the on-going debate on the energy transition and take part to the definition of its objectives and to its implementation. Members of Cercle de l'Industrie propose the adoption of a political and regulatory framework that is consistent and stable on the long term, ensures predictability to the business community, and supports the competitiveness of the manufacturing sector in France through:

- favouring access to moderate and foreseeable energy price levels (including taxes and charges),
- encouraging companies to invest in innovative technologies to improve their energy efficiency and to lower their carbon dioxide emission level,
- fostering development of domestic energy industries that are competitive.

The energy transition to a more sustainable economy must be guided by a number of clear cut principles

- ◆ **Act methodically, be consistent** : the means (improving energy efficiency, opting for certain energy technologies, etc.) should be separated from the ends (safety of supply, reduction of CO2 emissions, etc.) ; immediate (or short term) actions should distinguished from medium or long term plans (which will produce results in 2030 or 2050).
- ◆ **Keep energy transition costs under control** : French existing assets should be relied upon, while all available options in terms of energy sources (including non-conventional ones) should be kept open, and while implementing measures of energy policy should remain technologically neutral. Generally speaking, any target or draft measure should be subject to an ex-ante ex ante cost-benefit assessment, free from any bias.
- ◆ **Take into account the global context**, in particular the energy policy of our European partners, including Germany (whose financial support to the most electricity intensive businesses in the country has provided them access to electricity prices -taxes and charges included- very close from prices paid in 2012 by their French competitors), and extra-European (such as the United States, where the energy landscape is impacted by the exploitation of non-conventional hydrocarbons).

In operational terms, these principles must be supported by adequate energy policy tools.

- ◆ **Energy technologies and infrastructures** : on the short term (up to 2030), France should rely on the deployment of energy technologies that are competitive, mature and adapted to local geographical constraints (in terms of wind, sun, etc.). Our country should aim at maximizing the advantages it draws from those technologies and from corresponding energy infrastructures (production units, transport and distribution networks) throughout their whole economic life-cycle. In parallel, France should prepare the long term, the 2050 horizon, in two ways :
 - ⇒ supporting R&D (including demonstration projects) targeting the « excellence » technologies for which French expertise is widely recognized at international level, and new low carbon energy technologies that are still far from being competitive in France either because of geographical constraints (solar photovoltaic, etc.), technical difficulties (intermittency of renewable energy sources, storage, etc.), or funding difficulties (carbon capture and storage), or because they have a strategic significance for certain industries (alternative fuels, etc.) ;
 - ⇒ encouraging the development of energy industries that are competitive domestically, or on a global scale for those not competitive in our latitudes. It is essential not to penalize the existing « excellence » energy industries (in the sectors of oil, gas, electricity including nuclear) in which France takes advantages from leading businesses on a global scale, and also to support the development of new energy industries (such as onshore and offshore wind energy, solar photovoltaic, biomass, electricity storage, electric and hybrid motors, hydrogen, 2nd et 3d generation biofuels, circular economy, CCS, etc.) The French industrialists are willing to participate in the identification of the energy industries of the future, a major issue for France.

- ◆ **The pricing of energy.** On the short term, it is essential to allow French companies to get access to energy at a price (including charges and taxes) enabling them to preserve their cost competitiveness in comparison with their European and extra-European competitors. This implies to adopt a number of measures, among which:

- ⇒ allowing manufacturing companies in France to secure their energy supply on the long term ;
- ⇒ re-thinking the entire public funding scheme for renewable energy sources ;
- ⇒ identifying the manufacturing sectors most (directly or indirectly) vulnerable to international competition in terms of energy costs (especially electro-intensive manufacturers), and adopting targeted measures aimed at preserving their competitiveness.

On the long term, energy tariffs and prices must reflect the actual production and supply costs, in order to send consumers a « signal-price » encouraging them to improve their energy efficiency. Such a « truth policy » should go along with measures aiming at preserving the energy cost competitiveness of the most energy intensive companies.

- ◆ **Energy efficiency.** In the short term, it is necessary to support the energy renovation of the French industrial stock, by helping companies to identify and fund the energy efficiency measures that will allow to prepare for the future. Besides an industrial branch-based approach, a holistic approach is needed to ensure that all the key players (producers/consumers; industrial platforms/ metropolitan areas) cooperate actively.
- ◆ **The energy and climate action policy of the EU.** As from now, France should promote a re-balancing of European energy and climate action policies among its European partners. The focus should be on external competitiveness; energy prices in Europe are key in this regard. A reflection should be conducted jointly by French public authorities, energy producers and consumers on the European energy and climate action policy as from 2020, in the context of the coming debate at European level.

On an intra European level : The EU should adopt a climate objective to be reached by 2030 that would be technologically neutral and expressed in CO2 emission level reduction, instead of multiplying intermediate objectives (expressed in renewable energy, or energy efficiency terms). Given the de facto interdependence among EU member states, the EU should focus on ensuring that unilateral decisions taken by some member states do not destabilize the energy supply or energy prices at European level, or provoke outsourcing to third countries.

- ⇒ There is a need for more coordination of member state energy policies, while national sovereignty over the energy mix must be preserved. France could propose to its European partners, especially to Germany, to work together to bring national policies on regulated prices, subsidies, capacity mechanisms and energy efficiency closer.
- ⇒ The EU should make progress towards a genuine pooling of Member States assets, in order to build a high level R&D centre of competencies on the technologies that are needed for the energy transition.
- ⇒ EU competition policy and state aid control should take into account the need to preserve energy cost-competitiveness for the most energy intensive companies.

At global level: above all, the EU should ensure European companies a « level playing field ». Investments are attracted where production costs -and energy costs in particular - are lower. The EU must take this reality into account, display a sense of realism and avoid setting any unilateral CO2 emission reduction objectives that would be too ambitious.