

EU energy costs more than twice those of US

Difference with trade partners highlighted

By Pilita Clark in London
and Christian Oliver in Brussels

The energy cost gap between Europe and its top trading partners is widening, according to an official paper to be released by Brussels that shows industrial electricity prices in the region are more than double those in the US and 20 per cent higher than China's.

Industrial gas prices are three to four times higher in the EU than comparable US and Russian prices and 12 per cent higher than in China, says the European Commission paper, based on the most comprehensive official analysis of EU energy prices and costs.

"While Europe has never been a cheap energy location, in recent years the energy price gap between the EU and major economic partners has further increased," says the paper, a draft of which has been seen by the Financial Times.

It is to be released by the commission this week as part of a climate and energy package that will shape EU energy use up to 2030. The package has prompted debate across the bloc about whether Europe's competitiveness is being affected by its existing climate and energy policies, which only last until 2020.

Lakshmi Mittal, chairman and chief executive of the Arcelor-Mittal steel group, writes in today's FT that the new energy and climate package must "close the huge cost gap that is threatening Europe's energy-intensive industries".

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at our EU facilities, our costs would drop by more than \$1bn a year," says Mr Mittal.

The Brussels paper says price differences between the EU and its economic partners have widened for a number of reasons, some of which the EU has little ability to influence. These include domestic subsidies in some producer countries and the growth of US shale gas.

The paper also says the supply of electricity is more reliable in most EU member states than in the US, China, Russia or Japan, which means EU industries do not face the costs of disrupted power supplies felt by rivals abroad.

Beyond 2020, it adds, costs are likely to stabilise and then slightly decrease as renewable energy replaces fossil fuels.

It will be closely read as Brussels this week unveils targets for reducing greenhouse gas emissions that must be met by 2030.

Britain, France, Germany, Italy, Spain and the Netherlands are seeking a binding cut of at least 40 per cent from 1990 levels. But commissioners with industrial portfolios are pressing for a 35 per cent reduction.

People close to the negotiations say individual European countries will probably not receive binding renewables targets, although there will be an overarching target of up to 27 per cent for the EU as a whole.

The commission is also due to release guidelines on the exploitation of shale.

COMMENT

Rewrite energy policy and reindustrialise Europe

Lakshmi Mittal

On Wednesday the European Commission will put forward its energy and climate policy package for 2030. Brussels should take this opportunity to close the huge cost gap that is threatening Europe's energy-intensive industries, and to address the over-regulation that is harming the competitiveness of European manufacturing. Failure to act could erode Europe's manufacturing base.

ArcelorMittal is a global company. We produce and sell steel in developed and emerging economies. Despite the tough economic environment, we have done everything possible to preserve plants and jobs in Europe.

The EU says the manufacturing industry is a motor for growth. Unfortunately, EU energy and climate policy is punishing the steel sector and other energy-intensive industries, which is having a profound impact on our competitiveness.

Compare this with the US, where shale gas and more industry-friendly policies have led to much lower costs

for industrial energy users. If we paid US energy prices at our EU facilities, our costs would drop by more than \$1bn a year. At a time when market demand remains 25 per cent below 2007 levels, it is critical to address this imbalance.

At stake is more than the competitiveness of the European steel industry. Many other global, energy-intensive industries with European operations find themselves in the same position. Unless the EU takes action, costs will continue to rise. This could destroy the manufacturing industries that are the backbone of Europe's economy.

The European steel industry backs measures to encourage cost-effective development of technologies that reduce carbon emissions. We provide steel for wind and solar energy farms. High-strength steel helps build lighter cars with lower emissions. In many cases, over the lifecycle of a product, steel has a lower carbon footprint than alternative materials.

However, there is no realistic prospect of renewables powering the European steel industry soon. Despite many improvements, the available technologies are currently limited, placing the EU's unrealistic

emissions reduction requirements out of reach even for the most advanced plants.

Furthermore, the switch to renewable energy that is taking place in many European countries is not being managed in a market-driven and cost-effective way. This deepens Europe's competitive disadvantage.

We, together with other energy-

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intensive industries, want a number of measures to be taken to restore Europe's global competitiveness.

The 2030 Energy and Climate Framework will determine the direction of European energy policy for the next decade and a half. The proposals discussed so far include stringent emissions reduction targets that would block the reindustrialisation of Europe. These

measures will raise energy costs further and lead to greater uncertainty. Instead, policy should create momentum for the benefit of all EU industries.

It should begin by addressing the failings of the Emissions Trading System, which introduced tradeable permits to limit greenhouse gas emissions. In its current form, the ETS goes against its original aim of reducing emissions in a cost-effective way by encouraging industry to cut energy usage and invest in using more renewable energy. Instead, it has become another tax.

As manufacturing plants ramp up production in a recovering economy, they will use up the surplus carbon credits accumulated when plants were idled or output was reduced during the recent recession. By 2020, even the most efficient steel plants will be buying about 30 per cent of the emission allowances they need. This is because the allocations they receive from Brussels reflect efficiency benchmarks for steel plants, set by the commission, that are simply unachievable.

Two reforms are necessary. First, the commission should alter the carbon credits system to allow our

industry to contribute to economic growth. Credits should be allocated based on realistic benchmarks that reflect the operating reality.

Second, steps are needed to encourage the "sustainable decarbonisation" of the power sector. Industrial power users should not pay more than their fair share of the cost of switching electricity generation from fossil fuels to renewable technologies.

Today's world is more interconnected than ever. It follows that restrictions on CO₂ emissions and greater use of renewable energy – the need for which we accept – should be negotiated at a global level. The EU needs a CO₂ reduction target that is based on realistic assessments of what each sector can achieve, and in line with commitments from our international competitors. This is a prerequisite to keeping European industry competitive and its economies prosperous. At the same time, the EU and its global partners should agree a plan to tackle CO₂ emissions, and apply it fairly. And soon.

The writer is chairman and CEO of ArcelorMittal