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A successful “Energy Policy for Europe” must meet the needs of Crafts and SMEs

UEAPME comments on the Energy Policy Communication of the European Commission and the Energy Policy conclusions from the Spring Summit 2007

1. Introduction

The European Commission presented on January 10, 2007 its roadmap for “**An Energy Policy for Europe**”. The communication includes a whole set of documents on issues such as energy efficiency, renewable energy, the internal market on energy and energy infrastructure. The whole package can be seen at: http://ec.europa.eu/energy/energy_policy/index_en.htm

The main aims of **Europe’s energy strategy** are:

- **A more competitive European energy market** which increases the number of jobs and reduces energy prices;
- The **reduction of energy dependency from third countries**, by increasing the EU’s own clean energy generation;
- A **reduction in greenhouse gas emissions** from the EU to reduce the consequences of global warming for Europe and for the world.

In order to achieve these aims, **the European Commission proposes** the following **operative targets**:

- The **completion of the internal market for electricity and gas** focusing, inter alia, on a separation of energy production from distribution (unbundling) and an improvement of the network infrastructure;
- a **binding target for renewable energies**, fixed at 20% of the EU total energy consumption by 2020, including a binding target of 10% for bio fuel;
- an **improvement in energy efficiency by 20% by 2020**;
- a **reduction of 20% of the EU greenhouse gas emissions by 2020** or by 30% in the framework of an international agreement;
- an **increase of 50% of the annual budget for energy related research and development** over the next 7 years, particularly on low carbon technology;

- a common **EU external energy policy**.

The Spring Council on March 8 and 9, 2007 agreed on the ambitious targets as regards renewable energy, energy efficiency and green house gas, but watered down the Commission proposals as regards the completion of the internal market for energy. Neither the proposal for ownership unbundling nor the creation of regulatory power at EU level were supported by Heads of State. The presidency conclusions from the Spring Summit can be found at: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/93135.pdf

A careful analysis of the EU Energy Strategy by the Craft and SME sector has shown that SMEs are affected by this plan in different ways. (1) **SMEs suffer from inefficient competition in the energy sector**; (2) **SME can deliver effectively on energy efficiency** and (3) **SME can contribute to reduce greenhouse gas emission and dependency** from fossil energy.

Crafts and SMEs in Europe support the aims and the main targets of a new European Energy Policy, but ask all institutions at European and national level to **take into account more carefully the needs of SMEs and the challenges SMEs** will have to face with the concrete measures, taken to achieve these targets. The proposed strategy can become a reality and may contribute positively to the Lisbon Agenda only if it creates a level playing field for all enterprises and does not harm competitiveness of Europe's economy.

This position paper aims to explain in which way SMEs are or can be affected by the new strategy and calls for some adaptations and clarification, which are necessary to reap the full potential SMEs can contribute to the strategy.

2. **SMEs suffer from inefficient competition in the energy sector and need a completion of the internal market**

In many countries Crafts and SMEs are still confronted with **monopolistic structures** in the energy sector with **no real choice** on contractors for electricity and gas supply. The **price** small companies have to pay is **too high and often increasing**. The **market liberalisation** and the creation of an internal market for energy designed by the EU during the last years **were not successful** and the available legal and regulatory instruments are not strong enough to enforce the completion of a European Internal Market. Higher prices for smaller costumers creates also competitive disadvantages, especially for energy intensive SMEs in comparison to larger companies.

The **main shortcomings or barriers** to an effective internal market are:

- vertical integration between producers and distributors, which creates quasi monopolistic structures and allows rent-seeking at the expenses of customers and is used as barrier towards new market entrance and competitors;
- missing capacities for cross-border delivery of energy, with bottlenecks allowing the segmentation of market again on the expenses of customers;
- weak national regulators, which are confronted with and bypassed by multinational supplies.

UEAPME supports fully the target of the European Commission to complete the internal market and **wants to underline** that this requires:

- an **effective separation of the distribution networks** from the producers **and** an **effective control by regulators and/or public authorities** over any decision which is related to the

distribution network (access, transfer price, etc.).

Ownership unbundling has to be a first step to achieve more competition and to open the market, but it **will not be sufficient**, if it creates network monopolies which are able to run a profit maximisation policy.

- an **increase of the power of regulators on national level** in order to further **enforce** effective **separation** of production and distribution and to **regulate** effectively the **distribution networks**.
- an obligation to provide costumers with transparent information about contracts and prices.
- a strengthening of the **European Regulatory Power**, in coordination with national regulators, to ensure the **enforcement** of the necessary **liberalisation** measures (i.e. unbundling) and an increase of the **cross-border transport capacities, supplies and coordination, which is a necessary pre-condition for strengthening competition on European markets**.
- In order to force all market participants to respect already existing legislation, UEAPME asks the European Commission (DG COMP, DG MARKT and DG TREN), the national competition authorities and the Court of Justice to use fully their competences to **fight the abuse of a dominate market position, delays in implementing existing legislation or their wrong implementation and cases of unjustified state aid**.
- As long as the internal market for energy does not function and as long as especially smaller costumers have to pay the price, **regulations such as calculation guidelines or price caps** for certain groups of clients **are justified and supported by UEAPME**.

Enterprises see a **well-functioning energy market** which is able to delivers energy in a cost-effective manner as a **precondition** for other energy policy **measures targeting renewable energy or green house gases**, which in any case will create additional costs at least in a short-time perspective.

3. Crafts and SMEs have a huge unexploited potential for increasing energy efficiency

The EU objective to increase the energy efficiency by 20% by 2020 will only be achievable if SMEs are put in a position to use fully their potential for energy saving. In general SMEs can contribute to this target in two ways: firstly, by increasing energy efficiency in their own company by investing in the best available technology and by improving the energy efficiency of their buildings and secondly, in providing services to increase the energy efficiency of buildings and other companies.

SMEs' energy efficiency can be increased by regulations enforcing certain efficiency standards or by voluntary investment decisions of companies.

In cases were SMEs are forced to invest in **energy saving technologies by regulations**, the legislator has to consider investment cycles of companies and should not put in danger the amortisation of investments in the past by demanding reinvestments before past investments are written off. Therefore, new energy efficiency standards, which need investments to be fulfilled, must have **time horizons in line with the time for amortisation of such investments**. If short timeframes are demanded, subsidises would be necessary to avoid business failures.

SMEs will also invest in energy saving technologies if such investments pay off for the company. In order to exploit the huge potential for energy saving, Craft and SMEs need

different kinds of support:

- Crafts and SMEs need support services to realise their full potential for energy saving. These services include awareness raising, information, identification and consultancy on implementation provided by public, semi-public (chambers) or private (business associations) entities.
- At European level, such services could be supported by an “Annual EU Intelligent Energy for SME Forum” of the relevant stakeholders (European Institutions, SME organisations and research networks), which tries to facilitate the transfer of new technologies and solutions and the creation of networks.
- Small enterprises often have problems to finance such investments, especially when they need some years to pay off. In most of the cases, micro-credits (up to EUR 25 000) would actually be sufficient. Therefore, specific public guarantee schemes from national institutions or by EIF should be made available.
- Energy efficiency investments are most of the time not only to the benefit of the company but also to the public. Such positive external effects (market failures) must be recognised and financially compensated; otherwise the level of investment would always be below the welfare optimum. Tax incentives and specially targeted subsidies could encourage a sufficient level of investment.

Therefore, UEAPME supports national integrated energy-saving programmes (i.e. for buildings) promoting energy efficiency, modernisation and job creation through measures such as subsidies, reduced interest rates for credits and loans, and the likes.

- Guarantee schemes for energy efficiency investments and state aid programmes to compensate for market failures can only be established if the European Commission allows them. Therefore, the up-coming guidelines for state aid on environment have to include rules for these types of state aid.
- Research and innovation on energy efficiency and renewable energy needs a specific focus on SMEs. Any support measures should take into account the potential of SMEs as regards small scale technologies and should help to improve the innovative potential of Crafts and SMEs in these sectors.

SMEs play also an important role as service providers to increase energy efficiency of buildings (construction and renovation of buildings) and/or to improve their energy management. Therefore, SMEs should be better involved in so-called integrated services (installation, maintenance, etc.) and regulators should not leave these services exclusively to energy providers which have also the interest to sell more energy.

4. Greenhouse gas reduction and promotion of renewable energy are costly and may harm competitiveness and should be achieved in the most economically efficient way

Crafts and SMEs in Europe support the aim to reduce greenhouse gas emission and increase the share of renewable energy. Both are necessary and may pay off in the long run by improved competitiveness through innovation and by reducing future costs for environmental damage. But Europe has to be aware that in the short run both creates additional costs and may harm competitiveness. Therefore, UEAPME asks to follow some principles, if measures to achieve these aims are taken:

- Emission trading is an effective way to find the economically most effective way to reduce CO₂ emission, but it works only if the conditions are predictable and the market is

organised in an effective manner. Both conditions are not fulfilled at the moment. Europe needs an early decision about the scope and the market principles for the post-Kyoto area.

- UEAPME supports further reductions of green house gas emission and sees the need that the industrialised world has to go ahead, but warns that Europe cannot “do it alone”. Europe, especially without the US, would not be able to change the climate but would harm the competitiveness of our economy.
- As regards the promotion of renewable energy, some economic rationality should work. Europe has to create a regulatory environment, which sets the right incentive that the economically most efficient renewable are chosen and – if necessary - supported. The market should channel investments, research and subsidies for renewable energy towards the most effective use, without any negative discrimination for decentralised small projects.
- If specific taxes or levies are collected from energy uses to subsidise renewable energy in order to make them competitive, this should be done in a way that ensures a level playing field to all energy users. Many SMEs complain that they have to contribute relatively more than large companies.
- The regulatory framework for the promotion of renewable energy should also guarantee an equal treatment for decentralised and small scale energy production.

Finally, UEAPME would like to stress that all these efforts to increase energy efficiency, to promote renewable energy and to reduce green house gas emission will not work if Europe is not able to make the internal market work, which needs further liberalisation and enforceable regulations at national and European level.