Recommendations from the Alliance for a fair ETS

ahead of the October trilogue meeting

September 2017

To the European Parliament, the Environment Council and the Commission

We, the 17 signatories of this paper, energy-intensive sectors representing about 2 million jobs in the EU and comprising many SME's, are fully committed in taking our share of responsibilities and reducing our emissions.

We welcome the revision of the ETS Directive to both reach the agreed emission reductions at the lowest cost and to stimulate innovation as well as protect the competitiveness of our industries.

Both European Parliament and Council have respectively adopted provisions that should help provide a more flexible framework, providing a carbon price signal yet to be balanced by improved carbon leakage provisions that encourage efficient growth and investment in Europe.

We acknowledge the positive steps made over the past trilogue negotiations and we encourage policy-makers in finding a political agreement as soon as possible, ideally at the October trilogue meeting.

This being said, **a solution still needs to be found to secure sufficient emission rights for industry exposed to the risk of carbon leakage**. The October 2014 European Council Conclusions already acknowledged that the most efficient installations in sectors at risk of losing international competitiveness should not face undue direct and indirect carbon cost that would be exposing those companies to the risk of carbon leakage.

By assuming a 57% auctioning rate, the European Commission proposal has however de facto limited the number of free allowances at 43% of the total ETS cap, which may be insufficient and hence trigger the application of the Cross Sectoral Correction Factor (CSCF), thereby undermining the above Council guidance.

Both European Parliament and Council propose the doubling of the Market Stability Reserve (MSR) intake rate from 12% to 24% starting in 2019. This measure has been assessed by several market analysts that concluded that this will have an early, direct impact on the carbon market and on the allowances price.

Mindful of the real risk of a free allowances shortage during the 4th trading period that would trigger the CSCF, this measure will then lead to additional carbon cost for all ETS installations, including the most efficient EU plants performing at the benchmark: **this needs to be avoided!**

Regarding the carbon leakage safeguard of securing required emission rights for exposed industry however, both institutions are far apart. Key influencing parameters include the percentage by which the auction share would be reduced (only 2 or up to 5 %), the financing of the innovation fund and the reserve for new entrants/ production change.

A balanced solution is needed:

Sufficient free allowances must be available to allocate all installations at risk of carbon leakage at the level of the benchmark as to avoid additional cost, resulting from the implementation of the ETS, which are not faced by their non-EU competitors.

1. ensure that the auction share will be reduced by up to 5 %
2. finance the Innovation fund with allowances from the auctioning share
3. safety valve: set up a mechanism whereby unused allowances from phase 3 and set aside allowances from the MSR - that otherwise would be cancelled or permanently invalidated - would be recycled to the amount needed in the event of a free allocation shortage (to prevent the CSCF from being applied)

Should the EU institutions fail to agree on the above carbon leakage and competitiveness safeguards, **the resulting CSCF should be applied in a uniform manner**: Otherwise, exempting few industries would mean excessive loss of competitiveness for all other exposed industry.

This statement is supported by:
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3. Cepi – Confederation of European Paper Industries
4. Cerame-Unie - European Ceramic Industry Association
5. EDG – European Domestic Glass Association
6. Epmf – European Precious Metals Federation
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8. ESGA – European Special Glass Association
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