



Revision of the EU ETS Directive

Joint Statement

February 2022

Energy-intensive industries support the EU climate ambition with an ETS that both delivers climate targets cost efficiently and supports the decarbonisation of the EU industry

Energy-intensive industries (EIIs) support the EU's climate neutrality goal by 2050 as well as the 2030 climate target. The "Fit for 55" package adopted on 14 July 2021 is a major step to help the EU achieving the increased climate ambition. The revised EU ETS Directive, core element of the regulatory framework, will highly contribute to the achievement of the reduction of net GHG emission by at least 55% compared to 1990 levels by 2030.

The ETS, an ex-ante cap and trade scheme, provides the legal certainty that the environmental objective will be achieved. Known as the most cost-effective market-based instrument, the ETS design should contribute to tackling climate change globally (avoiding carbon leakage and an increase of global emissions) while ensuring that the EU industry is incentivised to keep investing in low-carbon technologies in the EU.

The contribution of the ETS to the achievement of the climate objectives should be provided in the most efficient way to reduce costs for compliance operators as well as the whole EU society which is exposed to higher indirect costs passed on in the electricity price. Therefore, rebasing and tightening of the Market Stability Reserve should be avoided, since they increase costs for the same level of 2030 climate ambition.

Carbon leakage is a major threat for both EU industrial competitiveness and environmental integrity, considering the unilateral increase in EU climate ambition and the steady increase of the EU carbon price by 2030.

The existing so-called “transitional measures to support certain energy intensive industries in the event of carbon leakage” (article 10.a) are therefore primarily measures of environmental nature. Indeed, they aim at preventing global emissions to increase as long as the EU sets out for itself incomparable level of ambition which requires incomparable efforts that major competing countries do not have to undertake. In this respect, we believe that the measures to support energy-intensive industries that may be subject to carbon leakage should be continued and strengthened. In particular, the impact assessment accompanying the Carbon Border Adjustment Mechanism (CBAM) proposal (COM(2021)564, IA, pag. 9) indicates that the free allocation has been an effective measure in preventing the risk of carbon leakage to materialise massively.

Should a CBAM be introduced, it should include a solution for exports and co-exist with the current system of full benchmark-based free allocation at least until 2030, to provide certainty for low-carbon investments and avoid market distortions. Any subsequent modification of the rules needs to be conditional to a monitoring system assessing and ensuring the effectiveness of the CBAM both for imports and exports.

Sufficient level of free allocation should be ensured and triggering of the cross sectorial correction factor needs to be prevented

We urge the EU policy makers to look at the revised Directive in a holistic manner. The key objective should be to ensure sufficient free allocation at the level of realistic benchmarks. At the same time, the application of the cross sectorial correction factor needs to be avoided and the possible extension of free allocation rules to additional installations should be taken into consideration.

To this purpose, the 3% flexibility between auctioning and free allocation shares needs to be increased. This is largely possible, since the impact assessment on the 2030 targets acknowledged that the abatement potential of the power sector is much larger than energy intensive industries (i.e. 70% vs. 22%). Similarly, allowances in the Market Stability Reserve could be used as well to avoid the application of the cross sectorial correction factor.

Current carbon leakage protection measures, such as free allocation, are already subject to strict benchmark rules and do not need a conditionality clause

The new provision introducing conditionality of free allocation undermines the carbon leakage protection measure, which provides already a strong incentive effect due to stringent benchmarks set by the 10% most efficient installations. Furthermore, it creates an unnecessary overlap in the regulatory framework, increases administrative burden and risks being inconsistent with the pathway towards climate neutrality. Such an approach will require in some cases the time- and resource-intensive conversion of industrial sites to breakthrough technologies rather than incremental efficiency gains of existing ones.

Effective benchmarks should ensure that free allocation protect against the risk of carbon leakage AND support the implementation of breakthrough technologies

Benchmarks shall be representative, technically feasible and realistic. In that respect, the update of product and fall-back benchmarks should take into account EU-wide availability of affordable resources (e.g. biomass, electricity and hydrogen), infrastructure (e.g. CO₂, electricity and hydrogen) and technologies without distorting competition between member states.

Benchmarks shall provide visibility and legal certainty:

- If the maximum reduction rate is increased from 1.6% to 2.5% and additional technologies and installations are included in update of existing benchmarks in 2025 free allocation could decrease sharply (50%) for entire sectors already in 2026-2030, when such technologies and/or underlying energy sources are not available or very limited.
- Definitions and system boundaries of existing product benchmarks need to remain in place until 2030 in order to provide legal predictability for investment planning. If any modification of the rules is nonetheless introduced to reward low-carbon technologies, it should not prematurely reduce benchmark levels.

* * * * *