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INDUSTRIAL RENAISSANCE

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Contents

EU eyes softer climate policies to fuel 'industrial renaissance'

A troll statue overlooks an oil refinery in Mongstad, Norway, where a CCS European test centre was launched in 2008 (Photo: Frédéric Simon)

As Europe starts to emerge from its worst recession since the Second World War, policymakers are reconsidering the EU's global leadership on climate change for fear that it might hinder the fledgling recovery.

Inspired by France and Germany, which are seeking ways to re-start European manufacturing to fuel a new generation of jobs, the talk in Brussels is now all about re-balancing business and environmental objectives.

"Several member states pointed to the need for a more balanced approach between the EU's industrial, energy and climate policies," stated the EU's 28 industry ministers after a meeting of the Competitiveness Council in Brussels last week (20-21 February).

Policymakers should take "a systematic consideration of competitiveness concerns across all policy areas," said the ministers, who were preparing for a discussion on industrial policy among the European heads of states and governments later in March.

Antonio Tajani, the EU commissioner in charge of industry and enterprise, has taken several initiatives over the past years to tackle Europe's industrial decline. In a new policy strategy unveiled in October 2012, he declared the aim to raise industrial activity to 20% of EU gross domestic product by 2020, compared to 16% today, taking it back to pre-crisis levels.

According to the Italian commissioner, those initiatives are starting to pay off politically, with a growing realisation that manufacturing activity in Europe also generates investments and jobs in other sectors, including services.

Political climate is 'totally different'

For industry ministers, this means environmental policies such as climate change need to be considered in a broader context, which also looks at their impact on industrial activity.

"The political climate is totally different" today than it was before the financial crisis erupted in 2008, said Kostis Hatzidakis, the Greek minister for development and competitiveness who chaired last week's ministerial meeting.

"There is a shift towards industrial policy," Hatzidakis added. "I think all of us have realised the mistakes committed in the past."

Underlining this new approach, Tajani said the European Commission's industrial

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renaissance strategy, unveiled in January, for the first time looked at energy policy, climate change, and shale gas "altogether" in a single package, putting them on equal footing.

"It's important to have an achievable target for our companies," he added, referring to the EU's proposed new climate and energy objectives for 2030.

Music to the ears of business

The ministerial statement is music to the ears of employer association BusinessEurope, which has long been pushing for the EU to reconsider its "unilateral" stance on climate change.

Business groups have long complained about the EU's 2020 climate policy, which commits European manufacturers to reduce carbon dioxide emissions by 20% by the end of the decade. Competitors in Asia or the US have no such commitments, warns BusinessEurope, making investments in Europe less attractive.

In a letter to the industry ministers last week, BusinessEurope called for an industrial policy that "truly puts cost-competitiveness, security of supply and climate objectives on an equal footing" and prevents "investment leakage", whereby companies locate new factories outside of Europe where the environmental constraints are lower.

On climate change, BusinessEurope said it supports a greenhouse gas emissions target for 2030, but says this "can only be realistic if a binding international climate agreement can be concluded in 2015".

"We have to make sure that Europe is not once again a lone frontrunner without followers," the employer's group stressed.

Environmentalists cry foul

For environmentalists, Europe's renewed focus on competitiveness sounds like a direct attack on green policies.

Brook Riley, an activist at Friends of the Earth, says he is worried that "industry" has won the argument over 2030 targets, which were unveiled on 22 January, alsongside Tajani's action plan for a European industrial renaissance.

"There is a similarity of language between what BusinessEurope says on rebalancing climate change" and the messages being given by the Commission and EU member states, Riley told EurActiv. "They are using the same rhetoric so in itself that is worrying."

"I think it's balancing far too much one side over the other."

The 2030 proposal set out objectives for Europe to cut carbon dioxide emissions by 40% below 1990 levels and ramp up renewable energies to 27% of the bloc's total energy use.

But according to Riley, these objectives have been weakened in the 2030 proposal, especially on renewable energies, because individual countries are no longer requested to meet national objectives, unlike in the current 2020 agenda.

"The 20% [CO_2 reduction] target is secured, there is no discussion about touching that," Riley said. However, he expressed concern that weaker targets for 2030 will send the wrong message to member states over the long-term and weaken the 2020 objective as well.

On renewables, he said: "Now, we're moving back from national targets to an EU-level target which nobody has any idea how to make anyone accountable for in practice. Seeing the Commission is rowing back for the years after 2020 means that you will almost inevitably take your 2030 objectives much less seriously," Riley argued.

Final decision with the member states

Asked whether national industry ministers were supportive of proposed 2030 targets on renewable energy and CO_2 emission cuts, Tajani remained elusive, saying the final decision was in the hands of the member states.

He expressed confidence however, that both climate and industrial policies could be met at the same time.

"This is the political message – it is possible to have an industrial policy with strong engagement against climate change through good work on energy policy," Tajani said.

To critics, the Commission's attempt at reconciling climate and re-industrialisation goals bears testimony to its indecision on industrial policy, which also reflects infighting between Commission departments pulling in opposite directions.

Internal divisions at the Commission were laid bare just one week after the EU executive unveiled its 2030 package when the EU's energy commissioner, Günther Oettinger, spoke out against the planned 40% CO_2 objective, saying that those who expected the cut to "save the world" were either "arrogant or stupid".

"I have to be constructive as I'm a member of the team but I'm sceptical," he told an 'Industry Matters' conference organised by BusinessEurope.

Kostis Hatzidakis, the Greek minister who was chairing last week's industry ministers' meeting, added fuel to criticism that the Commission was divided on the matter.

The European Commission should avoid a "fragmented approach" to industrial policy, he said, adding that Tajani's initiatives were "valuable" but insufficient.

"We have some actions concerning industry, some other actions concerning energy, some other actions concerning environment – they have to be coherent, they have to be coordinated in order to have added value," Hatzidakis said.

Tajani seemed to acknowledge coordination problems at the Commission, saying there had been "a long debate" on re-industrialisation and that the EU now had to go "from theory to action".

"We don't believe miracles can occur in six month," Hatzidakis concurred, saying the Greek presidency hoped to "lay the foundations for the next European Commission" to go "from theory into action".

Europe abandons hopes of US-style shale gas revolution

Shale gas has had a "minimal impact" on the US's manufacturing industry, and will have even less significance for Europe, according to a new report by the Institute for Sustainable Development and International Relations (IDDRI). In Europe, industrialists are abandoning hopes of a similar revolution, at least in the short- to medium-term.

The IDDRI report's findings echo a warning from the UK business minister, Vince Cable, earlier this month that shale gas will not be a reality for at least a decade.

"Shale is a possible long-term resource, but we do not yet know," he told the Guardian newspaper. "I want to tell people to get realistic about it."

According to the report by the Paris-based IDDRI think tank, the US shale boom has contributed to cheaper household energy prices and helped the competitiveness of gas-intensive manufacturing sectors such as plastics, petrochemicals and fertilisers.

But these sectors only account for about 1.2% of US GDP and 3.3% of all manufacturing, and IDDRI estimates the maximum long-term effect of shale gas on US GDP at around 0.84%.

"There is thus no evidence that shale gas is driving an overall manufacturing renaissance in the US," the study says.

Shale gas could play a positive short-term role in helping Eastern European countries to wean themselves off imported fuel from Russia, and develop their own infrastructure.

But in terms of revitalising Europe's manufacturing sector and economy as a whole, the report's authors conclude that the shale gas effect would be "negligible". By 2035, shale gas is estimated to be meeting no more than between 3-10% of EU gas demand.

"It is unlikely that the EU will repeat the US experience in terms of the scale of unconventional oil and gas production," the report warns, citing uncertainties about the size of Europe's shale deposits.

In the US, around 130 shale wells were drilled a month in the decade up tp 2010, compared to an all-in total of 50 exploratory shale drills in the EU so far.

Compared to the US, Europe's energy service industry and rig counts are much smaller; its geology – and land access – are less accommodating; public acceptance is less of a given; urban density is far higher; and environmental regulations are more stringent. This, IDDRI say, would have a knock-on effect on the industry's profitability here.

Industrialists want facts about shale gas in Europe

Among industrialists too, there are doubts that the US shale gas revolution can be replicated in Europe. BASF, the German chemical giant, says it is too early to say whether shale gas exploitation is economically feasible on the old continent.

"We always say that we need to understand the geological situation here in Europe," said Claus Beckmann, head of BASF's energy and climate policy unit. "We are now in a situation where it is not even possible to start exploration, to start a pilot, and to get the facts and numbers in order to evaluate whether shale gas production is economically and environmentally feasible in Europe".

"So we are only asking for exploration at the moment."

The US shale gas boom has been a game-changer in the chemicals industry, bringing prices down for US factories and driving a new wave of investments there.

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BASF has recently invested more than one billion euro in the US to take advantage of cheaper gas and electricity prices.

"The US becomes more attractive for investment than Europe," Beckmann told journalists in Brussels.

For sure, chemical companies look with envy at the US, but the scale of the shale revolution seems out of reach for Europe where the population density makes exploitation more difficult and where environmental concerns are higher.

"We believe that shale gas is a success story, a game-changer currently in the US, leading to a massive industrial renaissance in this country with enormous impact on employment," said Peter Botschek of the European Chemical Industry Council (CEFIC).

"We would wish that we could realise a fraction of that in Europe," he said.

Parliament votes against mandatory shale gas rules

Europeans are currently far from there, although some timid steps are being taken.

On 12 February, the European parliament's environment committee voted against making Environmental Impact Assessments compulsory for new shale drills at the urging of states including Britain, Poland and Lithuania, in a bid to reduce 'red tape' for the industry. Member states would merely need to explain why these are not needed.

But the economic benefits of shale gas may not outweigh the risks of groundwater contamination, increased methane emissions and seismic activity, according to IDDRI.

"Even under the most optimistic scenarios for shale gas exploitation, the European Union would remain a significant importer of gas and oil and European Union prices would continue to depend on high international prices," Thomas Spencer, the report's author told a meeting in the European Parliament on 13 February.

Factors such as Russia's index-linking of natural gas to oil prices would be more salient in determining European prices than shale gas expansion, Spencer added.

Current low gas prices of $4-$5 per mbtu are "ultimately unsustainable" and "short-term," the paper says.

Industry reacts coolly

The International Association of Oil and Gas Producers (OGP) said they were still analysing the IDDRI study but noted that other studies had found that shale gas had brought about an 'industrial renaissance' in the US.

"As for Europe, even if the geological potential isn't as promising as in the US, we believe shale gas could still bring some significant economic benefit," Alessandro Torello a spokesman for OGP told EurActiv.

"A recent study shows that shale gas development in Europe has the potential to create as many as 1.1 million jobs by 2050, and add as much as 3.8 trillion euros to the EU economy by then. Shale gas production in the EU could also reduce energy prices compared with a no-shale gas scenario."

As well as that paper, which was prepared for OGP by the Poyry consultancy, another study by the American Chemical Council concluded that shale gas expansion would generate new capital investment and production in the chemical industry and its supplier sectors, expand economic output and increase tax revenue.

That report did not consider the effects that such an expansion of shale gas would have on carbon emissions.

According to the IDDRI paper, "absent further policies, the US shale revolution will not lead to a significant, sustained decarbonisation of the US energy mix nor will it assure US energy security."

"Coal fired generation has increased from 32.5% to 40% of the US power mix between mid 2012 and 2013 even with low natural gas prices," Oliver Sartor, an IDDRI economist said. "Without additional policies, coal-fired generation will remain a large share of the US power mix for decades to come, despite shale gas."

Europe tries to reverse drift towards de-industrial-isation

After a lost decade, Europe is trying to reverse a decline in manufacturing which has brought industrial output to a standstill. The issue will reach the EU's top decision-making body in March when European leaders meet for their quarterly summit in Brussels.

Over the past few years, the European Commission has been the most vocal EU institution campaigning for the continent's industrial revival, positioning itself as a driver of competitiveness and job creation.

Within the EU executive, the commissioner for enterprise, Antonio Tajani, has emerged as the winner of an internal debate opposing supporters of industry to environmentalists, whose policies were blamed for hampering the economy.

The financial and social crisis helped Tajani get his message across. As unemployment rates shot up to beyond the 10% ceiling across the continent, a growing number of EU citizens and leaders became convinced that Europe needed a serious industrial policy to stem the outflow of production towards Asia.

Since 2010, the Commission has produced strategies for the re-industrialisation of Europe every two years, picking technology winners, such as smart grids or 3D printers. The last such

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document, published in January, carries the resounding headline of an Industrial Renaissance for Europe, making no secret of its Italian inspiration.

The EU has set a target for industry to make up 20% of the continent's Gross Domestic Product (GDP) by 2020, though the goal is non-binding, unlike similar targets such as for carbon dioxide emissions reductions.

Industry represented almost 18% of EU GDP at the beginning of the century, but this figure has dropped to around 15%, while manufacturing output is now at the same level as a decade ago.

The increased weight of services in the EU economy partly explains the downward trend of manufacturing on the continent, which has been hit by the outsourcing and relocation spree fuelled by high taxes and high energy and labour costs.

Service-based knowledge economy goes down the drain

The relocation wave now seems to be falling, or even reversing, as manufacturers realise the drawbacks of China's state-controlled economy and India's poor infrastructure base, while labour costs in emerging economies have begun to grow.

However, Europe urgently needs to adapt to the new needs of industry if it wants to re-attract the companies that left the continent in search of greener pastures.

EU leaders will address all these issues when they meet in Brussels on 20-21 March for their quarterly summit. An extraordinary European Council initially dedicated only to industry was cancelled in February, but the topic still remains on the table of the EU's top decision makers.

Pro-industry decisions are not going to be neutral for other sectors as it requires aligning the entire EU economy with industry needs. The Commission says it can mobilise regional development funds to help the transition. A bigger share of EU structural funds can now be used for innovation and industry rather than for the service-based knowledge economy dreamed of in Brussels ten years ago.

For those who are sceptical about such an U-turn, the EU executive provides a formula: "Each additional job in manufacturing creates 0.5-2 jobs in other sectors," reads the new Commission mantra repeated in statements and official documents.

For the strategy to work, it requires EU leaders to send a clear, unequivocal message of support. Even if this turns out to be the case, it would only be the beginning of the process, as the European elections in May and the new Commission taking office after the summer break may impose new priorities.

Whichever state receives the delicate portfolio of industry in the new EU executive may prove the best indicator of how the strategy will unfold in the coming years.

Industry supporters also hope that Italy, which is set to hold the rotating EU presidency in the second semester of 2014, will help drive the agenda at the time when EU institutions are renewed. The country is the second top manufacturing country in the EU after Germany and the fifth in the world.

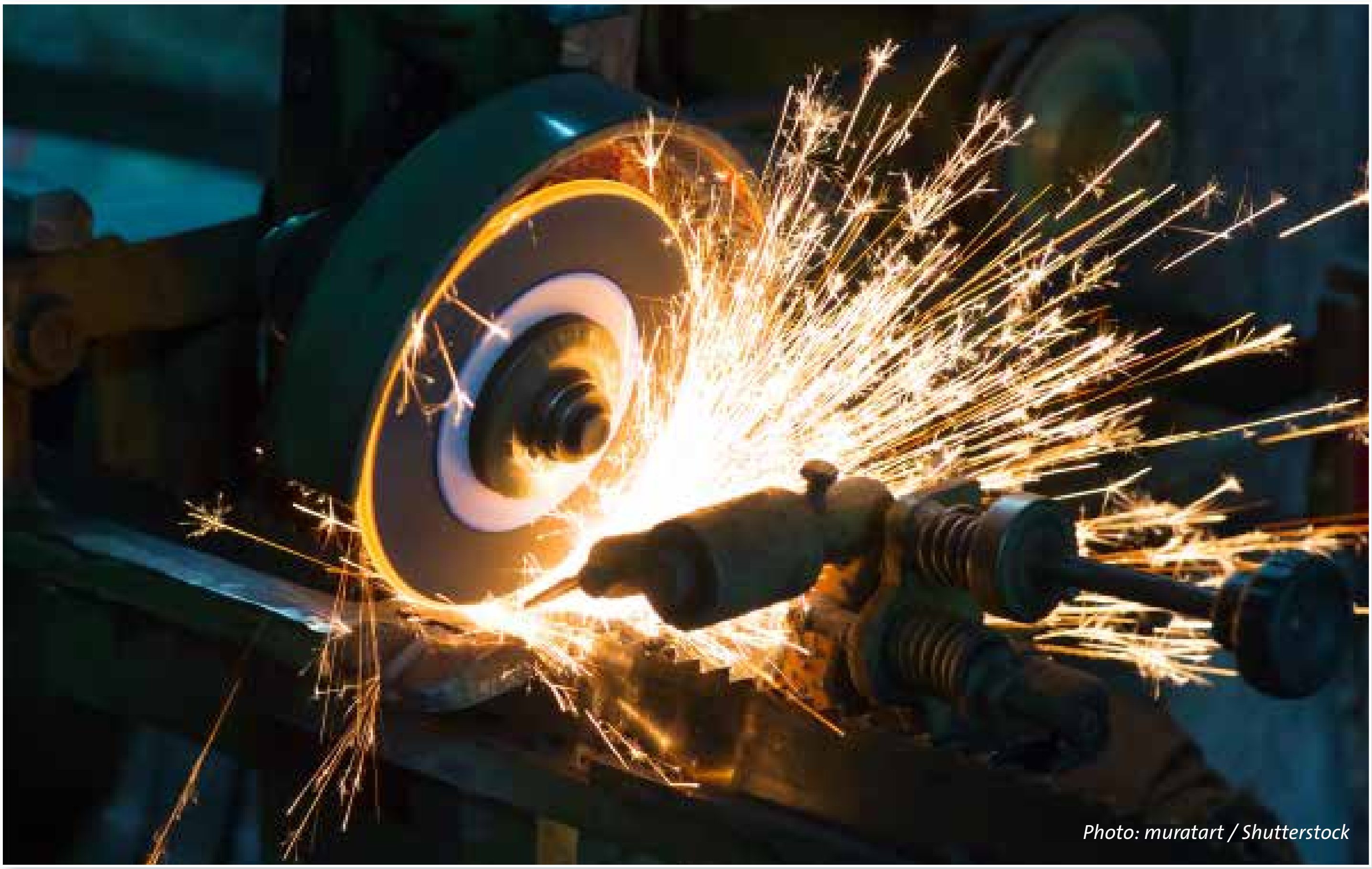
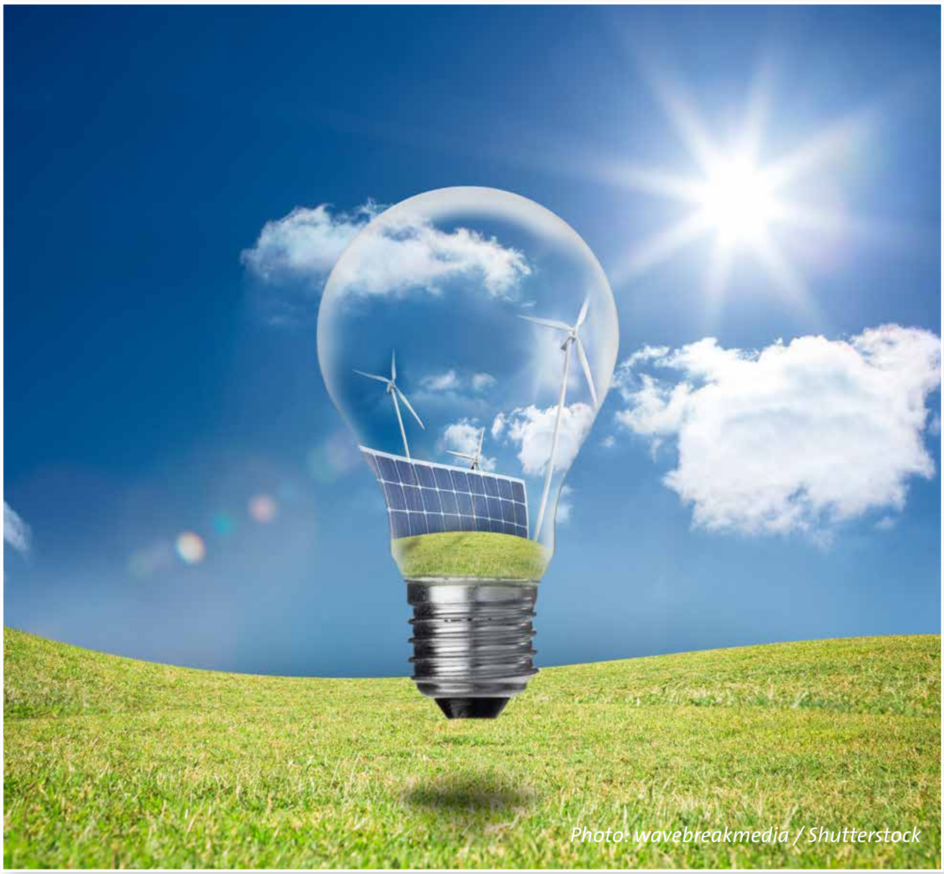


Photo: muratart / Shutterstock

EU's re-industrialisation dream 'hostage' of high energy prices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Business representatives were unimpressed by last week's meeting of EU industry ministers, who backed a "European industrial renaissance" without tackling the issue of high energy prices. Hopes are fading that the European Commission can match "nice words" with action, EurActiv was told.

The EU's 28 industry ministers gathered in Brussels on 20 February for a meeting of the Competitiveness Council which discussed a European Commission policy paper (communication) for an "industrial renaissance", published earlier in January.

"As you know, for Europe, energy prices are a big problem," said Antonio Tajani, the Italian commissioner in charge of enterprise and industry behind the industrial renaissance initiative.

Speaking to the press after the meeting, Tajani said: "The first action by the European Commission is to put on the table for the first time the money for European re-industrialisation – one hundred billion euros coming from regional funds." Other funds available for re-industrialisation include the €40 billion available for innovation and scientific research under the Horizon 2020 programme, which runs until the end of the decade.

"First of all, we aim to address the high cost of energy and the lack of a unified energy market. I believe that this is probably the most important priority," added Kostis Hatzidakis, the Greek minister for development and competitiveness who was chairing the ministerial meeting.

"We need to mitigate the negative impact of the high cost of energy which is twice higher than in the USA, or Russia. Especially, EU gas is three to four times more expensive [for EU companies] than for the USA, the Russian and the Indian competitors."

Hatzidakis said the Greek EU presidency was preparing a letter with concrete proposals on energy prices for the spring EU summit on 20-21 March that will feature a debate on industrial competitiveness.

But he warned that the Greek EU presidency "cannot work out miracles within six months".

"What we can do is lay the foundation for the new European Commission that will be formed after the elections to bring forward concrete legislative proposals," Hatzidakis said.

'Nice words'

This came as a major disappointment for business representatives who claim ministers shied away from stating the obvious, that current energy and climate change policies deteriorate the EU's competitiveness and therefore urgently need correction.

Instead of clear-cut language, the meeting's conclusions listed a number of research papers, including one by the European Commission on the high cost of energy in Europe, but stopped short of saying what needs to be done to correct the situation.

In the US, cheap shale gas has turned around the fortunes of the world's largest economy. The cost of electricity in the United States is a third or half that of the EU and gas prices are just one third of those seen on the old continent.

"The USA currently attracts massively industrial investments and jobs: This is a true industrial renaissance in the US," said Peter Botschek of the European Chemical Industry Council (CEFIC), which represents 29,000 companies, producing about a fifth of the world's chemicals.

By contrast, EU statements about an "industrial renaissance" were just "nice words", Botschek told EurActiv.

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'More and better jobs'

The European Commission's 'Industrial Renaissance' paper is scheduled to be on the table of the next meeting of EU heads of state and governments on 20-21 March, which will mainly focus on "growth, competitiveness and jobs".

But Botschek said that the EU's recurring calls for "more and better jobs" would remain empty words if the Commission did not back it with actual policy measures.

Both CEFIC and BusinessEurope, the powerful employer's association, have underlined the reforms they believe are necessary to that end and will drive those points home again ahead of the March and June European Council meetings of heads of state and government.

"Indeed the re-industrialisation of Europe is the hostage of an ambitious goal given the relatively high energy costs," said Botschek, adding that energy costs have been relatively higher in Europe than in other regions for many years.

"Two factors are changing the game," he said - the emergence of shale gas in the US and increasing energy costs in Europe, where energy policy is "subdued to climate policy ambitions".

"We did so by creating carbon costs, surcharges and taxes in order to stimulate low-carbon investment and to subsidise power production from alternative – but largely uncompetitive and unreliable - energy sources such as solar and wind. Those energy sources have been granted priority access to the grids thereby undermining the EU's energy market design and the EU's energy market liberalisation policies that aim for an EU Internal Energy Market to be realised in 2014," Botschek explained.

The CEFIC representative said EU policies should instead focus on diversifying energy supplies, putting in place a functioning single energy market, and introduce climate policies that encourage rather than hinder growth in the manufacturing sector.

Botschek admitted that such policies would likely run into fierce opposition from environmentalists and some policymakers. "But we have seen also a massive campaign in the run-up to the Commission proposal for the 2030 framework, all geared at pushing further on the current policy which entails higher costs for Europe," he contended.

"20 million unemployed in Europe speak their own language and this cannot continue to be ignored," Botschek stressed, underlining the negative economic consequences of the EU's "unilateral" climate policies.

2030 targets for renewable energy and climate change

A European Commission consultation document, or 'Green Paper', for the EU's 2030 climate and energy policy mentions a potential greenhouse gas emission-reduction target of 40%, and does not close the door on a 30% target for the proportion of energy that renewables should make up by 2030.

For the German chemical company BASF, the difference in energy price between Europe and the US is already driving investment decisions that may have consequences down the line for industrial jobs in Europe and Germany.

"Our sites are in competition with each other and with such a huge difference in energy prices, the decision is clear – the money is not going there [in Europe]," said Claus Beckmann, head of BASF's energy and climate policy unit.

He cautioned however that decisions to relocate factories or build new ones would not happen overnight but over the long run. "It's a question of time," Beckman told journalists at a briefing at BASF offices in Brussels on 25 February. "We think the market for chemicals will increase in the future. The question is only where the production will be located."

"It depends on what the public is willing to pay for climate action," added Brigitta Huckestein, a senior manager for energy and climate policy at BASF. "I do not believe that the public is aware of this – that it will cost them money if they are going for such a high goal."

EU warned 'do not play with fire' over energy rebates for German industry

During a recent visit to Brussels, German energy minister Sigmar Gabriel praised EU efforts for re-industrialisation. But he also fiercely defended industrial exemptions from his country's renewable energy surcharge, warning the European Commission not to "play with fire" ahead of the EU elections, EurActiv Germany reports.

The Social Democrat (SPD) minister for economics and energy, Sigmar Gabriel, met with European Commission President José Manuel Barroso, Trade Commissioner Karel De Gucht and Industry Commissioner Antonio Tajani in Brussels last Thursday (20 February).

There, Tajani presented the Commission's strategy for an "industrial renaissance", an initiative that received the full support of Gabriel, who said too much focus had been placed in the past on the services and financial services sectors.

Industry and related services generate more than one third of added-value in the German economy, a significantly bigger portion than in other EU countries. Collectively, the manufacturing sector directly provides 12 million jobs, close to 30% of all workers in Germany.

In that context, the Commission initiative sent a "good and important signal", Gabriel said.

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Ever-growing energy costs

That was for the pleasant part for the meeting.

Turning to more contentious issues, Gabriel pointed to high energy prices as a key weakness, not just for German industry, but also for households, some of which can barely afford their energy, heating and hot water bills.

6.9 million households spend more than a tenth of their income on energy. In 2008 this number was 5.5 million. These statistics originate from a statement by the German government, responding to an inquiry from the Green Party in the Bundestag and reported by Spiegel Online.

German domestic energy prices are steadily creeping up to 48% above the European average. After a likely increase in the renewable energy surcharge for 2014, a further rise in domestic energy prices is expected. Industry energy prices in Germany are roughly 19% above the EU average.

In Germany, the Renewable Energy Law (EEG) requires that the cost of expanding renewable energy sources is transferred to and distributed among end-users through a surcharge on the market energy price. But this extra fee has risen considerably over the past few years. The rise is partially due to the fact that bulk consumers are largely exempt from paying the EEG surcharge.

The retention of exemption rules for energy-intensive companies as a part of green energy promotion in Germany is currently a key point of contention between Berlin and Brussels. But without industry rebates, the German government fears a domestic threat of de-industrialisation.

'Difficult Balance'

At the meeting of the Competitiveness Council last Thursday, Gabriel once again emphasised the importance of further developing the EEG.

But he said energy-intensive industry should be relieved of certain burdens when they are subject to international competition.

German Minister of Economics and Energy Sigmar Gabriel and European Commission President José Manuel Barroso shake hands during last week's visit. photo: European Commission

"That is a difficult balance. On the one hand, energy transitions cost money regardless of where they take place - even in Germany. On the other hand, we must ensure that our industry remains competitive. Steel, chemicals, copper, aluminium - there, competition is not in Europe but on the global market," the SPD politician said.

In December, the European Commission announced the start of a full assessment over EEG compliance with EU law. The competition authority in Brussels wants to determine whether or not partial relief for energy-intensive companies is in compliance with EU state-aid law. The German government does not see EEG subsidies and exemptions for energy-intensive companies as state-aid, arguing instead that they are compatible with EU regulations.

Speaking in Brussels, Gabriel was significantly more sceptical than a few days earlier. After EU Competition Commissioner Joaquín Almunia's visit to Berlin last Monday (17 February), both sides seemed closer to an agreement over EEG reforms.

But on Thursday Gabriel indicated that the positions of Berlin and Brussels continue to be far apart on the issue.

"It must be understood that whoever does not handle issues regarding German industry and its burdens with particular care, is playing with fire - not only in Germany but also in the EU," said Vice-Chancellor Gabriel in Brussels.

"That is not the complaint of a single country. Added value from industry is also the basis of the European Union. We are not allowed to put that on the line," Gabriel said.

Hammering the point home, he then warned: "If it became known, shortly before the European elections that the Commission was making proposals which would threaten industry in Germany and on a larger scale in Europe, then we should not be surprised if the European elections blow up in our faces."

On multiple occasions, the German government has clearly stated that a swift reform of the EEG - including the so-called "special equalisation scheme", reducing the burden for energy-intensive firms - will be a central project in the new parliamentary term.

A final agreement between Brussels and Berlin over future support for renewable energies and the controversial green energy rebates is expected to be met by 9 April this year. At that time, Chancellor Angela Merkel's cabinet is scheduled to sign off on a draft of the revised EEG with the reformed renewables law coming into force by 1 August, 2014.

Manufacturers resume fight for EU carbon market shake-up

European manufacturers' lobby IFIEC Europe on Thursday (27 February) launched an attack on the EU's Emissions Trading System (ETS), opposing current reform plans and calling for drastic changes to prevent a flight of investment abroad.

Industrial companies such as steel and paper producers, alongside electricity generators and airlines, are forced under the ETS to surrender a carbon permit for every tonne they emit.

Manufacturers have long lobbied against measures to strengthen the system while countries outside the European Union are not adopting comparable policies to tackle climate change.

IFIEC's latest criticism is a sign that a proposal published last month by the European Commission to establish a reserve of carbon permits to curb supply in the ETS will face strong opposition to becoming law amid heightened concerns from politicians about derailing the EU's economic recovery.

"The reserve does not solve the real structural problems of the (permit) allocation for industry. Therefore we are not happy with the approach taken by the Commission," IFIEC's Annette Loske said in an emailed response to questions.

The Commission's so-called "market stability reserve" proposal follows on from its backloading plan, which was finally passed into law this week after two years of political wrangling.

The Commission wants backloading and later the reserve to revive the ailing ETS and spur low carbon investment by driving up carbon prices from below €7 per tonne of emissions to levels that encourage companies to invest in low carbon technologies.

Free permits

To help European industrial firms compete with rivals in regions with less stringent emission limits, they get the majority of their permits for free.

The Commission confirmed last month that the allocations of free permits would be retained until at least 2019, even though environmental campaigners have called for them to be slashed following the drastic fall in prices from 30 euros in 2008.

IFIEC on Thursday called for an overhaul of what it described as the "unrealistic" free allocation method from 2020, saying that it would otherwise "stop investments in carbon intensive industries in Europe".

In an effort to get factories to invest in cleaner equipment, the current system is designed to hand out just enough free permits to meet the needs of the very cleanest plants, with firms that emit more required to buy additional certificates to cover the shortfall.

IFIEC said the system is flawed because even the cleanest plants will have to pay for some permits.

"We need a dynamic system being based on actual production levels," Loske said, adding that the current method's use of historical output data did not support the expansion of efficient industrial production.

2030 lobbying

IFIEC's call for ETS reforms was among a list of recommendations signed by 137 CEOs of IFIEC member companies including ArcelorMittal and BASF urging EU leaders to support domestic manufacturers when they discuss 2030 energy and climate change targets next month.

Lobbying is intense from all sides in Brussels after the Commission in January provided an outline of proposed 2030 climate and energy policy, including a target to cut emissions by 40 percent from 1990 levels.

Renewable producer groups say innovation is the best route to ensuring jobs and growth, while IFIEC warns that setting regulations to meet the targets will derail fragile economic growth.

"These ever increasing surcharges create an unprecedented burden for manufacturing industries, which cannot pass through these costs to their customers," Philippe Darmayan, chief executive of steelmaker Aperam, said in a statement.

The Commission says it is working to help industry and has an aspirational target that 20 percent of EU gross domestic product should come from the sector. The share of GDP from industry has been falling rather than rising and stood at 15.6% in 2012.

Leaders from all 28 member states meet to discuss the 2030 goals at a European Council summit on March 20-21, though they are not expected to reach agreement until they meet in June.

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