The ETS reform proposal falls short of addressing stakeholders' concerns and effectively protecting EU refineries against carbon leakage.

FuelsEurope welcomes the focus of the Commission on carbon leakage protection and the recognition of the key role of Energy Intensive Industries in the European economy. However, ETS proposals fail to provide sufficient structural improvements to current carbon leakage provisions. As a result of insufficient free allocation since the beginning of Phase III the EU Refining industry is already partly exposed to the risk of carbon leakage. The sector therefore urgently needs fair, effective and simple solutions to the issue of carbon leakage after 2020. Unfortunately, current flaws in the system which remain unaddressed will lead following FuelsEurope's preliminary assessment to an additional cost of approximately 15 Billion € over Phase IV, including indirect costs[1].

During the preparation of the ETS Directive revision proposal and in the context of public consultation, stakeholders including industry have emphasised the need for stronger and more effective protection against the risk of carbon leakage. FuelsEurope and other Energy Intensive Industries actively participated in the consultation process and have shared a number of principles to be applied whilst defining rules for free allocation. However, all these recommendations were not or only partially taken on board:

- **Preserve the competitiveness of best performers who should receive full protection from direct and indirect costs, thereby incentivising other installations**. According the Commission's consultation analysis "*considerable support was expressed for having no limit to free allocation*". However in the Commission proposals free allocation would still be capped and a uniform correction factor that would penalise all refining installations independently of their performance, is maintained. Most competitors to EU Refineries do not face any comparable carbon cost today. The EU's refining industry is therefore still exposed to the threat of carbon leakage.

- **Support growth by synchronising free allocation with current/real levels of production.** According the Commission's consultation analysis "*there is wide support for using more recent data to determine allocation to industry*". This approach would solve the current mismatch between free allocation and industry's needs. The update of activity levels twice during the phase is a step in the right direction but could be insufficient to reflect economic growth.

- **Base the rules on technically and economically achievable benchmarks, reflecting the actual performance of industry**. Energy Intensive Industries clearly expressed the view that the update of the benchmark values should be based on data collection from the EU companies and not a flat rate as proposed by the Commission. The Refining industry already has a very stringent benchmark and the 1% yearly improvement factor, which is disconnected from any industrial reality, would penalise them even further.

- **Address the negative impact of the EU ETS on electricity prices, which are putting European energy intensive industries at a disadvantage compared to global competitors**. According the Commission's consultation analysis 87% of industry stakeholders "*prefer indirect cost compensation to take place at EU level*". The lack of a harmonised EU-wide approach in the Commission proposal will leave EU Refineries - for whom indirect costs currently represent almost 30% of total ETS costs - unprotected vis-à-vis global competitors benefiting from much lower energy prices.

FuelsEurope therefore urges the Council and the Parliament to amend Commission proposals in order to ensure that the Refining industry, which is key to European value chains, competitiveness and security of supply, can benefit from adequate protection.

[1] FuelsEurope estimated a total deficit of free allocation of around 350Mt over Phase IV. With a CO_2 price of 30€, this would lead to a cost of approximately 10 Billion € for direct costs plus 5 Billion € for indirect costs.

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FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 42 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

FuelsEurope aims to inform and provide expert advice to the EU institutions and other stakeholders about European Petroleum Refining and Distribution and its products in order to:

- Contribute in a constructive way to the development of technically feasible and cost effective EU policies and legislation.
- Promote an understanding amongst the EU institutions and citizens of the contribution of European Petroleum Refining and Distribution and its value chain to European economic, technological and social progress

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