

## **The completion of the EU internal energy market: “Getting to 2014 – Quantifying the benefits of an internal energy market”**

### **TITLE SLIDE**

Commissioner Oettinger, Ladies and Gentlemen.

Thank you very much for asking me to speak here today.

I see that I am the only customer speaking on today’s programme. I therefore consider it something of an honour to have been selected!

But, very seriously, I also consider it a great responsibility. For the matters we discuss today will sooner or later translate into the bills consumers pay.

On a business level, where I will focus, that impacts the ability of European based companies to compete successfully for orders and capital on the global stage, on the investment decisions we make and on the contribution we can make to tackling the major environmental problems that confront us.

I will briefly cover three points in these opening remarks:

- Firstly, a short overview of Tata Steel in Europe, the market we operate in and why energy is a critical concern for us in a number of ways
- Then, as I’m a steel maker not a distinguished energy economist, rather than speak about the theory of energy markets I’d like to highlight the sometimes highly frustrating experience we have as a large consumer in a number of European countries
- And finally I’ll suggest some high level ‘Opportunities For Improvement’ that would benefit large consumers in Europe

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### **SLIDE ONE - Who we are and why we’re so interested in energy markets**

Tata Steel is the 2nd largest steel maker in Europe and the 10th largest in the world, with a global capacity of around 28 million tonnes, of which 18mt is in Europe, and annual sales of around \$27 billion.

In Europe we have 34,000 highly skilled employees. Hundreds of thousands of additional jobs depend on our operations through the supply chains we serve. In many cases we are by far the largest employer in the communities where we are based.

We are a proud member of the broader Tata group of companies, which range from steel to hotels, from cars to consultancy services. We are a truly global group.

We, as Tata Steel, also need to take a global perspective because we operate in an intensely competitive international industry in terms of raw materials, products and capital.

The so-called BRIC countries made 56% of world steel production in 2010, compared to 12% for the EU27. China's steel production grew by 30% in the decade to 2010, whereas Europe's was barely stagnant. Around a third of global steel production is exported. 58% of steel consumed in the EU27 countries was made in another EU27 country – compared to around 8% for electricity. 60% of the world's iron ore production, the industry's staple raw material, is traded internationally. Our customers are increasingly global and demanding global solutions. And my own company is a very real example of the international flow of capital.

In short, the steel industry has to take a broader perspective that goes beyond geographic, political and regulatory boundaries.

And now I turn to energy. The European energy market, and its proper functioning, is of crucial importance to Tata Steel from three perspectives:

- We are a leading supplier of innovative products and solutions to the energy market – so a market that attracts and rewards investment is key to driving demand
- We are a large energy consumer, frequently amongst the largest in the regions where we operate – so a market that delivers good price discovery is vital for our global competitiveness and our ability to attract capital to reinvest in our business

- We are a responsible part of society – Tata Steel’s founder, Jamsetji Tata, said: “In a free enterprise, the community is not just another stakeholder, but is, in fact, the very purpose of its existence.” We fully accept climate change as a critical threat that must be addressed and are committed to playing our role in addressing it. A market that properly factors in environmental costs and robustly links to other markets should play an important role in driving global solutions

So, that’s what we need from an energy market – how do we feel Europe’s energy market is doing on those measures?

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## **SLIDE TWO - Consumers still face huge differences across Europe**

Our experiences as a major consumer suggest that the market is making some progress but that there are still some very important issues that remain. I can best summarise this in the chart I share with you now, which shows the prices different sites that we’re familiar with paid for their electricity earlier this year.

The overall message is unfortunately that, despite the efforts made by the Commission and some national Governments, huge differences exist in end prices of electricity for large consumers between countries. To my mind this is the key test of any well functioning global market.

There is a 50% difference in the final price paid by large industrial sites depending on where they are based. Energy makes up 15-20% of the costs that my business can influence (excluding raw materials). So that difference between countries translates into millions of Euros and is – have no doubt! – enough to influence investment decisions.

But there are to me interesting stories within this general message. I’ve split the prices up into some of the major elements of the total delivered price that I hope bring out these stories.

The basic commodity price is shown in grey. We find good alignment of wholesale prices across the ‘Central Western Europe’ block of countries, despite the very different underlying generation bases. But outside this block important variations remain. The UK has a persistently higher differential,

probably linked to limited interconnectivity, and regulated tariffs in France distort the effective price down in that market.

I've shown the non-baseload and network related elements of the price in red and light blue respectively. In too many European countries seemingly high barriers to entry and the behaviour of incumbents coincide with non-commodity costs that are difficult to reconcile with prices we pay elsewhere.

And then finally we have the largest source of the differentials – what I would describe as 'policy costs'. Taxes and levies, frequently to pursue environmental objectives. As I've described before, Tata Steel is committed to combating climate change and we see renewable energy technologies as a very important growth market for our steel in Europe. But the current position is not sustainable in two regards:

- Within Europe policy costs and, just as importantly, the exemptions and reliefs available to some differ dramatically. This distortion is sufficient to materially skew the competitiveness of production costs – and this is bad for companies, workers and customers alike. It also potentially changes the way people treat energy, distorting the signals that could drive energy efficiency – a key element in meeting Europe's climate change targets.
- In the global context the explicit policy costs I've identified here and those, primarily from the EU ETS, embedded within the wholesale energy price are a significant issue as European companies battle for orders internationally and against imports from countries where these kinds of regulatory frameworks don't yet exist.

My fear is that this situation will grow worse without urgent action. I anticipate that these types of policy costs will increase significantly in the future. The risk is that the distortions within Europe will increase and that the gap between Europe and the rest of the world will grow larger. This heightens the likelihood of jobs and enterprise being lost from Europe, whilst the region's carbon footprint, measured on a consumption basis, sees no improvement.

Having raised the issue of urgent action, let me move on to what we as large consumers consider to be Opportunities for Improvement.

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### **SLIDE 3 – Important development areas from the (large) consumer view**

A level playing field is the single most important factor for Tata Steel and other European industrial companies who compete in globally markets. These are the companies that form the backbone of the green economy European policy makers want to create.

The importance is at both regional and global levels.

As I've illustrated, major differences continue to exist for comparable end users between European countries. Whilst some convergence is already occurring at a 'wholesale' level, it's important not to lose momentum on enabling institutions and regulation. Progress on implementation of the 3<sup>rd</sup> Energy Package must therefore be monitored closely and corrective action applied if appropriate.

But by far the largest differences exist outside where the 'market' is allowed to operate.

Greater cross border flows of energy should increase awareness and focus on different supply, transportation and network regimes. Such awareness and focus can only be positive in contributing to the change to a more harmonised charging level. However, the customer voice alone is necessary but not sufficient. There must be political will to follow through on full unbundling and give regulators sufficient tools to operate in the interests of consumers across Europe.

Politicians must also act with realism and consistency in the taxation of energy and emissions.

Within Europe today there are staggering differences from country to county in rates of environmental taxation and the exemptions and rebates available to some companies. These differences risk distorting signals for energy efficiency and investment. Thus a greater degree of harmonisation is required.

And such harmonisation cannot be some form of competition of 'who can tax the most'. Policies can and should be stretching but taxation should aim to incentivise good performance, rather than penalise industries across the board.

Looking to the global context, European businesses are generally more energy and carbon efficient than their global competitors. Disproportionate levels of taxation therefore risk being counter productive. We face real risk of driving production increasingly outside Europe without the amount of carbon Europe 'consumes' and potentially increasing global emissions and fossil fuel demand.

Therefore, Europe's global commitments and related targets must reflect the reality of action elsewhere and Europe should continue to push for robust global agreements, even if only at sector level.

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## **CLOSE**

So, to conclude.

Tata Steel, as with much of the European manufacturing sector, strongly supports efforts to create a true, Europe wide energy market. Whilst we see progress towards this goal, worryingly large differentials remain for comparable customers across countries.

The solutions, as we see them, are more related to political will than physical cables and pipes. I make no judgment on whether that makes them easier to deliver!

And finally, Europe does not exist in isolation. Policies and targets can be stretching but need to be set with realism and the international context in mind.

**Thank you for your attention.**

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