Position

European Commission public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors (ETSD, Carbon Leakage Decision)

BDI contribution to this public consultation

Klima,
Nachhaltige Entwicklung

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General:

The BDI (Federation of German Industries) regrets very much the EU Commission's information policy: national industry federations should under all circumstances be informed directly of important issues regarding the implementation of the ETSD 2009/29/EC.

Any burden on European industry translates into an even more serious impact on German industries, because Germany has a very high industrial share of more than 25 percent of the gross national income. Germany has also a very high density of energy-intensive industries. These produce about one third of the EU's capital goods, and the production of basic materials is of the same order.

Free of charge allocation does not weaken the EU industries' reduction obligation which will be the toughest in the world (-21%, 2005 – 2020). Free of charge allocation does not diminish this very demanding target because the number of EU allowances is not affected by how they are distributed. Even if industries receive 100% free of charge allocations, in order to meet the reduction target they will have to either make investments to reduce their emissions or buy allowances on the market.

Key Messages:

1. The BDI is disappointed by the outcome of Copenhagen. The "Copenhagen Accord" is legally not binding and **has not established a "level playing field**". Therefore, the precondition as decided by the European Council to move to a 30% reduction has not been fulfilled. If it has changed at all the exposure to the risk of carbon and job leakage has increased since a level playing field will prove more elusive after Copenhagen.
2. The **cost burden** for industry caused by the ETS must be minimised. This applies in particular to the energy-intensive industries: their international competitiveness must not be jeopardised.
3. The industry sectors now identified as exposed to a **significant risk of carbon leakage** need to receive their allocations 100 % free of charge for the entire third trading period (2013 – 2020).
4. In December 2008 Heads of State and Government made it clear that the competitiveness of EU industrial installations covered by the ETSD must be **safeguarded and additional burdens must be avoided** – at least as long as competitors are not subject to comparable climate obli-

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gations. The BDI insists that the measures to protect the competitiveness of European business that were politically agreed in December 2008 are put in place as intended.

5. The indirect burden resulting from **ETS-induced higher electricity prices** imposed on electricity-intensive industries must be compensated. A satisfactory solution to this problem is needed as soon as possible.
6. **Border Adjustment Measures** (BAMs) are rejected. No protectionist measures should be introduced in the name of climate policy, be they in the form of trade barriers, product standards that favour local producers or even requirements to buy domestic products.

Answering the Questions posed by the Commission:

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 change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

Answer:

The key indicators have not changed. Non-EU competitors still do not have to contribute to climate protection in a way that could be compared to the burden imposed on EU ETS installations. The EU cost baseline established in the Decision by the COM for identifying the industry sectors exposed to a significant risk of carbon and job leakage has to be kept constant. Changing this cost baseline would entail huge uncertainties for the ETS-installations. The “exposed sectors” need to receive their allocations 100 % free of charge for the entire third trading period (2013 – 2020). And even beyond 2020 if their competitors in other countries with no CO_2 constraints do not have to carry a comparable burden.

2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and 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?

Answer:

The Copenhagen Accord does not represent a sufficient step towards a level playing field. Actually, even the contrary might be true. The list of sectors deemed to be exposed to a significant risk of carbon and job leakage should therefore not be reviewed. Moreover, the benchmarks need to be set at a level that is realistically achievable by the installations in a sector. Too stringent benchmarks would result in significant under-allocation and thus in the carbon and job leakage which the ETSD tries to prevent.

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?

Answer:

International climate negotiations should result in a fair allocation of the climate protection burden which will not damage German industry’s competitiveness (“Level Playing Field”). Yet, important negotiating parties’ conduct at the Copenhagen Climate Conference has shown that unilateral advance measures have perhaps been gratefully accepted but do not result in others following suit. Companies and employees have to bear the consequences in the form of extra costs and the impact on competitiveness and jobs.

Climate protection should be cost-efficient. Over the long term, unilateral distortions of competition at the cost of Germany industry or at the cost of certain industrial branches would be inacceptable. Copenhagen has shown that other countries see this danger with far greater clarity. In the financial crisis German industrial structure – by adhering to the entire value-added chain – proved itself. For the climate it is irrelevant whether CO_2 results from the production of cement, aluminium etc. in Germany or elsewhere – but this is crucial for our jobs: **“job leakage” must be prevented.**

We are still facing the effects of the economic and financial crisis. Additional charges and costs for companies need to be avoided. We do not want structural changes to drive energy-intensive industries out of Germany and Europe. High-tech basic materials are needed for wind turbines and solar modules in particular, and the chemical industry and many other industries with their innovative products are essential for car production. These value-added chains are a key strength of Germany as an industrialised nation. Shifting production does not benefit anyone: neither companies, nor jobs, nor the climate.

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?

Answer:

To safeguard the competitiveness of the EU industries free allocation and the compensation of the indirect burden resulting from **ETS-induced higher electricity prices** imposed on electricity-intensive industries are required as soon as possible to achieve a satisfactory solution to the leakage problem. This solution must be compatible with the state-aid laws. Therefore the BDI asks the European Commission to come up with accordingly adapted state-aid guidelines as soon as possible.

No protectionist measures should be introduced in the name of climate policy, be they in the form of trade barriers, product standards that favour local producers or even requirements to buy domestic products. **Border Adjustment Measures are rejected** because they are not suited to attenuate problems caused by the regional limitation of the EU ETS. They will lead to new WTO problems and will provoke retaliatory measures to the detriment of German and EU business.

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