



Strong industry concerns on the ITRE Draft Opinion on the EU-ETS Reform post-2020 and other thought experiments putting industries at risk of carbon leakage

Tiering is not the solution

Brussels, 23 May 2016

The undersigned energy-intensive industries express their strong concerns regarding the proposal to introduce “tiered approaches” to carbon leakage protection, as introduced in the ITRE Draft Opinion.

According to all forecasts, “tiering” is not needed

All forecasts, including the Commission’s Impact Assessment, predict that a shortage of free allowances is highly unlikely during phase IV of the ETS. A shortage can be as good as excluded if the proposed share of allowances to be auctioned were properly calculated. Those 700 million ‘unused’ allowances of phase III (that were earmarked for free allocation but remained unallocated due to business closures or a lack of new entrants) should remain available and within reach if needed for production, recovery and growth during 2021-2030. Thus, the ETS reform can deliver the agreed emission reductions cost-effectively, encourage best performance through safeguarding full and effective carbon leakage protection to the benchmark level. There is no need for exposing parts of EU industry to undue carbon costs.

The ITRE Draft Opinion proposes to expose a lot of industrial sectors to the risk of carbon leakage.

Burdening companies with undue carbon costs by cutting free allocation would divert resources from modernising and upgrading industrial infrastructure, thus exacerbating the risk of investment leakage to countries with less stringent climate policies. This does not send a positive signal to European

industry to accompany its decarbonisation investments and undermines our faith in, and support for, the ETS as a cost-effective means of reducing carbon emissions.

“Tiering” is based on theoretical assumptions and distorts the internal market

The proposed tiering has no environmental or economic justification and is based on flawed assumptions (“cost pass-through”) of unpredictable market dynamics. It reserves free allowances for some sectors at the expense of others. It goes against the principle set in the October European Council Conclusions that best performing companies in ETS carbon leakage sectors should not bear further carbon costs. Indeed, tiering would ensure that even best performers in most sectors would bear significant carbon costs and expose them to carbon and investment leakage.

Statistical indicators vary - sometimes greatly - with time and depend on many factors (market conditions, company structures, exposure to international trade, etc.). Hence, the setting of thresholds would be arbitrary and would risk not reflecting future needs and leakage risks of the sectors.

As a result, we call on the Members of the ITRE Committee to react strongly to the Draft Opinion, so that the ETS reform delivers full and effective carbon leakage protection without the need for arbitrary discrimination. Jobs in one sector are neither more nor less important than those in other sectors.

We call for an approach based on realistic benchmarks, allocation based on more recent production data and an adequate reserve that ensures full allocation to benchmark levels. Fairness and solidity should become key principles of policy making. We ask you to create a framework that gives all sectors an equal opportunity to compete and thrive in Europe, and not to pick certain sectors to stay in Europe.

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