

**CONTRIBUTION TO THE PUBLIC CONSULTATION IN PREPARATION OF AN
ANALYTICAL REPORT ON THE IMPACT OF THE INTERNATIONAL CLIMATE
NEGOTIATIONS ON THE SITUATION OF ENERGY INTENSIVE SECTORS**

12th April 2010

QUESTION 1: IN YOUR OPINION, HOW HAVE KEY INDICATORS OF THE RISK OF CARBON LEAKAGE (SUCH AS EXPOSURE TO INTERNATIONAL TRADE, CARBON PRICES ETC.) FOR THE EU ENERGY INTENSIVE INDUSTRY CHANGED SINCE THE ADOPTION OF THE CLIMATE AND ENERGY PACKAGE IMPLEMENTING THE EU'S UNILATERAL 20% EMISSION REDUCTION TARGET AT THE END OF 2008?

The climate and energy package was intended to suggest a unilateral emission target for the EU, which would be completed by an international agreement offering a comparable level of commitment from other parties. The latter element has not been materialised until now, which creates a situation of unintended exposure of the EU industry to the risk of carbon leakage.

TRADE INTENSITY

This exposure particularly concerns the international trade situation. While committing to improve the environmental print of its industry, the EU undermines its existence in front of fierce competitors, especially in the ferro-alloys sector.

It is worth noticing that trade intensity is a crucial factor for the ferro-alloys sector. The main competitor of the EU is China, whose unfair pricing policy have had for many years extremely detrimental effects on the competitiveness of the EU industry. A supplementary burden put on EU's ferro-alloys industry, such as the emission reduction target, further endangers the sector and increases the risk of carbon leakage.

CARBON COST

The indirect carbon costs have to receive a proper place in the calculation of global carbon costs. This factor can not be controlled by EU's industry, but is fundamental for its energy intensive sectors.

Besides, the calculation of the cost of CO₂ pass through in power prices needs to take into account the current price-setting mechanisms, which allow energy producers to pass through their marginal CO₂ costs.

OTHER FACTORS

Two other factors have to be taken into account in order to properly assess the modifications of the key indicators of the risk of carbon leakage since the end of 2008.

The first factor is the economic crisis and its consequences, which have not spared the energy intensive industry, but on the contrary have been even stronger in this case. The modifications caused by this crisis were of course not taken into account in the climate and energy package, which has therefore to be adapted at the stage of its implementation.

The second factor is the security of energy supplies, which is a constant worry of EU's industry, but has been further triggered by the gas crisis in January 2009. The possibility of such events also needs to be taken into account in EU's policy towards energy intensive industry.

IMPOSSIBILITY TO INVEST

Last but not least, the abovementioned supplementary burdens on EU's industry, combined with the harsh financial and economic crisis, result in the increasing difficulties for this industry to invest.

On the one hand, this further increases the risk of carbon leakage. On the other hand, the EU's industry can less afford to invest in new installations such as renewable energy power plants.

QUESTION 2: DO YOU THINK THAT THE OUTCOME OF COPENHAGEN, INCLUDING THE COPENHAGEN ACCORD IN ITS PLEDGES BY RELEVANT COMPETITORS OF EUROPEAN ENERGY-INTENSIVE INDUSTRY, WILL TRANSLATE INTO ADDITIONAL GREENHOUSE GAS EMISSION REDUCTIONS SUFFICIENT TO REVIEW THE LIST OF SECTORS DEEMED TO BE EXPOSED TO A SIGNIFICANT RISK OF CARBON LEAKAGE? IF SO, HOW AND WHY?

The Copenhagen Accord is a non binding agreement, which has only been completed by unilateral non binding declarations of intent from a number of States.

Today there is no international agreement to ensure a level playing field. Moreover, there is no ground to judge whether the pledges of some of the parties will be followed by real measures.

Therefore the outcome of Copenhagen is not a realistic basis for the EU to increase its commitments, and such a pace would be unjustified at the sight of the Copenhagen Accord.

As regards the ferro-alloys sector in particular, its most important competitor undermined the possibility of an agreement during the Copenhagen conference. Therefore we see no reason to further endanger a sector which is exposed to such a fierce competition coming from a country which does not intend to commit to targets similar to the EU's.

QUESTION 3: IN YOUR VIEW, WHAT WOULD BE A COMPELLING NEW GENERAL ECONOMIC OR OTHER FACTOR WHICH WOULD REQUIRE A CHANGE OF THE LEVEL OF FREE ALLOCATION TO SECTORS DEEMED TO BE EXPOSED TO A SIGNIFICANT RISK OF CARBON LEAKAGE?

The free allocation currently only takes into account the direct emissions costs. Nevertheless the indirect emissions costs are also an important factor, especially for energy intensive industries. In our view this factor should be used for the calculation of free allocation.

As a general comment, it is important that DG ENTR participates to the calculations of the level of free allocation along with DG CLIMA.

A more general consideration in this respect is the vital need for manufacturing industries to secure their independent supply and access to raw materials.

Maintaining and supporting a competitive production of ferro-alloys in Europe is key to our customers (steel, chemical and aluminium industries), as recognised in the on-going "raw materials" initiative developed under DG ENTR umbrella.

QUESTION 4: DO YOU CONSIDER FREE ALLOCATION OF ALLOWANCES AS SUFFICIENT MEASURE TO ADDRESS THE RISK OF CARBON LEAKAGE, OR DO YOU SEE A NEED FOR ALTERNATIVE OR ADDITIONAL MEASURES?

The **international trade factor** is adequate to address the risk of carbon leakage.

The **calculation of carbon costs** must take into account indirect emissions. The current Environmental State Aid Guidelines must properly address the issue and suggest adequate solutions for the energy intensive sectors.

The risk of carbon leakage is potentially enhanced by **EU's renewable energy policy**, which implies new costs and investment needs.

The free allocation plan must be adapted to the sectors concerned, eventually on a case by case basis. As regards ferro-alloys, they are submitted to **fall-back approaches in the benchmarking exercise**, and more precisely to the grandfathering approach. The fall-back approaches contain a risk linked to the fact that they are intended to be generic and applicable in the same way to all the sectors concerned. They must take into account the **specificities of each sector**, such as the incompressible emissions level as regards ferro-alloys. Besides, the effort-sharing factor suggested by Ecofys, while needed to ensure a level playing field, must be adapted to the particular situations of the different sectors and potentially to be applied on the basis of a ratio. This effort-sharing factor must also take into account the incompressible emissions level.

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EuroAlliages here expresses serious concerns which are important for the elaboration of the analytical report on the impact of the international climate change negotiations.

EuroAlliages observes no modification since the adoption of the climate and energy package which would justify a revision of the list of sectors deemed to be exposed to a significant risk of carbon leakage.

EuroAlliages recalls the need for the European Commission and the industry to conduct an open and transparent discussion during the ETS implementation process.

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