

## Introduction

- ERT Members lead European companies across a wide variety of sectors, including major energy producers & suppliers, as well as energy-intensive industries. We strongly condemn the invasion of Ukraine by Russia and support the EU's efforts to mitigate the impact of the war on the energy system in Europe.
- Although today's high energy prices were first caused by the scarcity created by the economic boom and the rise in energy demand globally after the lockdowns during the Covid-19 pandemic, prices have surged further due to the war in Ukraine and because of the EU's dependency on fossil fuels, in particular gas, oil and coal from Russia. The geopolitical instability and uncertain outlook propel an increase in the risk premium – and thus higher prices – to obtain energy.
- This statement contains our main views on 3 points: 1) on how to reduce this dependency whilst accelerating the energy transition; 2) on the role of market principles and 3) on the need to preserve the competitiveness of European industry.

## Key messages

1. The only way to become more autonomous in our energy security is to **speed up the transition toward decarbonisation and build a strong Energy Union**. To this end, it will be critical to diversify the supply of energy (in particular gas), accelerate the domestic production of renewable energy (including hydrogen, biomethane and biomass), and improve energy efficiency (especially through smart grids and storage). ERT remains supportive of the ambition of the EU Green Deal and its targets to achieve climate neutrality by 2050 and at least 55% emissions reductions by 2030.
2. ERT recognises the burden that increased prices have across society and particularly welcomes measures to support vulnerable households. We also continue to emphasise the **long-term benefits of stable, well-functioning energy markets** for consumers, which are European citizens as well as companies. Building on the recent report of the EU Agency for the Cooperation of Energy Regulators (ACER), the mechanisms of the energy market remain sound, and any short-term measures should be coordinated across the EU and aligned with the long-term objectives of market integration and decarbonisation.
3. In addition to ensuring energy availability and affordability for European consumers, it is essential to maintain through the current crisis the **competitiveness of European industry** as one of the main pillars of European economic prosperity. Whilst already having started to ramp up investment for the green energy transition, European industry is currently facing additional energy costs that significantly undermine its global competitiveness. Addressing this predicament requires rapid action by the European Commission and the EU Member States to promote the energy transition. These actions include the scale-up of energy efficiency, renewable and decarbonisation technologies, the stimulation of the uptake of non-fossil fuel-derived energy by industrial consumers and cost relief measures and the mitigation of carbon leakage risks.

# 1. Views from industry on reducing energy dependency on Russia

## 1.1 Reducing our dependency on Russian gas

### 1.1.1 Analysis

- The main challenge is to increase the diversification of supply and enhance the liquidity of the markets, i.e., increase or substitute supply and decrease demand. This could be strategically managed in the long term, but is more challenging in the short or even medium term.
- Up to 155 bcm of Russian gas imports may need to be substituted yearly. For the coming winter, in the event of a complete interruption of Russian supplies, Europe would not be able to cover its usual gas demand. The objective of achieving a 2/3<sup>rd</sup> reduction in the EU's dependence on Russian gas by end 2022 is a huge challenge.
- If there is insufficient gas available in Europe (because of a lack of supply) or if competition on the demand side makes gas prices rise even further,<sup>1</sup> several energy-intensive industries will face further loss of competitiveness, triggering significant and immediate risks of carbon and industry-leakage.<sup>2</sup>

### 1.1.2 Recommendations

- The **EU must reduce its demand for gas**. Significant coordination across the EU is needed on regulatory instruments alongside greater energy efficiency. Every bcm of gas saved and stored today will make a difference for the coming winter season.
- The **EU must activate all options to produce gas and diversify its gas supply**, in particular: 1) increase domestic natural gas and biomethane as well as renewable and low-carbon hydrogen production and, 2) diversify gas supply via LNG and pipeline imports. Furthermore, when possible, the electrification of heat, transport and industry, the increase of economically relevant interconnections between EU Member States and cooperation with the UK could further contribute to decreasing dependency on fossil fuels.
- ERT supports measures to ensure **gas storage** is sufficiently full as Europe heads into winter. Such measures should complement and not supersede market-based measures. The next few months will be critical to achieving the storage targets proposed by the Commission (80% by 1 November this year). Incentives to manage the current negative summer/winter spread must be in place now to achieve the desired level of stocks.<sup>3</sup> The regulation on gas storage should consist of a temporary framework after which harmonised market-based rules for gas storage should be put in place to ensure the integrity of the Single Market.

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<sup>1</sup> If there is enough gas, the price regulates the supply-demand balance, so there is efficient resource allocation. Tampering with the price maintains/increases demand, potentially amplifying the risk of security of supply. In case of a gas market failure, demand ramp-down will be needed, and a mechanism of “reverse” auctions could be considered, with appropriate compensations.

<sup>2</sup> The situation is already extremely critical in the aluminium and steel industries, in which some European operations are already downscaling or closing. Also, the cement and chemical sectors are under immense pressure.

<sup>3</sup> In order to meet the EU's gas storage obligations, filling targets should be defined through a Cost Benefit Analysis (CBA) and in a transparent way, adapted to the resources and requirements of each country/region. ERT supports incentives, such as Carbon Contracts for Difference (CCFD), rather than penalties on market participants, given the risk that market participants could exit rather than meet costly requirements.

## 1.2 Accelerating the deployment of renewable and low-carbon energy

- ERT supports the ambitions of **REPower EU**. We welcome the announcement of the acceleration of the IPCEI projects and the call for a swift adoption of the Renewable Energy Directive (RED). We invite the Commission to come forward with more concrete proposals to make REPower EU become a reality over the coming weeks, including for the first industrial-scale renewable and low-carbon hydrogen plants.
- We welcome the goal in REPower EU to accelerate **permitting procedures** which are crucially important, both for renewable and low-carbon energy deployment (electricity, biomethane and hydrogen production) and for the expansion and digitalisation of networks. Both should be qualified as investments in the overriding public interest. We urge the European Commission to speed up its work on guidelines which need to be adhered to in the EU Member States and on stimulating reforms in the Member States to drastically simplify the permitting procedures, including through new pieces of legislation and less conservative, more agile regulation procedures (e.g., for the estimation of existing grid connection capacity).
- **Access to decarbonised and renewable energy** is paramount, especially to help to decarbonise hard-to-abate sectors and replace Russian gas. Maximising the production of renewable electricity, biomethane and hydrogen in Europe is a priority. European players master electrolysis and Carbon Capture technologies and should receive the right incentives and framework rapidly to deploy projects, and replicate and export their standards. ERT also encourages the further promotion of Carbon Capture and Storage/Use, and the swift adoption of the Hydrogen & Decarbonised Gas Market Package. This should enable the roll-out of regulated public backbone infrastructures to complement existing economically viable private networks.
- Furthermore, **European measures for energy efficiency policy must be accelerated** as there is significant potential for reducing energy demand across various sectors (including buildings, industry and transport), as highlighted by the IEA.<sup>4</sup> This potential can be realised through various measures such as: strengthening the provisions of the Energy Efficiency Directive to mandate the implementation of energy audits, accelerating the deployment of existing solutions and technologies (e.g., efficient technical buildings systems, equipment and appliances), and building automation and energy management systems.

## 1.3 Investing in infrastructure, building flexibility and unleashing private investment

- The EU must invest simultaneously in the **expansion and digitalisation of electricity infrastructure as well as the build-up of hydrogen infrastructure** to accelerate the roll-out of renewable and low-carbon power and enable efficient integration.
- **Barriers for cross-border trade should be removed** so that renewable Power Purchase Agreements (PPAs) can be available regardless of country of origin. Guarantees of Origin for renewable energy should be designed in a way that does not impose any hurdles on the ramp-up of renewable energy. Area price risks should be handled by efficient financial market instruments.
- Beyond the supply side, the **demand side** has a key role to play: existing regulatory barriers and technical requirements should be eliminated to enable flexibility and demand-side resources to participate in all electricity markets. Supporting investment will also be important, to enable grid-integrated demand management solutions in

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<sup>4</sup> A 10 point Plan to Reduce the European Union's Reliance on Natural Gas, IEA, March 2022

industry, such as heating, energy-efficient buildings and alternative fuelled vehicle charging stations.

- The European electricity grid will be instrumental to manage and integrate the increasing number of renewables and distributed energy resources. A **competitive framework for investments in the grid, especially in smart grids**, will have to be in place. It is key that long-term PPAs are promoted amongst users in industry so investors can speed up decisions to add capacity to the market.
- **More investment in the energy system by the private sector is required**, amongst others for the conversion of industrial production to climate-neutral processes based on electricity or hydrogen. Appropriate incentives, facilitation of permitting and funding schemes, and Carbon Contracts for Difference can trigger the switch to more renewable energies. Although decarbonisation of the energy mix is a priority, security of supply in the long term must be addressed through additional infrastructure investments for which visibility on prices will be required by investors.
- As renewable & low-carbon energies and network investments are very capital intensive and have long payback periods, **long-term visibility of national objectives and regulatory certainty** should be guaranteed to facilitate private investment decisions and reduce the cost of capital.

## 2. Principles for well-functioning gas and power markets

- ERT recognises the burden that increased prices have across society, in particular on vulnerable communities. **Measures protecting vulnerable consumers and industries should be the main solution**, and it is key to identify for each economic sector which measures are best suited.
- According to the latest report of the EU's Agency for the Cooperation of Energy Regulators (ACER), the **mechanisms of the energy market remain sound**, pricing commodities according to scarcity/risk expectations.<sup>5</sup> ERT agrees that ultimately the market is the most well-suited tool for an efficient allocation of resources and for supporting the leap forward in transitioning to a sustainable low-carbon energy system, especially from an investment point of view.<sup>6</sup> As stated by ACER, 'quick fix' interventions in the energy market could break the rule of law, undermine the certainty for market participants and destroy the efficient price formation as well as the credibility of Europe as an attractive destination for the energy supplies it needs (at competitive cost).<sup>7</sup>
- Concerning the current exceptional circumstances, ACER specified that **any intervention in the market needs to be carefully assessed**. Price signals in gas and power wholesale markets remain necessary to trigger additional supply (and attract sufficient volumes) and reduce demand to relieve the price pressure and avoid

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<sup>5</sup> According to ACER's assessment ([link](#)), actual market design keeps electricity costs down for consumers and ensures security of supply. There is no benefit in revolutionising the design of the electricity market in the short-term. Both the Commission and ACER have repeatedly stated that marginal pricing is the keystone of the internal electricity market, without which it simply cannot work.

<sup>6</sup> Based on ACER's findings, the design of the wholesale electricity market can benefit from improvements, such as better hedging instruments to protect business from market volatility.

<sup>7</sup> Quick fixes risk to hurt the international competitiveness of European industry and distort efficient short- and long-term incentives. They would for instance lead to an increase in the cost of capital and higher supply costs in the long-term. Such interventions could jeopardise the deployment of renewables and storage, and thus greatly hamper the green transition, as they would drive investment to countries with stable regulatory frameworks.

unwanted disconnection of consumers. Any short-term policy measure should therefore be temporary, proportionate, and flexible and should be designed to minimise the impact on efficient operations and the rebalancing capacity of the market. Uncoordinated measures will lead to fragmentation of the EU energy market and will be costly for consumers and governments in the long term. Short-term measures should thus be aligned with the overarching objective of preserving the Energy Union and not hamper the longer-term goals such as decarbonisation, security of supply as well market integration and liberalisation.

- The EU needs to shape a **real Single Market in Energy**, ensuring better coordination and cooperation between EU Member States, in order to become more energy resilient as a continent. Any modification of the electricity market design should be carefully considered, including through thorough consultation with the private sector so as to avoid unintended negative consequences.
- We have taken note of the intention of the Member States and the European Commission to play a role in the **common purchase of gas** on the market. It is essential that private actors are fully involved as they are experienced in concluding and implementing such agreements, with the entire logistical challenges this entails.
- The role of the public sector is to have **Emergency Plans** in place. The European Commission should continue to coordinate among all 27 EU Member States and with Norway and Switzerland and communicate such plans to enhance transparency and calm down the markets.

### 3. Maintaining the competitiveness of European energy-intensive and hard-to-abate industry

- In the context of exceptionally high energy costs, the EU should specifically take into consideration the **significant challenges faced by the European energy-intensive and hard-to-abate industries**. They are already facing an investment-led pathway for decarbonisation, in line with the EU's net-zero agenda, in which the appropriate incentives and viable business cases are often lacking. The current energy and supply chain crisis is putting further pressure on several key industrial sectors, straining their competitiveness to an unprecedented degree, not only in their domestic markets but also in their exportability. Whilst capacities in Europe had to close already, similar volumes are starting up outside of Europe.
- In this context, the EU should intensify efforts to **support the innovation path of European industry**, taking into account sector-specific needs. The European Commission and the EU Member States should facilitate a rapid scaling up and adoption of technologies that will drastically reduce CO<sub>2</sub> emissions, maximise energy efficiency, support economic resilience and secure job creation. To that end, it is crucial to fast-track the removal of barriers at the national and EU level for permitting, provide funding and shape a legal framework for the deployment of technologies related to energy and resource efficiency (including the use of non-recyclable waste/biomass waste as alternative fuel and CCU/S).
- Mechanisms that encourage **uptake of non-fossil fuel-derived energy** by industrial consumers, such as green Power Purchase Agreements and the development of on-site renewable energy and hydrogen production projects should be enhanced.
- In addition, EU industry should also be a recipient of appropriate **relief measures**, with instruments considered for other European energy consumers. The approach should reflect the current emergency situation while avoiding interference with market rules as much as possible.

- Finally, given the existential risks precipitated by the current crisis on European energy-intensive and hard-to-abate industries, there should be an appropriate consultation of industry to **review the current and proposed mix of instruments that aim to promote the energy transition as well as the mitigation of carbon leakage risks**. This should comprise the review of the ETS and the CBAM proposals in the 'Fit For 55' package as the cost difference to competitors outside Europe has increased substantially and is exacerbating the carbon leakage threat for European producers. The parallel and interdependent challenges of preserving the competitiveness of critical European value chains, decarbonising the economy, and reducing the dependency on Russian fossil fuels, call for swift, decisive and holistic actions.