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SPEAKING FOR AMERICAN BUSINESS IN EUROPE

Our position

EU energy crisis: US industry views

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Executive summary

In the face of the ongoing energy crisis, the European Commission and Member States have proposed a number of measures to combat rising gas prices, further reduce gas demand in Europe and enhance critical infrastructure. Their proposals seek to protect consumers and companies from soaring gas prices while maintaining and accelerating climate and environmental objectives.

To address immediate challenges this winter, the EU institutions must stand in solidarity with each other and implement short-term measures, including facilitating new gas supplies to maintain industrial activity and consumers' welfare. Decision-makers should also consider long-term measures to achieve secure, sustainable and affordable energy and help find solutions to reduce dependency on Russian fossil fuel while at the same time continuing to support the EU's ambitions to decarbonise the economy.

The Commission must align new measures with better regulation principles and avoid conflicting regulations. Additionally, all EU energy policy initiatives should be linked with strong industrial policy to maintain the bloc's attractiveness for investment. Likewise, decision-makers must prioritise the deployment of digital technologies, which can accelerate the speed and scale of the energy transition. Policymakers should also make an adequate assessment of possible long-term effects of market intervention measures, which should be limited in scope to avoid distortion in exceptional circumstances. Finally, the EU and the US should continue to work together to avoid new trade tensions and facilitate a stronger and more resilient energy sector.

Introduction

The following paper details US industry views on various elements of the EU's ongoing policy work on the energy crisis. It identifies key areas that the EU must carefully assess in the coming months to effectively address short, medium and long-term challenges.

Diversification of energy supply for energy security

Energy security depends on diversity of energy supply, which can be improved by expanding both domestic and global sources of energy production and through investments in energy infrastructure in countries around the world. Gas, particularly liquid natural gas (LNG), will play an integral role in diversifying energy supply. This is reflected both in the Gas Security of Supply Regulation and the REPowerEU package, which focus respectively on energy winter preparedness in the short-term and phasing out Russian gas imports in the long-term. Accelerating gas infrastructure, renewable gas and hydrogen deployment will also be key to promote energy security. Any proposed measures related to gas allocation must be transparent, assure required production and distribute the loads fairly among all gas consumers, taking into account the critical role of particular sectors. As demonstrated during the COVID-19 pandemic, it is essential to consider the entire supply chain and not only end products when prioritising energy for certain strategic sectors.

Removing Russian natural gas from Europe's supply pool creates a fundamental supply-demand imbalance which can only be addressed by increasing alternative supply and/or reducing demand. Furthermore, investors need confidence in security of demand with a stable, well-regulated market. The EU should remove barriers to domestic oil and gas production, whilst facilitating new sources of imports. That requires policy that recognises the long-term role of gas, in combination with carbon

capture and storage (CCS) and blue hydrogen in the energy transition. These can play a vital role in a low-carbon future, particularly to provide flexibility and back-up for intermittent renewable power generation and to support hard-to-abate sectors.

Industrial policy and the rollout of renewables

The REPower EU communications recognise that renewables are a key part of the solution to the EU's future energy security. Although the level of ambition is welcome, and the current obstacles to faster deployment are clear. The EU should encourage diverse sourcing for the manufacturing of key low-carbon technologies that are essential to Europe's energy transition.

Industrial policy in the energy space is missing in RePower EU communications, the EU solar strategy and EU energy policy more globally. Uncertainty on how the EU and Member States plan to meet their deployment goals in renewables in the near term is holding back investment decisions. The EU urgently needs to continue building the foundations of an outward-looking industrial policy that attracts and maintains investment in the bloc. Ambitious policies and support for investment in infrastructure and green and digital initiatives are also essential for a strong industrial policy in the EU. The EU should strike the right balance so not to disincentivise investment within the EU amidst compounded crises.

In addition to investment barriers, there remain inefficiencies in the EU permitting process and grid connection processes that are holding back the massive deployment of renewable installations. For example, where building a utility-scale solar installation can take only months, the permitting in most Member States takes three to five years, and even longer in the case of wind installations. The EU urgently needs new sources of electricity, and these administrative efficiencies must be rectified.

The Biomethane Industrial Partnership proposed by the REPowerEU is an essential instrument to steer cooperation among stakeholders to accelerate the sector's expansion. Renewable energy investments proposed by recent energy policies include 35 bcm of biomethane by 2030. Member States need to proactively translate the 2030 goal of 35 bcm biomethane production into their National Climate and Energy Plans (NECPs) and enact appropriate fiscal measures to scale up the use of biomethane and related technologies.

Energy and financial markets

Energy markets are under strain; however, the core issue remains the imbalance between supply and demand following the disruption to Russian pipeline gas supply, rather than the financial markets, where regulatory safeguards are currently working as intended. Regulators are focusing on energy entities and helping them with liquidity, while ensuring that the increased liquidity is being used on hedge trades and not 'speculation'. Other measures such as circuit breakers on derivative markets or expanding the list of eligible collateral at central counterparties (CCPs) are not without risk of spreading issues to other market participants. Circuit breakers could drive trades over the counter, which reduces transparency. Expanding the list of eligible collateral at a CCP could increase risk at CCPs, and hence for all their participants, at a time when overall risks are increasing.

Transatlantic cooperation for a stronger energy sector

The announcement of the EU-US Joint Task Force for Energy Security, established in 2022, is an encouraging step toward deeper transatlantic cooperation. The task force's plan to diversify LNG supplies in alignment with climate objectives, accelerate regulatory procedures for LNG import infrastructure and collaborate on the production and use of hydrogen will help tackle immediate challenges.

Transatlantic cooperation continues to be critical for accelerated uptake of green technologies. The EU and the US should not be racing against each other but instead, ensure alignment and coordination of their strategic investments to strengthen the resilience of global supply chains. They should make use of existing platforms, such as the Trade and Technology Council, to amplify their shared impact on the decarbonisation of the economy. Furthermore, the US-EU Taskforce on the US Inflation Reduction Act should facilitate dialogue and better understanding on both sides of the Atlantic. Additionally, the objectives laid out in the EU's Action Plan on digitalising the energy system include leveraging the transatlantic relationship to promote a policy framework which empowers both energy markets and consumers through digitalisation.

Finally, the EU and US should jointly develop technology solutions to address security of supply, decarbonisation and affordability – including CCS – low carbon and renewable hydrogen. The EU-US Energy Council agenda should reflect this objective.

Electricity price cap measures

The electricity price cap measures should not be applied retroactively. The European Commission should verify that Member States' implementation measures are harmonised in order to ensure a level playing fields across the Single Market. The revenue cap should not apply to technologies which do not have lower marginal costs of generation, such as biomass and lignite. In addition, the cap should not result in generators selling below their cost of generation, as this would de facto lead to market distortion and hinder the redistribution of part of generators' profits.

Additionally, lower electricity prices need to be coordinated at the EU level. For example, the Iberian approach might have drawbacks when applied locally or regionally, but these could be overcome when applied at the EU level.

Gas price caps

Caps on wholesale gas prices should be avoided. Wholesale prices are impacted by global dynamics and provide important supply/demand signals to market participants, both globally and within Europe. Capping prices is likely to reduce incentives for producers to supply the EU, including Russian supply to EU. This may result in diversion of LNG cargoes to other regions and reduce incentives for consumers to cut demand. Implementing price caps on differentiated sources of gas or benchmarks would create significant market distortions and challenges. Furthermore, capping prices may challenge the commercial risk/reward balance of existing contracts and give rise to potential legal challenges

Demand reduction measures, curtailment and energy efficiency measures

A comprehensive impact assessment must be carried out before taking any political or regulatory decision on establishing forced curtailments on gas and electricity outside of an emergency situation. Sectors should be prioritised based on essential needs and critical infrastructure. Customers should participate in a dialogue to assist in that prioritisation, as well as to discuss ways in which industry can support the gas and electricity grids in times of need. Additionally, utilities, grid operators, regulators and policymakers should align on how and when load is curtailed before a grid emergency.

Emergency energy market intervention and the EU Temporary Crisis Framework are not the appropriate occasion to add further conditionalities on industry and should allow for measures to help industries when being curtailed. Compensation should be paid to companies that shut down similar to the furlough schemes deployed during the COVID-19 crisis.

The revenues collected from the proposed measures should be used to lower energy costs for energy-intensive industries including small and medium-sized enterprises and industry at large.

Internal market mechanisms and energy price-demand signals should remain intact as much as possible to avoid plan curtailment measures.

Market interventions

Any emergency measure or intervention on established energy markets rules should be carefully evaluated and should consider the following principles:

- Provide clarity, particularly on the boundary between where any regulated activity ends and commercial activity starts, who bears the cost etc.
- Prevent price gouging and limit price drivers like market power in the implementation of energy security legislation. For instance, there should be incentives to reduce the cost of energy for consumers and industry.
- Be as simple as possible and balanced with the recognition that one size doesn't fit all (eg. different rules may be required for different types of storage facilities).
- Remain market oriented to the extent possible (eg. use of tendering) and non-discriminatory.
- Be proportionate and established with industry input to prevent unintended consequences that could disincentivise investment in domestic and imported energy supplies.
- Ensure measures are temporary and only apply for the required duration, with clear exit timing and arrangements.
- Address challenges raised where existing contracts (eg. storage capacity purchased before currently proposed changes) are impacted by a change in framework.

Information and communications technology (ICT) sector

As national governments develop their plans to save energy, the EU must prioritise providers of digital infrastructure, including data centres, as well as telecommunication networks and services as these plans may include potential power cuts as a last resort. Data centres and providers of telecommunication networks and services must not be excluded from the list of protected sectors

given their vital role in social welfare – for example, emergency calling – and in the functioning of the increasingly digitised economy. Subjecting these providers to power cuts must be avoided or risk impacting not only the providers themselves but also consumers and their business customers. It is critical to ensure that public services such as banking and healthcare remain operational.

Digital technologies play a vital role in the EU economy and energy security. The EU Action Plan on Digitising the Energy Sector should ensure that measures addressing the ICT sector's energy consumption do not undermine the critical role of digital technologies in reducing carbon emissions and helping the EU achieve its energy and climate objectives.

The EU's commitment to promote synergies between the green and digital transitions and provide relevant guidance for Member States' updates to their NECPs is a continued step in the right direction. The European Green Digital Coalition's efforts to create accurate methodology to calculate net environmental impacts of green digital solutions will also be a key instrument in unlocking green and digital potential.

Digitalisation can empower all energy customers to participate in the energy system. For example, high-volume energy consumers like building owners can help by adjusting heat to lower power consumption and supporting grid balancing. The combination of emerging technologies such as Internet of Things (IoT), blockchain and artificial intelligence (AI) on open, cloud-enabled market facilitation platforms can be leveraged to orchestrate and sustain energy ecosystems, bringing relevant parties together virtually, fast and at scale, and in a trusted and secure way.

As complex energy systems are digitalised, trust and security become even more essential. Digital solutions that enable energy innovation must be underpinned by appropriate standards and protocols to ensure transparency in how data is handled and protected. Finally, proposed measures must also apply a holistic baseline for cybersecurity across all digital systems in the energy sector.

Conclusion

The EU faces an extremely complex challenge in addressing both short and long-term issues related to the energy crisis. To succeed, the EU will need to ensure solidarity across Member States. EU institutions should promote diversification of energy supply while seeking to both accelerate efforts to decarbonise the economy and ensure secure energy supplies on a cost-competitive basis. Digitalisation is also vital to ensure more integrated, efficient, secure and flexible energy systems.

Energy policy should be linked to strong industrial policy to promote investments in the EU and create a more sustainable and resilient energy system. New measures, especially those related to demand reduction, curtailment, energy efficiency and market intervention, should be thoroughly assessed for their impact and create as much certainty as possible for industry to play its part in addressing the crisis.