

Mr/Ms XYZ
Director-General
European Commission
Directorate-General for Internal Market, Industry,
Entrepreneurship and SMEs
Rue de la Loi 170
1049 Bruxelles
BELGIUM

14St da

November 2022

Contact:
Fynn-Willem Lohe
Phone +49 211 6871-277
E-Mail: fynn.lohe@caef.eu

CAEF position on the matters of energy, transition and decarbonization

Dear Sir or Madam,

The current energy crisis across Europe puts the entire industrial value creation at stake. The first time since Second World War, Europe has witnessed an interstate war. In consequence, next to the rightfully condemned atrocities of the Russian government, many European countries face unbearable energy costs. The main risk: Losing the already diminishing competitive edge against Asia and in consequence jobs in the hundred thousands. At the same time, this summer was one of the hottest and driest in decades not even the most extreme one; climate change is undeniable and can be mainly attributed to mankind.

We, the European Foundry Industry, advocate and support any effort both to combat climate change and provide better environmental and living conditions. Therefore, we constantly drive the development of innovative technologies and processes in our industry. Foundries are pioneers of the circular economy! Recycling of metallic materials is core of our business model. From scrap, our companies manufacture high-end castings that embrace the goals of the Green Deal and enable the generation of renewable energy in the first place. Cast components form the structural basis of wind turbines. They are part of hydroelectric power plants and – not to be forgotten – they can be found as indispensable components in electrically powered vehicles. No casting – no e-mobility.

However, considering the war in the Ukraine, Europe should now preserve the economic strength of businesses and work on effective measures to cushion the crisis. Many small- and medium-sized enterprises (SMEs) are facing existential threats due to a tremendously rise of energy prices. Foundries as energy-intensive companies, have already had to partially curtail their production due to exorbitant gas and electricity costs. Additionally, there are considerable problems in the supply chains due to the war and in the aftermath of CoVid. Several crucial raw materials (e.g., pig iron, magnesium) and auxiliary materials (means of transport, packaging materials) are hardly available anymore. Not to mention elements such as magnesium and raw earths which are no longer harvested in Europe. Again, we

CAEF The European
Foundry Association
c/o BDG
Hansaallee 203
40549 Düsseldorf
Germany
www.caef.eu

DE 119 355 552
St.-Nr. 103-5920-1789

gave China the discretion to decide upon the distribution of these essential resources.

Due to this, our companies note with increasing concern not only the growing dependency on China but also the pace with which European policy-makers push projects in the realm of the Green Deal. In this course, the Commission is currently initiating a large number of revisions of various directives and regulations. Inevitably, these projects are generating further burdens for the economy. We wonder how plant operators under these conditions shall cope with these new requirements – and at the same time with the transformation towards climate neutrality under the current situation of sky-rocketing energy costs.

We fear that a "business as usual" approach to European economic and environmental policy will cause SMEs to refrain from the great idea of European integration. Many competing companies outside of the EU have no comparably strict labour and environmental protection requirements. Pretending to be in a closed market of industrial production is myopic and puts the entire idea of European markets at stake!

Manufacturers in these countries only wait for the next EU push on SMEs to increase their competitiveness even further. As a result, 11,000 jobs have been lost in the iron casting sector alone in the last 10 years. If the EU Commission does not act with wisdom and a sense of proportion, this employment erosion will last. New legal regulations should rather facilitate the industrial transformation instead of putting additional bureaucratic and thus financial burden onto SMEs. Permits must not become even more complex, complicated and lengthy – as we witness in the wind energy sector for years. Permits must enable progress, not prevent it!

EU Energy Policy

We need a central European industry electricity price to support the ambitions towards net zero. By this, the design flaw of the Merit Order System could be overcome. Otherwise, the EU risks another event where excessive energy prices benefit few energy producers while putting households and the industry under distress.

Moreover, natural gas has to become price competitive again within Europe or our competitiveness erodes even further. For many foundries natural gas will remain the most important energy source at least for the next 5-10 years, e.g. non-ferrous aluminium foundries and several heat treatments.

There should be an EU wide initiative to immediately authorize Member States to introduce regulated electricity tariffs that also benefit businesses, even those that are not SMEs, and at a reasonable level in relation to the actual production costs and the context. Failing that, and as a minimum, authorize all Member States to introduce regulation of the price of gas used to produce electricity, in order to bring down the price of electricity on the markets. These transitional mechanisms should remain in force until the definitive recasting of the rules applicable to the European electricity market.

The merit order system is unfortunately harmful today, at the risk of our industry, and should be modified. New rules should be adopted that allow for an evolution towards

an ever-increasing share of renewable energies (including nuclear power) at the same time as setting a price that is bearable for our industries, and that is remunerating the producers fairly without giving way to speculation and windfall effects.

Power-plants driven by gas are the main reason for the current price level of energy. In other terms, gas-power-plants shall be paid separately directly from the states. Gas-power plants should be taken out of the merit order but shall still be paid for the security they provide in the power grid.

Aid Regime – Temporary Crisis Framework (TCF)

It will be a determining factor to extend the aid regime instituted by the European Commission's communication of 23 March 2022 and especially the rules of its point 2.4 (AID FOR ADDITIONAL COSTS DUE TO EXCEPTIONALLY SEVERE INCREASES IN NATURAL GAS AND ELECTRICITY PRICES) to other than iron foundries. This incident is motivated by the ETS but energy costs are equally high in all foundries regardless of the material used.

ETS

External price signals (e.g. extreme price increases for fossil energies) must be taken into account (free allocations, no reductions in certificate quantities ("market stability reserve") or correction factors). In these cases, further price increases are pointless and price signals are no longer needed ("pause button", moratoria). The extension of the ETS towards head should be carefully considered before its implementation. If SMEs are included, a significant load of extra bureaucracy would be the consequence.

Financing the Decarbonization

Most industrial sectors will undergo disruptive transition in their ambitions towards becoming carbon net zero. This will not only scrutinize the way of producing castings, from melting, over shaping, towards finishing, but also shuffles the product segmentation overall. Since many foundries produce excellent and best-in-class castings for the internal combustion engine (ICE) and the related power train, a significant share of these products will disappear.

We demand an EU-wide strategy for the decarbonization of the foundry industry. Among others, the right to be connected to the electric grid free of charge co-amplified by additional efforts of installing renewable energy would reduce investment uncertainties for foundries.



Dr. Fynn-Willem Lohe
Secretary General



**The European
Foundry Association**