RESPONSE 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

Article 10(b) of the Emission Trading System (ETS) Directive mandates the Commission to submit by end of June 2010 an analytical report, in the light of the outcome of the international negotiations and the extent to which these leads global greenhouse gases reduction, assessing the situation of energy-intensive sectors and sub-sectors which have been determined to be exposed to significant risks of carbon leakage1. The report should be accompanied by any appropriate proposals as regards measures to address carbon leakage, if they were deemed necessary. These measures may include adjustment of the proportion of allowances received for free or inclusion in the ETS of importers of products which are produced by sectors deemed to be exposed to a significant risk of carbon leakage. When considering what measures are appropriate, it should also take into account any binding sectoral agreements.

Also in accordance with article 10(b) and as announced at the ad-hoc ECCP stakeholder meeting on benchmarking on 17 March, the Commission would like to consult all relevant stakeholders (industry, NGOs, trade unions and Member States) allowing them to effectively contribute to that report. The Commission would like to hear stakeholders' opinion on the set of questions listed below. However, if deemed necessary, stakeholders are free to comment on other related issues.

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?

First of all, and in general terms, the risk of carbon leakage has increased, as EU energy intensive industry’s products have become less competitive because they are now more expensive. The Nordic market price of electricity has increased by the amount of the CO2 allowance price (The so called windfall profit). This has weakened the competitiveness of industry within the region. On a general note EU should not commit itself to excessively ambitious emission targets. The reduction of emissions by 20 % is challenging enough. The effect of the ongoing economic downturn on emissions is not a justification for decreasing the level of free allocation.

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?

No, we don’t think that the outcome of Copenhagen or the pledges by relevant competitors will translate into additional greenhouse gas emission reductions at all. All increases in the price of energy or electricity have a detrimental impact on EU energy intensive industry. The decreasing greenhouse gas emissions will mean higher fuel, electricity and raw material prices for all energy intensive sectors. Consequently, the competitiveness of all industries will weaken, and especially those industries utilizing a lot of fuel or electricity. The level of imports of products manufactured outside EU and without high fuel prices and electricity due to the greenhouse gas emission trade will certainly increase. The Copenhagen Accord will not lead to any significant extent to reductions of GHG emissions. In our opinion, there is no legally binding agreement which implies carbon prices similar to those we face in Europe. The accord does not set the global community on a path for the reduction of its emissions.

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?

It is the price of fuels and electricity for the industry usage. The EU should develop, or help to develop, an energy and electricity market enhancing windfall profit free pricing.

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?

No, it is not, as competitiveness will deteriorate as a result of higher fuel and electricity prices anyway. Free allocation of allowances is only the first step to avoid carbon leakage. In addition we must ensure that we can continue to find new and better production technologies especially in energy intensive sectors. EU climate regulation is the strictest in the world, so industry should also be given incentives and support to operate within this strict framework. In practice this means for example Research & Development investments. The global agreement of reducing emissions is vital. If other countries will not commit to reduction of emissions, EU shall levy import tax for products from these countries.

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