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EUROPE'S INDUSTRY: HALTING THE DECLINE

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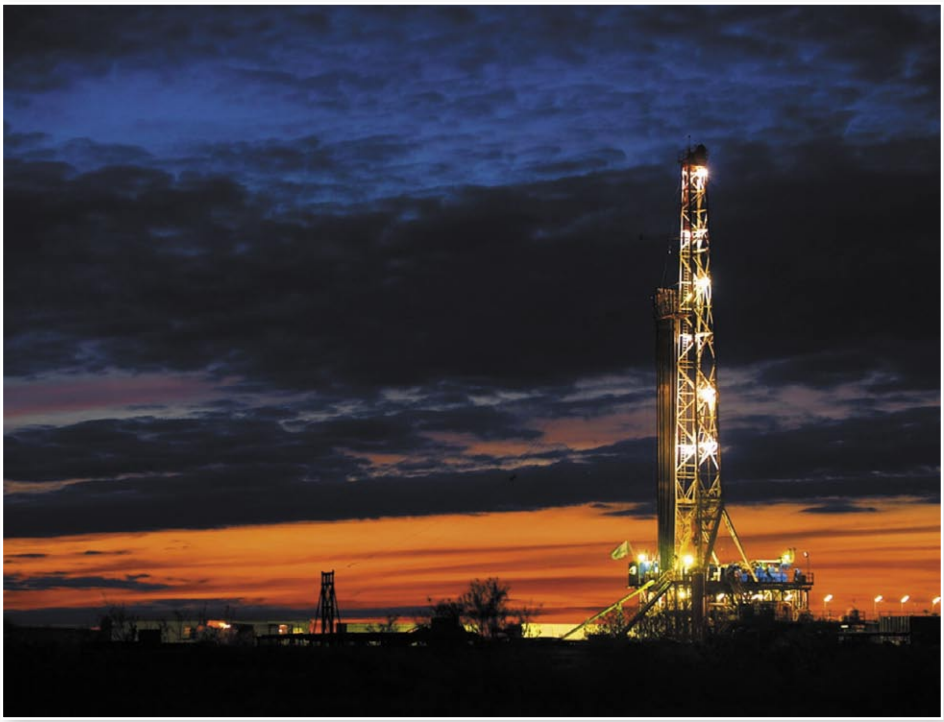
US 'shale boost' provokes EU fears and indecision



A US industrial boost following its ability to tap abundant shale gas reserves is provoking fears that imperilled energy-intensive European businesses will find it harder than ever to compete.

But calls for the EU to deliver a 'silver bullet' and emulate the US by tapping shale gas through 'fracking' (see background) remain controversial because of environmental and logistical concerns.

Partly due to its shale reserves, the United States is expected to become almost self-sufficient in oil and gas by 2035 and will overtake Russia in gas production by 2015 and Saudi Arabia in oil production by 2017, a recent International Energy Agency forecast shows.

Advances in drilling and fracturing techniques enabling easier access to gas supplies have led to significant falls in US gas prices since the start of 2010, whilst European prices remain stubbornly high.

Industrial manufacturers have announced investments of more than $90 billion (€68 billion) in the United States to take advantage of its cheap natural gas, according to calculations that underline the revolutionary impact of shale gas on US industrial growth.

Astonishing impact on the US economy

Petrochemicals, fuel, fertiliser and steel companies, attracted by cheap energy are amongst those committed to multi-billion dollar investments, according to Dow Chemical, which has announced a €3 billion investment in Texas and Louisiana and calculated the total value of US industrial investments at $90 billion or more, the Financial Times reported in December.

The development has spurred fear amongst concerned European manufacturers that they will be unable to compete in energy intensive sectors. It is clear that industry such as steelmaking, currently slumping in the EU, is shifting towards the United States after decades of decline.

Nomura analyst Neil Sampat pointed out that steel giant ArcelorMittal has almost no further capital spending planned in Europe for either steel production or iron-ore mining, explaining: "Gradually, the company is changing its geographical exposure to North America from Europe."

Gordon Moffat, the director-general of Eurofer, the European Steel Association, said: "It's quite astonishing the impact that shale has had, I think we're going to see the re-industrialisation of the United States. We're already seeing transfers of production from Europe to the United States: it's

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already clear in the petrochemical sector. And it's also happening in the steel industry."

A wake-up call for Europe

"Shale gas is leading to a situation where the US has a much higher level of energy security than in the past, as well as lower energy costs," said the European Policy Centre's chief economist, Fabian Zuleeg.

This is clearly encouraging American manufacturing, said Zuleeg, and represents "a wake-up call to Europe that we also need to get our act together on energy policy".

"We need to assure an affordable, secure energy supply across Europe, with a single market for electricity," Zuleeg added.

If analysts agree with the diagnosis, they are unsure of the remedy, especially relating to any plans for Europe to follow the US example on shale, with the continent constrained by different geography and attitudes.

Although he believes that shale gas represents a silver bullet against crisis-hit industries in America, and that it could perform the same role in Europe, Eurofer's Moffat acknowledged the difficulties.

"The US is perhaps better placed to exploit shale gas because of where it is located, outside population centres, whereas in Europe, which does have shale gas, it's more complicated because it is closer to populated areas and we are more concentrated with our population," Moffat explained.

Caution surrounds shale in Europe

Europe has taken a far more cautious approach partly because of the difficulties posed by population density, but also in response to environmental risks and fears, which have led to countries such as France and Bulgaria banning shale exploration.

An influential report – Shale gas: unconventional and unwanted – published by environmental group Friends of the Earth last September, claimed Europe risks side-lining its vision for a more sustainable, low-carbon energy future, unless it permanently closes its doors to fossil fuels like shale gas.

Zuleeg encapsulated the ambivalence of the European response, saying: "This does not necessarily mean the EU should go down the route of shale gas, although we should also not dismiss it out-of-hand."

The United Kingdom lifted its own ban on shale gas exploration on 13 December, despite environmental fears, as it aims to become a European leader in the sector.

UK gives green light to shale exploration

The UK approval of shale gas fracking came some 18 months after its own authorities halted the unconventional exploration process after it set off earth tremors at one site. Shale reserves are nevertheless viewed as a way to counter the UK's fall in natural gas production.

The European Parliament rejected a ban on shale gas on 21 November and asked for a robust regulatory regime to address environmental concerns.

The Commission is meanwhile expected to come up with a framework for managing risks relating to shale gas this year.

Whether through efficient shale exploration, or otherwise, Zuleeg is convinced that secure energy prices are key to European industrial recovery.

"Investment in pan-European energy transmission [smart grids] is desperately needed if we want to bring renewables on line to a greater degree and create more security of supply, as well as reducing costs," he said.

Industry claims EU climate laws are squashing recovery

Heavy industries claim to be unfairly hit by rising energy prices caused by the EU's climate policies. But manufacturers are simultaneously being accused of profiteering from the bloc's Emissions Trading System (ETS) amidst controversy over the real impact of climate policies on industrial activity.

A particular concern of energy-intensive industries like steel and chemicals is that EU policies on climate and energy have seen electricity suppliers passing on price increases to them. Energy prices rose 28% between 2003 and 2011.

"The high price of energy is becoming a significant disadvantage for industry vis-à-vis its global competitors," said Markus Beyrer, director-general of BusinessEurope, the European employer's association.

The European Steel Association, Eurofer, estimates the total cost to the steel industry of the ETS at between €11 billion to €15 billion. "This affects directly our competitiveness compared to the rest of the world, who don't have these costs," Gordon Moffat, Eurofer's director-general, told EurActiv in an interview.

Moffat does not advocate dismantling the ETS, but said: "We need an abandonment of the one-size-fits-all policy. We have to recognise that, post-2020, we must take account of the situation of individual industries and taking account of their ability."

Abandoning fixed targets common for all industries, basing carbon targets on the relative technologies available in each industrial sector or considering exemptions from the ETS system are all options Moffat thinks should be considered.

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UK compensation scheme has been controversial

However, where such options have already been considered – such as the UK – the results have been controversial.

In Britain, a £250-million (€297.3-million) compensation scheme aims to reduce the impact of climate policies on the cost of electricity for energy intensive industries in order to help them compete internationally. This is aimed at avoiding carbon leakage, or the movement of heavy manufacturing abroad, to countries where emissions are not controlled to such an extent.

The British Parliament's Environmental Audit Committee MPs said this month, however, that the compensation scheme was a bad idea, claiming "these companies are making windfall profits from the very same scheme by selling surplus emissions allowances."

Steve Radley, director of policy at the UK manufacturers' organisation EEF, criticised the MPs' report saying they had "mixed up electro-intensive industries with carbon-intensive industry", although he added that both industries have a strong case for support even if they face different issues.

The case underlines the problem facing big industry seeking to plead its case in the face of existing policy: the picture is mixed, with recriminations flying in many directions.

"It seems to me that the people who are benefiting most from the ETS are financial services, they are the ones who are pushing for this," said Eurofer's Moffat.

Meanwhile, the Transport & Environment environmental group today said that another big industry – air carriers – are profiting from the ETS. A study it commissioned concluded that the airlines made €870 million in windfall profits from the ETS.

Similar accusations that industry has benefited from the allowances system are being leveled against the steel industry,

said Eurofer's Moffat, who believes that attempts by the Commission to 'backload' carbon emerged from the belief that industry is profiteering.

Commission treating industry like 'robber barons'

Under the backload proposal, the Commission will delay the sale of carbon credits in an effort to prop up the flagging market price of the commodity.

"It's almost as if they say 'you have free allowances, you've banked them', which is allowed by the way, the Commission itself proposed it in the system," Moffat said.

"And now they're acting as if we were some sort of type of robber barons because we have gone through a situation where 40% to 50% of our production has been reduced, which is a cost to us, but we have these free allowances which are hidden away somewhere. This is complete nonsense!"

European business is united against the backload position. "Manufacturing businesses earn their money from manufacturing and not from carbon trading," said Peter Botschek, a director with European Chemical Industry Council (Cefic).

"That is why they are supporting the EU Alliance of Energy-Intensive Industries' and Business Europe's position against policy intervention in the carbon market and against increasing the EU cost base," he added.

That campaign will need to marshal its argument, however, to withstand the growing voices of those complaining that the scheme is working in favour of industry.

The British Parliament's environment committee has called for a review in the UK on how the ETS policies are affecting business, and who is really benefiting.

Such a review might be necessary at EU level too, to disentangle the recriminations and create a solid basis for future policy.

Industrialists call on EU to halt the decline

After a year of closures, sackings and cut-backs, arguments about how to turn European industry around will be to the fore this year as debate intensifies around the correct policy response, and doubts linger over the EU's ability to deliver.

A fall in the demand for steel of 8% during 2012 saw permanent closures of furnaces across Northern Europe, whilst others were mothballed in an attempt to stave off further closures.

European steelmakers have written down major investments as the supply of steel and nonferrous metals products continues to outweigh demand, reflected in results for key steel-users such as the automobile sector.

French carmaker Renault's decision on 15 January to cut 7,500 French jobs by 2016, followed similar announcements affecting the European operations of Fiat, Ford, General Motors, Opel and Peugeot.

Between 2008 and 2012, 6.8 million jobs in construction and industry were lost across the EU, according to BusinessEurope, the group representing the member states' largest business federations.

"The severity of the crisis is producing a painful hangover," said the group's director-general, Markus Beyrer.

Antonio Tajani, European commissioner for industry, in October acknowledged "we've made mistakes in the past, we've let industry and SMEs fend for themselves for too long," as he presented a review and re-launch of the Commission's 'Integrated Industrial Policy for the Globalisation Era', first launched in 2010.

Commission response seeks pre-crisis industry levels

Tajani declared the aim to raise industrial activity to 20% of EU gross domestic product by 2020, compared to 16% today, taking it back up to pre-crisis levels.

The strategy sets out six priorities for short-term action: advanced manufacturing technologies, key enabling technologies, bio-based products, construction and raw materials, clean vehicles, and smart grids.

This approach was subsequently endorsed by the European Parliament and Council, responding in part to growing disquiet in the member states that the EU has paid a lot of attention to austerity, but made little effort to open markets to stimulate investment and growth.

Doubts remain, however, about the EU executive's ability to deliver on the aim, but also about its underlying diagnosis.

"The picture is not as bleak as some of the stark figures suggest," said the European Policy Centre's (EPC) chief economist Fabian Zuleeg.

Zuleeg says that even in the automobile sector, where the headlines appear most bleak, there remain many high-technology automobile-related industries providing much in-demand industry in Europe.

"The plain problem is that there has been over-supply in that sector, and a re-modelling of the sector towards high-skilled factories – where the EU can compete – is necessary," he adds.

Any move by the Commission to encourage protectionism, or to subsidise the industries that will not yield future competitive industry would be a mistake, Zuleeg says, claiming instead that conditions nimbler, more high-skilled industries need to be pushed.

By contrast, for Gordon Moffat, the director-general of Eurofer, the European Steel Association, the EU should revisit some of its existing policies across other sectors to bring down prices for industry and defend the interests of the continent more robustly.

A particular beef of big industry is that EU's policies across climate and energy briefs have seen electricity suppliers pass on price increases to high energy consuming industries.

"Climate, in particular. Energy, as well," Moffatt told EurActiv in an interview. "Since 1952 and the European Coal and Steel Cooperation Treaty, this is the first time ever that we're being told that we cannot increase

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capacity," he said referring to the EU's emissions trading scheme for carbon dioxide.

"Now, steel is essential for the manufacturing value chains. If any part of that chain breaks, then our experience is that you will see large part of manufacturing lost," Moffatt added.

"The high price of energy is also becoming a significant disadvantage for industry vis-à-vis its global competitors," BusinessEurope's Beyrer agreed. Energy prices rose 28% between 2003 and 2011.

Key issue is delivery

Whether advocating a roll-back in current policy, or more encouragement of high-tech industry, commentators share doubt over the ability of the Commission to push matters ahead effectively.

Such fears reflect residual disappointments with efforts made at national level. Last year, a high-profile attempt to marry two of the continent's largest defence industry conglomerates, Franco-German EADS and the UK's BAE Systems, was called off. The move cast doubts on intentions to create a global champion.

The EPC's Zuleeg points to the pivotal role that Commission President José Manuel Barroso must play.

"Much will depend on industrial policy not being sidelined amidst attempts to focus on the pressing agenda of banking union, and continuing to follow through with the economic agenda," he said.

The success of industrial policy will also be intertwined with the controversial EU budget debate. A key element of the Commission's attempt to revive Europe's industrial might relies on increased funding for research, with an €80 billion funding boost for the proposed 'Horizon 2020' research and innovation fund and €2.5 billion for the Competitiveness of Enterprises and SMEs programme from 2014 to 2020.

"A future oriented Industrial Policy ... has to be based on research and education, and industrial policy merges with innovation policy," said Professor Karl Aiginger of the Austrian Institute of Economic Research.

But these future-oriented programmes are threatened by a reduction of up to 50% in the ongoing negotiations surrounding the EU's future budget.

However, heavy industries like steel and chemicals say much can be achieved by adjusting existing policies on energy and climate which they claim has been destructive.

Eurofer's Gordon Moffatt said he is "not convinced yet that Barroso is on board" on Tajani's industrial policy, and especially the modifications to other portfolios that he would like to see.

He said: "The proof of the pudding will be in the eating. How much support will he get from Barroso? This is the key point. And I've told him this bluntly in the various roundtables we've had already. It's laudable that he's looking at policies which from our perspective, are destructive, are badly constructed and have to be changed."

"Now it is time to translate all good intentions into actions!" said BusinessEurope's Markus Beyrer.

Industries pin hopes on imminent EU-US trade talks

A green light to start talks on a transatlantic free trade agreement (FTA) is likely to come early next month, EurActiv has learned, lifting European industries' hopes that increased demand from the US will help turn around its fortunes.

Analysts believe that an EU-US FTA could deliver a 2% boost in GDP for both parties, providing a much needed fillip for European industries, but complications remain over the scope and commitment to a deal.

A senior industrial source – who preferred to remain anonymous – told EurActiv that a EU-US High Level Working Group is ready to report to Trade Commissioner Karel De Gucht and US Trade Representative Ron Kirk "in early February".

The EU and the US economies account together for about half the entire world GDP and for nearly a third of world trade flows.

"There is a very good chance that we will start negotiations for a US-EU comprehensive trade deal in the very near future," said Fabian Zuleeg, the European Policy Centre's (EPC) chief economist.

Negotiations under way during Irish presidency

Irish Prime Minister Enda Kenny indicated earlier this month that the High-Level Group report would be favourable to launching negotiations on a trade deal. Ireland currently holds the six-month rotating presidency of the EU Council of Ministers and has a special role to play in the negotiation.

"With 26 million unemployed in the European Union, trade and investment are opportunities to boost growth and jobs," Kenny said after meeting European Council President Herman Van Rompuy in Dublin earlier this month.

Diplomatic sources believe negotiations can start before the end of the Irish presidency, but obstacles remain. Bilateral trade policy cooperation has been less than optimal in the past years, analysts say.

Blockages remain

Obstacles remain, primarily in the form of non-tariff barriers and disparities in some regulations. And there are questions over the extent to which industries want to see more trade protections rather than open access.

"We need some [trade policy] that is more proactive, defensive of industry, European interests, rather than simply looking at the academic purity of the WTO rules and the need for Europe to be first in class," said Gordon Moffat, the director-general of Eurofer, the European Steel Association.

Behind the diplomatic good intentions there are concerns that on the larger commodities markets, regional trade blocs are pushing a protectionist agenda, and the EU is losing out as a result.

"I think they [the EU] need to do something along the lines of what the Americans, the Indians and the others do. Everyone else is defending their interests in a way that is far more proactive," Moffat added.

Numerous other bilateral trade discussions between the EU, the United States and third parties could also impede discussions. In particular, Europe is wary of the extent to which the US may be more focused on its Trans-Pacific Partnership (TPP) talks, in which it is seeking to finalise a comprehensive deal covering a range of Asian countries.

The EU is currently trying to negotiate a trade agreement with Japan, but "there may be a race on" for influence in Japan – with its interest in the TPP, said Hosuk Lee-Makiyama, director of the European Centre for International Political Economy, a think tank.

EU concerned about Asian developments

"How can the US be equally ambitious both on the TPP and Atlantic [European] side of negotiations," is one of the questions under consideration by policymakers, Lutz Güllner, an EU official, said recently.

Strong trade and cultural links between Ireland and the US provide a firm platform for talks, however. In October last year Julianne Smith, the US deputy national security advisor, said: "The United States and Europe have never been more strategically aligned than we are today."

"While it is impossible to predict the outcome, I think there is a good chance that we can successfully conclude such a deal, especially since politicians will not want to give a bad signal to markets and investors," EPC's Zuleeg said.

An EU-US FTA could be "a crucial growth impulse at a time when we desperately need more growth", Zuleeg said.

He acknowledged that for many industries it will create more competition, but says they need to factor in the beneficial effects of increasing their markets.

Steel chief: Industrial policy 'needs the support of Barroso'

European Union leaders are in broad agreement over the need to encourage manufacturing industries. But walking the talk will require reforms at EU level – on energy, climate and trade – that require clearer support from European Commission President José Manuel Barroso, argues Gordon Moffat, from the Eurofer steel association.

Gordon Moffat is Director General of Eurofer, the European steel industry association. He was speaking to EurActiv's Publisher Frédéric Simon.

Antonio Tajani, the EU commissioner in charge of enterprise and industry, presented a communication in October to promote the re-industrialisation of Europe. How convincing did you think it was?

He deserves credit and he deserves support for tackling issues that are difficult for industry. He's stated clearly in his communication that industry is a core activity, central for growth and central for valuable jobs. The manufacturing industry is extremely important. Steel, he said, is essential for the manufacturing value chains and it's a core industry. So from our perspective he's saying all the right things.

He has support from the member states – the Competitiveness Council has confirmed that. He has the support of the Parliament because in the present economic context supporting industry can only be a good thing in terms of employment and bringing the economy forward.

The proof of the pudding will be in the eating. How much support will he get from Barroso? This is the key point. And I've told him this bluntly in the various roundtables we've had already. It's laudable that he's looking at policies which from our perspective, are destructive, are badly constructed and have to be changed.

Which ones?

Climate, in particular. Energy, as well. Trade – we need some modifications, more dynamism. We need some that is more proactive, defensive of industry, European interests, rather than simply looking at the academic purity of the WTO rules and the need for Europe to be first in class.

I think they need to do something along the lines of what the Americans, the Indians and the others do. Everyone else is defending their interests in a way that is far more proactive.

Do you really believe it is Barroso's support that Tajani needs to get this through? Is it not also the member states?

There are two steps there. One is Barroso. If he wants to first move the institution, and the policies are developed in the institution, they are owned by the institution – climate, energy and trade in particular – then he needs the support of Barroso.

Now I'm not convinced yet that Barroso is on board on this. Barroso is key. Imagine: he's in negotiations with Hedegaard, with Oettinger, and with his colleagues. They own these policies. Are they going to move, are they going to adjust for Tajani? Not unless he has the support of the President. So we have to see first if Barroso is prepared to put his reputation on the line.

Do you mean rolling back some of those policies?

They can be rolled back, or they can be adjusted, but they have to be more sensible. I'm thinking of climate policy for instance, where they've included process industries, such as ours, in the ETS, which is not designed for process industries. Our emissions, which have reduced by 50% by the way since the 1970s, are an inevitable part of the manufacturing process. If you want steel, CO_2 is a byproduct of it.

Our aim is to reduce that as much as possible but by imposing limitations on us, by failing to provide full free allowances, by failing to provide compensation for the electricity prices which arise from the ETS, they are exacerbating the problem, making it more difficult for the industry to adjust, to invest in order to find the technologies which are necessary.

Now, there's no sign yet that Barroso will help him, but he should, because I think you have to admire his courage. He has at least stepped up and said that these policies have to be addressed.

90% of the cost of the ETS is being borne by 40% of the economy, which is manufacturing industry. It would be far more efficient, and sensible, if the burden of moving towards a low-carbon economy was being covered by the whole economy.

With a carbon tax for example?

I don't know if a carbon tax is the right way forward. It's one option which should be examined. But the idea that you can simply load the burden onto the most productive part of the economy

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without consequences, particularly now, is a nonsense.

Look at the carbon price. You can see the ETS is not working because they have an ex-ante system which doesn't take into account the movement in the economy. Therefore with the economic crisis we've seen a 40-50% drop in output of some sectors, such as ours. Therefore there's been a surplus of allowances. So the carbon price is low. Now, that's a market mechanism and that is what the ETS was designed to be.

However, to then say, oh we don't like the price so we're going to set aside, confiscate - backloading is confiscating by another word – these are simply interferences in what was always presented as a market system.

But do you agree that the price of carbon is too low?

Too low? It reflects the working of the system.

You seem to be happy with a low carbon price...

For us, the burden is meeting the target, minus 20%. If you have a high carbon price, it simply makes meeting that target harder, that's all. It makes it more expensive, more difficult to invest. Having a high carbon price will not incentivise us to do more because we have in front of us for 2020 the minus 20% carbon reduction target.

Looking forward, do you support the discussions looking CO_2 targets for 2030, 2050?

Yes, if they can be done on the basis of technology. There is no point in having targets going up to 80 to 95% by 2050 unless you have the technology to meet those targets.

Let me ask you the question: what will happen if we don't have the technology to reduce further, beyond 2020? What is DG climate suggesting? That we leave? You cannot have targets which are utopian without technical bases. You have to have a bottom-up approach, a sectoral approach, which is not so bureaucratically simple as the present system but something which reflects the realities on the ground.

A recent Commission report with the Joint Research Centre states that clearly: we don't have the technology to reduce further beyond 2020. We can only go to minus 20 and even then some companies will have difficulty with that, and at enormous cost.

But the idea that we can move beyond is frankly impossible, and this is one of the things which we've asked Tajani to do in his exercise. First of all look at the present situation, up to 2020, stop this constant attempt to increase the target to minus 25, minus 30%. 2020 is tomorrow in investment terms. Already it's extremely difficult for our industry to meet the 2020 target. It comes at huge cost. Stop trying to tighten the system through linear degression by 1.74% per year. Stop trying to increase the carbon price – that simply makes it more difficult. We will meet the minus 20 target, because we are obliged to do so.

But at what cost, in terms of industrial production staying in Europe? Would that mean that some factories would have to close down?

Yes, because in terms of our competitiveness, the cost impact is enormous. The failure to provide a full, achievable benchmark for hot metal costs us, we estimate, up to 2020 €6 billion.

And the cost in jobs then?

And the cost in jobs. We have in addition the cost of the system itself. We have a system of free allowances but you get free allowances based on benchmarks. So further down the tail end there are producers who get less free allowances so therefore must buy on the market. That's a cost.

For us we estimate the total cost of the ETS as it is at the moment is between €11 to 15 billion. This affects directly our competitiveness compared to the rest of the world, who don't have these costs.

You saw the announcements already last year – Florange, Liège and many closures in Italy, in Spain, in Germany also.

Is that helping you in making the point to the Commission?

Yes, it is. It comes at the confluence of the economic crisis, which is bearing down on the steel industry anyway, and the huge disadvantages imposed upon us by policy people here in Europe. That makes it much more difficult for the industry here in Europe to adjust to the economic crisis.

If we were in the same situation as the US or China, India or the other major producers who do not have these costs, then we would be able to adjust much more easily, and therefore perhaps the impact on jobs would be less.

If that is the situation going up to 2020, with the minus 20% carbon reduction target, imagine the situation going up to 2050 where we're talking about minus 30, minus 40, up to minus 80 to 95% carbon reduction targets….

Now, we say the ambition to go towards a low-carbon future is fine, we all share it. But you've got to have the technology to do it! And we simply do not have the technology to do it – this has been confirmed by the Commission itself, by DG Research.

Do you see CCS as the key technology that would enable it?

We are looking at a series of 7 types of technology for different types of steel making, ranging from hydrolysis to top-gas recycling linked to CCS, which was at Florange.

CCS is a technology which is unproven. And I would remind you that the 2050 roadmap published by the Commission is a technology-free zone.

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The only technology mentioned in that is CCS. But CCS is unproven! There are no plants currently in operation for CCS and there's been huge popular resistance to any proposals. Nobody wants the pipeline, nobody wants the sink for carbon and we don't have the technical expertise yet to know whether CCS will work.

Florange would have been top-gas recycling at the blast furnace – which would perhaps reduce by 10% the emissions of steel making – linked with CCS, which would have allowed us to perhaps reduce emissions by 80%.

But it's all theoretical at the moment, even going forward to 2030. At the earliest 2030 there would be a potential, but even then you have to prove that the technology works.

The Greens resist fracking as it's a potential pollutant and yet they don't seem to resist CCS, which nobody knows the consequences of.

Tajani's communication on industrial policy seemed to break from the Commission 'dogma', which is to remain technology neutral. Do you welcome this? Should the Commission pick and choose winners?

Yes, I think absolutely. They should try to identify those technologies that will work. I mean support for a broad range of technologies. But once you have that broad range there are bound to be some that are more feasible than others.

But what I really admire Tajani for is the fact that he seems to have broken this idea that there is consensus on climate and energy and trade policy. He has stated in the college of commissioners that we cannot have new targets. He opposes new targets absolutely unless they are technology-based. He's identified that the energy prices in Europe are too high.

And that's down to CO_2 regulations in your view?

Partly. There are a whole series of

elements. In terms of the electricity market, there's a 200% differential between electricity prices here and in the United States. Now the justification that comes out of DG Energy is a lack of a single market in Europe, a lack of interconnectivity, a lack of trans-frontier competition.

That's true. But the other factor which is important is that there are no long term contracts in Europe; we price on marginal pricing, rather than have regulated markets like our competitors.

But all these existed years ago, nothing has changed. What has changed – and you have to ask why there as been such an explosion in electricity prices – is because in the second trading period of the ETS, the power companies were able to pass on the theoretical price of carbon permits, even though they themselves did not have to pay for them because all permits were free in the second trading period.

But in accounting terms, because there was a theoretical price there, they were able to pass on these costs and made huge windfall profits. The auctioning, which is

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coming in now as from 1 January – 100% on the power sector – was partly to address that problem, to avoid that they take this huge windfall profit. But the impact will be a massive increase in power prices.

So we've had already huge increases over the last few years because of that. But we're going to have a huge increase on top of it. I think the Commission itself has stated that they expect up to 2020 price increases of between 35 and 50% on top of what we have.

In addition to that, you have the distortions caused by the renewables – the green levies and various subsidies for renewables – and their integration into the grid, which is an extra cost. So it is a massive amount of additional cost.

What do you think should be done to tackle rising electricity prices? Should liberalisation be pursued more forcefully? But then, the Commission is faced with resistance from the member states...

There's a problem with monopolies, or quasi-monopolies, with isolated national markets with dominant producers, a failure to provide for longer-term contracts, which is really a problem for DG competition who say they are protecting us.

The question we put to DG competition is 'who you're trying to protect? And from what?' If industry and the consumers want longer term contracts, why shouldn't they have them? So this is a question for the Commission.

The other problems are the green levies, the renewables, the effects of the ETS. And there they have to do more to compensate the energy-intensive industries because they are the ones who bear the brunt.

We cannot pass on price increases. The reason the power producers were able in the second trading period to pass on these theoretical price increases and make windfall profits if because they can – energy is not transportable. We cannot pass on unilaterally price increases which result from higher costs in energy.

Whether they can do something about that, I don't know but that game comes to Barroso. Barroso has to support Tajani in all of these fields if we are going to see any movement.

And we are not suggesting any dismantlement of the ETS. We're not suggesting abandoning the climate policy as such. But there has to be a more intelligent way of going forward.

We need an abandonment of the one-size-fits-all policy. We have to recognise that, post-2020, we must take account of the situation of individual industries and taking account of their ability.

So going for sectoral approaches within the ETS?

Yes absolutely, there has to be a way to do that. We cannot have fixed targets which are common for all – targets should be based on technology. We have to look at different systems whether it is the ETS, whether it is an exemption from the ETS, massive support for research and development.

But we cannot have a situation where we have a target of minus 30 or minus 40% and go say 'let's go for it' without considering what the impact would be. If you're interested in jobs, if you want to keep an industrial base, then you have to do that.

Lakshmi Mittal has said he was quite optimistic about the prospects for manufacturing in the US because of falling energy prices due to the shale gas revolution. What is your take?

It's quite astonishing the impact that it's had, I think we're going to see the re-industrialisation of the United States. We're seeing already seeing transfers of production from Europe to the United States, it's already clear in the petrochemical sector. And it's also happening in the steel industry.

Do you see shale gas as a potential silver bullet for Europe's industry as well?

Yes, I think it is.

There are technical challenges as far as shale gas is concerned, that is for sure. There are environmental issues which have to be resolved, the United States are perhaps better placed to exploit shale gas because of where it is located, outside population centers, whereas in Europe, which does have shale gas, it's more complicated because it is closer to population centers, we are more concentrated with our population.

But when you look at the effect on prices, they've gone from 12 dollars per unit of gas to 2. Whereas we are at 12 in Europe. And the petrochemical industry which has already moved – is beginning to move – en masse simply cannot compete.

Whereas the impact on us will be slightly less because it is less direct, nonetheless there is an impact, clearly. We'll face huge competition from Russia, from the United States

And you can see already, Voestalpine has just invested a DRI direct reduction plant in the United States which will allow it to make crude steel there using cheap gas and then export it to Europe. That's a clear sign of the shift which you will begin to see. You won't see a sudden cliff where industries jump off – at least I hope not. But you can see already that the de-industrialsation has begun in Europe. The aluminium industry is already beginning to shift, the petrochemical industry as I mentioned.

Steel – nobody in Europe is investing in new capacity, no-one. Since 1952 and the ECSC Treaty, this is the first time ever that we're being told that we cannot increase capacity. And it's a fact, it is impossible under the ETS as it stands to increase capacity. Now, steel is essential for the manufacturing value chains. If any part of that chain breaks, then our experience is that you will see large part of manufacturing lost.

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The Commission will argue that the ETS should act as an incentive for driving investments in greener technologies, which are supposed to make the industry more competitive in the long term...

This is entirely false, I think experience on the ground demonstrates that. First of all these green jobs – what are these green jobs? I have a green job already! In fact, our steel industry here in Europe is the world leader in terms of environmental controls and in terms of CO_2 emissions. Therefore forcing the industries in Europe to move elsewhere where the standards are lower, where the emissions are higher, means that in environmental terms, the ETS is a negative, it's not a positive.

I don't know what are these green jobs, they seem to be very marginal at best – windmills, renewable energy… An energy source which requires subsidy is not to me an alternative.

The argument is that this is supposed to be a transition period where adjustments are being made....

Being paid by whom? And to what end? I haven't yet seen a positive result as far as I am concerned. It seems to me that the people who are benefitting most from the ETS are financial services, they are the ones who are pushing for this. I mean, the ETS in itself is not a bad idea if it is properly constructed and implemented.

How can it be better constructed from the point of view of the steel industry, in contrast with chemicals or other energy-intensive sectors?

In general terms, firstly. The ETS should have covered the whole economy, not just 40%. It should have covered transport, construction, etc. This was foreseen but of course construction – improvements in energy-efficiency of buildings – has been resisted by the member states because it was too expensive. In terms of transport, it has taken longer to implement than it should have done. That's the first thing.

Second thing is, they should have taken the reference year in terms of steel of the Kyoto agreement, which is 1990. Instead, they took f 2005 using the spurious argument that they didn't have the statistics from the new member states and therefore they had to take 2005 as the basis.

Now, by coincidence we in the steel industry reduced our emissions between 1990 and 2005 by 21%. And the target for reduction in the ETS based on 2005 is 21%. So we're actually being asked to reduce our emissions by 42%, not by 20%.

Third thing, the benchmark for hot metal (we have several benchmarks but the key one is the hot metal). There, they were required by the directive to provide the best performers – the top 10% of the sector – with 100% free allowances. And that, they didn't do – it's short by 7% which has a huge impact on the best performers.

You say the Commission was required under the ETS directive to provide the 10% best performers with 100% free allowances but that it didn't happen. Why did it not happen and is there still scope for it to happen later on?

It didn't happen because part of our emissions are captured as heat and re-used for producing electricity. Now there is a provision in the directive – article 10.a.1 – which says no electricity can be subject to free allowances apart from electricity produced using recovered waste gases. And it is precisely that point where the Commission has failed to implement the directive correctly. Because they have refused to take into account the fact that 7% of our waste gases are re-used for the production of electricity. This is en environmentally-friendly activity, we re-use those gases because they're hot for heat and the generation of electricity.

Now, this was known by the member states and the Commission at the time when they were being developed. DG Climate ignored it even though we told them. Now, that has meant that there is a shortfall for the industry. It's a bad signal which has a huge financial impact and it will impact on jobs also. So, it could have been adjusted at the time, they failed to do so, so we went to the European court. It has been attacked on a national level first and it will then move to the European court. So we hope that by 2014, we can have a decision. Of course there is no guarantee.

But by then, things will have moved on...

Yes, but if we catch early enough, the Commission will have to adjust the number of allowances.

And in the meantime, the industry is still faced with a tough environment, factory closures, and international competition. Can steelmaking in Europe ever survive this crisis, even with technology breakthroughs? In that context, how do you see the industry in ten years time?

You have to bear in mind that Europe and Japan technical leaders in the industry worldwide. Technologies will have to be developed to meet the challenge of climate targets. But these technologies have to be economically viable. We cannot apply new technologies which would make our production uncompetitive. Nobody would develop an expensive technology simply to meet a climate target if it means they cannot keep their market – there is no point, it would be short-lived.

In terms of cost, excluding the disadvantages from being in Europe – so climate and energy legislation – our cost basis is the same as China's. China has no natural advantage. And if you exclude subsidisation on their side, we're on a level playing field. They import their raw materials the same was as we do, they import most of their iron ore. They have

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coal but so do we. They have lower labour costs but, you know, steel is no longer a labour-intensive industry. They have millions working in the steel industry in China, we have 200,000. So labour cost is not a significant disadvantage. Labour inflexibility on the local level is a difficulty.

What about the technological edge of Europe's steel industry?

It is an advantage and it will remain, I am convinced of that. Nobody goes to China for hi-tech products. In fact China comes to us for hi-tech steels. If you're doing hi-level engeneering applications where you need specific steels, specific types of products, you go to Europe or Japan, you don't go to China.

Is that the future of steel in Europe, some sort of niche hi-end market, which would be very much smaller?

That's where the core advantage is, and that has been the case for many years already. But there will always be production of more commercial steels in Europe because we have manufacturing value chains which rely on proximite sources of supply, which require good quality material – even if it is lower grade, it is still good quality material – they have security of supply which is part of the value chain. And nobody, very few industries, would rely on China for their steel requirements. You could not do that in terms of geography, in terms of security of supply, and in terms of quality.

We have a very large construction sector in Europe. The construction sector uses some products which are generally lower cost products than the major flat products. These do not support high transport costs very well. So you tend to find construction products near construction markets. On flat products, we have massive engineering sectors in Europe and these will continue to be supplied. So there will be a mix of the two.

And some downsizing?

There will of course have to be that, it is happening already. But that's part of a normal adjustment process, but I don't think it should be accelerated by policies which are put in place unilaterally by Europe and which are uniquely damaging for industry, and which are not being applied elsewhere. And also, these are policies which are having little or no effect on the perceived problems of climate. We have a unilateral climate policy which is imposing massive costs on industry and which is perhaps even counter-productive because it is forcing industries to move to other zones.

Energy, the price differentials where gas is 300% higher than elsewhere and electricity 200% higher – this is not sustainable in the long term. You can perhaps live with peaks but not in the long term.

So these are specifics which are coming directly from policy and which have to be addressed. But if we were to amend these policies, improve them, alleviate the disadvantages which are being caused by them, then I don't see any reason why the European steel industry would be unable to compete with industries elsewhere, quite the contrary in fact. And if shale gas comes on in a way which is sustainable, then I think that could transform the energy picture of Europe.

Now of course countries will begin to look at climate policies as well but none of them are looking at the policies that are implemented in Europe. Look at Australia. It has an ETS but the target is minus 5%, very unambitious, so you can't really use this as a comparison. But it is an ETS that covers almost the whole of their economy. And they provide full free allowances for their industry to compensate for the rise in electricity prices, which Europe don't. So they put everything in place to make sure that their industry can meet targets but is not damaged in terms of international competitiveness. That's the type of thing that the Commission should have done.

We have the impression sometimes with the Commission that it is punitive. Because we've been talking to those people in DG climate, energy, environment and elsewhere about these problems for years. And I said to Tajani: 'We're dealing with closed minds'. We're dealing with people who have developed this policy. We're dealing with people for whom the policy is much more important than the industries which are affected. They are almost fanatical in some respect. And that is really damaging.

And now there is a tightening of the ETS coming, with the backloading proposal...

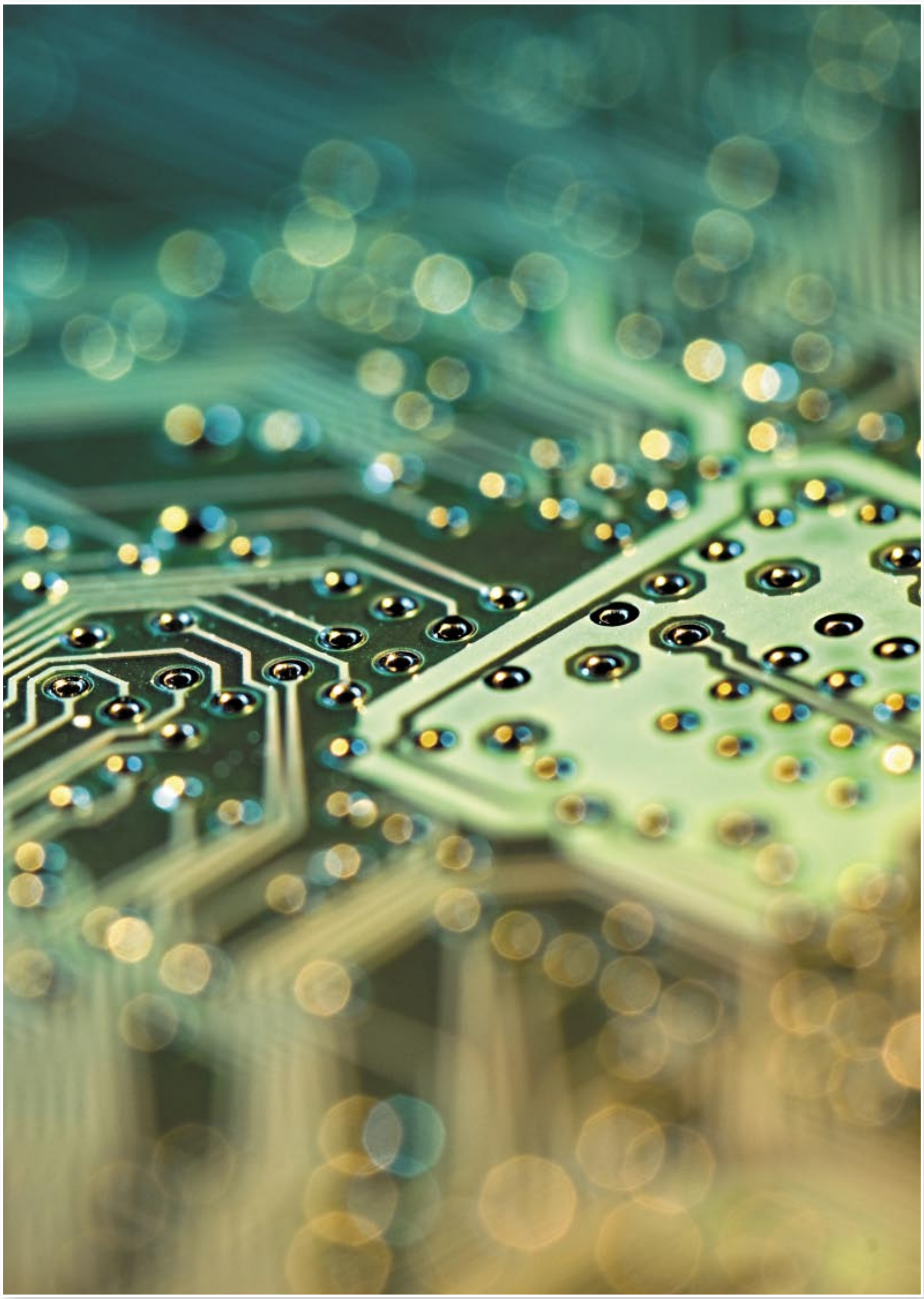
Backloading I think is a disgrace. The example I gave to DG Climate when I heard of this was: what would happen to your colleagues in DG Competition if we were getting together to withhold our power of production so that prices would go up? And yet, they seem to think it's acceptable for them to do so! I think it's outrageous, it's a disgrace…

Ok, they have a problem with the carbon price, I understand they believe it acts as a disincentive. But the way round that is to have an ex-post system. They have an ex-ante system that doesn't take account of economic fluctuations and that's something to think about post-2020 – an ex-post system rather than an ex-ante system.

The economic downturn cost us significantly more than the backloading but this just comes on top. It's almost as if they say 'you have free allowances, you've banked them', which is allowed by the way, the Commission itself proposed it in the system.

And now they're acting as if we were some sort of type of robber barons because we have gone through a situation where 40% to 50% of our production has been reduced, which is a cost to us, but we have these free allowances which are hidden away somewhere. This is complete nonsense! It doesn't compensate in any way for the lost production and the drop in prices. It is just an element of the system which they developed and which is not reflective of reality.

Industries fear 'catastrophic' cuts to EU research budget



European industries are unanimous in saying that future growth prospects lie in research and innovation. They have thrown their weight behind the European Commission and Parliament to secure the proposed €80 billion 'Horizon 2020' research programme which is under fire as cash-strapped national governments seek cutbacks to the EU budget.

EU Research Commissioner Máire Geoghegan-Quinn appealed to the European Parliament in Strasbourg to stop member states' attempt at cutting the proposed €80 billion Horizon 2020 research programme for 2014-2020.

"In general the individual member states are very supportive of Horizon 2020 and innovation and R&D as being where growth and jobs come from," Geoghegan-Quinn told MEPs on 16 January.

But she claimed that the problem for research funding starts as soon as member states come around "the collective table".

The EU's net contributing countries - including Britain, Germany and the Netherlands - want to bring down their contribution to the overall EU budget for 2014-2020.

Parliament joins with Commission

MEPs on the Research, Industry and Energy Committee (ITRE) broadly back the Commission's Horizon 2020 programme, which earmarks €80 billion of EU funding, €30 billion more than its predecessor, the Seventh Framework Programme.

Rapporteur Teresa Riera Madurell, told the Parliamentary session that ITRE's vision for Horizon 2020 "is not very far from that of the Commission." But she said it "needs proper investment to make it work."

A deal to finance Horizon will not be finalised until member states agree on the EU's budget, or multi-annual financial framework (MFF).

Heads of state meeting in November for a special budget summit made provisional cuts that would slice into the Horizon 2020 funds if finally accepted later this year. Another summit to discuss the MFF is earmarked for 7-8 February.

"There is a real concern the original €100 billion [earliest proposal] budget foreseen for Horizon 2020 could be slashed in half," said Belgian Green MEP Philippe Lamberts.

He added: "It is cynical in the extreme to talk about future spending and growth, whilst cutting the budgets

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for research and innovation, at the same time as other countries like China are increasing spending in these areas."

Industrial support for innovation

Lamberts' criticism of member state egotism when it comes to research is echoed by industrialists, who are big supporters of mutualising Europe's patchwork of national research programmes.

"To compete in the global arena, Europe needs to invest more in innovative products and sustainable processes," said a joint statement issued by the Italian and German employer's groups Confindustria and the Federation of German Industries (BDI) last summer.

"EU funding for research and innovation should be raised to 8% of the EU budget and member states should strive to invest 3% of GDP in research," they said.

Geoffrey Shuman, vice president of European affairs at Airbus, agreed: "It would be catastrophic for Europe to cut the research budget. It's our future," he said. "Research is Europe's lifeblood. We are the world leaders in aerospace, automobile and pharmaceuticals, and if you cut research budgets, you can forget that."

Gordon Moffat, director general of steel association Eurofer, said Europe and Japan are "technical leaders in the industry worldwide" and are likely to remain so. "If you're doing high-level engineering applications where you need specific steels, specific types of products, you go to Europe or Japan, you don't go to China," he told EurActiv in an interview.

But he said Europe needs "massive support for research and development" in order to make the transition to a low-carbon economy. "Technologies will have to be developed to meet the challenge of climate targets. But these technologies have to be economically viable. We cannot apply new technologies which would make our production uncompetitive."

Fabian Zuleeg, chief economist at the European Policy Centre's (EPC), a think tank, said: "Encouraging innovation is a key element of Industrial Policy, not least to ensure that European firms gain long-term competitiveness. Having cuts in the research budget are not the way forward and it also gives a signal that the EU does not focus on forward-looking policies."

Competitiveness is a key issue for industry, since even in sectors where Europe has traditionally dominated, pressures abound. "Aerospace is a very global industry. Europe is a leader but there are established champions in the US and other emerging nations are making rapid progress. It is difficult to develop a civil aeroplane that is safe, reliable and economical but the Chinese have set a priority to break into the industry," said Airbus' Shuman.

There is recognition that research is bound to suffer in the current economic climate, however, and the EPC's Zuleeg says it is also important to recognise that proposed funding by the Commission was a substantial increase on the current period, and does not therefore represent a real-terms cut.

Controversy on the Horizon

"In addition, the bulk of research funding is spent by member states. So even if there are cuts, there is still a lot of scope to boost innovation through other routes," Zuleeg added.

Nevertheless industrial groups are disappointed at the development. "It's hard to find the money for anything at the moment, it's true, but research cuts are a false economy If you do not invest you are going down the tubes," said Shuman.

The content of Horizon is also controversial, and industrial groups remain divided over reforms to the structure of funding schemes.

Under the previous research framework programme, sectors such as transport received targeted funds for large-scale consortiums which benefited smaller businesses.

The latest drafts of the Horizon 2020 programme proposed by the Parliament's ITRE committee would see a 20% cut to the transport budget with the money transferred directly to funding programmes for small enterprises.

"This will place important and successful programmes such as Clean Sky at risk," said one anonymous aerospace analyst.

The analyst said that in the aerospace sector, small and medium enterprises generally work better if they are involved in research as part of a supply chain. "Under the existing programmes such as the Clean Sky Joint Technology initiative, 40% of companies involved were SMEs," he said, saying that the Horizon programme would needlessly offer money to non-commercial ventures.

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