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CARBON LEAKAGE PROTECTION FOR EU INDUSTRY IS UNDER THREAT

Urgent call to safeguard Europe's industrial competitiveness

The Alliance of Energy Intensive Industries, representing over 30.000 European companies and 4 million jobs, is extremely worried about the instability in the EU regulatory framework for climate action, created by recent decisions and reform ambitions from the Commission on the Emission Trading Scheme (ETS).

Energy Intensive Industries support the EU ETS as a policy instrument to meet the EU's climate objective. However, since the start of EU ETS Phase III (January 2013), we **are becoming more and more concerned that protection against carbon leakage is turning out to be an empty promise**.

A recent Commission decision unexpectedly decreased by 12% the average amount of free allowances for the period 2013-2020. In some key sectors, even for best performers a shortage of about 30% by 2020 can be expected due the combination of the correction factor, ambitious benchmarks and the historical production base. Each year free allocation decreases, by 18% in 2020 and further after 2020. This happens at just the same time when proposals for short- and long-term reforms to boost carbon prices are being debated.

On top of this, the Commission is also about to make a decision on the list of sectors deemed to be at risk of carbon leakage for the period 2015-2019, which will have a crucial impact on our industries. Even for those sectors that are considered at risk, this might only be a short-term relief as further reduction targets are being debated for 2030 and there is so far no carbon leakage protection foreseen for after 2020.

Industry needs a predictable framework if it is to take the long-term decisions needed. However, all these developments are cumulatively affecting these investment decisions at the worst possible moment, when the EU economy is struggling to recover from a dramatic economic crisis, and unemployment (currently at 26 Million people) is becoming an intractable issue. Current policy is a roadmap to de-industrialisation.

We therefore urge policy makers to:

- **ensure that carbon leakage provisions are meaningful and effective by keeping energy intensive industries on the leakage list. The Commission should use a forward-looking carbon price in its calculations (i.e. 30 euro/t CO_2);**
- **initiate legislative action that will correct the damaging effect of the correction factor for carbon leakage sectors and guarantee that free allowances will fully cover the needs of most efficient installations at risk of carbon leakage, also after 2020;**
- **secure full compensation for CO_2 cost pass-through in electricity prices for these sectors;**

These initiatives would contribute to an EU ETS that is consistent with the goal of promoting a competitive European industry and avoids carbon leakage.

Appendix

Carbon leakage is the threat for industry sectors facing global competition to significantly lose market share to installations outside the Community due to the cost of carbon. Against this risk, a share of emission allowances should be allocated free to these industry sectors.

As stated above, energy intensive industries fear that recent decisions and reform ambitions coming from the Commission will result in an erosion of measures foreseen in the EU ETS Directive to protect industry from carbon leakage. These measures and the way in which they impact industry are further described below:

- **Nine months after the start of Phase III, EU ETS installations still do not know for sure how many allowances they will get for free,** thereby making good planning, budget and carbon management impossible for them; the same thing happens in other areas of European regulations.

- The recent Commission decision on the **finalisation of National Implementing Measures and the Cross-Sectoral Correction Factor** has revealed that the EU ETS ambition is technically unachievable, even by the most efficient installations. Industry was shocked to learn that due to the application of the correction factor, their free allocation of CO_2 emissions will be uniformly reduced by 5.7% in 2013 and then further eroded each year, creating a 17.6% shortfall below the benchmark in 2020. As a consequence, industry as a whole will have to pay billions of euros to comply with the ETS Directive or have to curtail operations.

  The process run by the Commission completely lacked transparency: inter-service consultation was carried-out through written procedure over the summer period and Energy Intensive Industries, although they requested clarification already since 2011, were not informed about progress in the decision process. The Commission has not shared details of the data that would allow industry to replicate the calculations of the cross-sectoral correction factor as determined by the Commission.

  With such a correction factor, even if current rules for free allocation are maintained after 2020, industry gets less and less allowances each year. A legislative change to the ETS linear factor, especially the one applicable to the industry cap, is urgently requested in order to avoid carbon leakage.

- The EU ETS Directive foresees that a reviewed **list of sectors at risk of carbon leakage** shall apply as from 2015. This list should be established in the coming months and at this point, industries still do not know what will be the basis for the review and whether they will receive carbon leakage protection after next year. Energy Intensive Industries need to be informed on the methodology to be used by the Commission for this reassessment as soon as possible. While the legal interpretation of the EU ETS Directive leaves no doubt that €30 per EUA needs to be used for the assessment, the Commission continues to leave a margin of uncertainty on this issue. We believe that the Commission should follow the same methodology as for the 2013-2014 carbon leakage list. The process should be transparent: the Commission should keep close contact with the various sectors concerned, inform them about their preliminary assessments and be informed about the consequences by industry, before they are made public. In addition, the ETS Directive (Art. 10a(13)) foresees that the Commission shall bring the carbon leakage list assessment to the European Council for discussion before the assessment takes place.

- Last but not least, ongoing political discussions on possible **intervention during the current phase of the EU ETS, most of them with the overt intention to steer ETS**

prices, are putting Energy Intensive Industries and the EUA market in a position of vulnerability. Although Phase III has just started, the rules of the game could already change within the next few months. Energy Intensive Industries might have to cope with artificially inflated carbon prices and considerably lower levels of free allocation than expected.

The uncertain outcome of the 2015 international climate negotiations put an additional unknown variable in this already complicated equation. So far, none of the current and proposed emissions trading schemes in third countries can be compared to the EU ETS. The first full inter-continental linking between the EU and Australia, which should have been completed by 2018 may not materialise, as the newly elected Australian government now intends to change or even to dismantle their domestic regime.