STATEMENT OF THE EUROPEAN FERRO-ALLOYS AND SILICON INDUSTRY ON THE CARBON EMISSION ALLOWANCES SET-ASIDE PROPOSAL

-OCTOBER 2012-

The European Commission published on 25th July a proposal clarifying provisions on the timing of auctions of greenhouse gas allowances and launched a public consultation inviting all relevant parties to submit their views. EUROALLIAGES, the European ferro-alloys and silicon producers association, is taking the opportunity of the present consultation to highlight **key principles** which, from the viewpoint of its members, should guide the European Institutions during the decision making process on this issue.

EUROALLIAGES represents about 95% of the sector in the EEA. Its members provide major industries with essential base materials: they supply the iron and steel industries, while representing the most efficient and economical way of introducing alloying elements into iron and steel melts in order to produce the required steel grades. It also provides to the electronic, chemical and solar industries with essential base materials for their products. All processes are energy-intensive.

It is EUROALLIAGES' understanding that the main reason for the set-aside initiative is continued low price of EUAs on the European carbon allowances market. This price is due to constant supply of new allowances and a diminishing demand whose origin is to be found in an unexpectedly long-lasting economic crisis. It should be reminded that this price is set by the market and is judged low against the previsions of the European Commission, as fixed in the European climate and energy policy.

EUROALLIAGES believes that the EU ETS should remain the principal driver of climate policy in the EU and that industry should not be subjected to fragmented actions. While supporting EU's efforts in the fight against climate change and in particular contributing to its success by improving its energy and carbon emission efficiency, EUROALLIAGES calls on to the Commission to take into account the following:

- EUROALLIAGES' members find that **altering the current system must be done only after a wide and deep debate, involving all stakeholders**, especially industry, this method being the best way to progress on a path of a feasible policy which delivers the expected results;
- The members are **opposed to *ad hoc*, interventionist measures such as the set-aside proposal which will undermine the global competitiveness of European industry**.

As a matter of principle, **the European Commission should respect the mandate given by the current EU ETS Directive agreed in the Council and in the European Parliament**:

- Adjusting the allocation mechanism or modifying the agreed GHG emission reduction objectives should be the subject of a **democratic debate involving all institutions and stakeholders**;
- In addition, such a delicate issue, with great impact on the economic situation in all EU Member States, cannot be decided hastily a few months before the start of the 3rd Trading Period and **without** a detailed impact assessment being provided by DG Climate Action.

An initiative such as the present one, granting broader powers to the European Commission than previously foreseen, would **take away the basis for legal predictability**, which is essential to a healthy economic climate. Such a move would **undermine the confidence in the carbon market** instead of increasing it.

NEED FOR TRANSPARENCY AND PREDICTABILITY

- Legal predictability is key to a healthy investment environment:
  - The proposal does not "*clarify*" the ETS Directive; it is aimed at amending it.
  - Its objective is to establish an "*orderly functioning of the market*"; however this notion is not defined in the proposal. Therefore, adopting this text as such would result in granting the European Commission unlimited power to amend the ETS Directive.
  - **EUROALLIAGES is opposed to such a unilateral move creating a situation which by its unpredictable nature would destroy the confidence basis for new investments.**
- The lack of transparency in decision-making undermines the confidence in the market:
  - The proposal relies on future decisions made *in camera* through the comitology procedure. These decisions are of utmost importance for all EU energy consumers, be they industrial or households.
  - **Such modifications of the ETS system must be subject to a proper review of the ETS Directive through the ordinary legislative procedure (co-decision) and following an adequate impact assessment.**
  - The report on the functioning of the carbon market should be one of the elements used to decide on the set-aside proposal; instead, it is only expected for November 2012, after the closure of the present consultation.
- The proposal serves a number of short-term vested interests:
  - Banks and market speculators are seeking to profit from the carbon price increase; companies are willing to price expensive low carbon technologies into the market. By answering these individual expectations, without reviewing the impact of measures on the risk of carbon leakage, the European Institutions would increase the burden on the industry and reduce its competitiveness.
  - In times of economic crisis, the objective should instead be to ensure the creation of value and growth in the long-term, as acknowledged in the recent Communication on Industrial Policy[1].

THE EU ETS IS DELIVERING ITS OBJECTIVE AND WORKING AS DESIGNED

- The industry sectors covered by the EU ETS are on track to meet the EU ETS goal:
  - This is the case not only due to the recession, but also thanks to business decisions and investments.
  - The ETS system is designed to deliver the objective of 20% GHG emission reduction by 2020 **at the lowest cost for society**. The emission reduction achieved so far has been done at a low carbon price.
  - With regard to energy-intensive industries, it must not be forgotten that high energy costs already represent a strong incentive to reduce carbon emissions, independently of the EU ETS.
- The essence of the EU ETS is a free market-based mechanism:
  - The EU ETS is currently responding to the economic conditions in Europe and working as designed.
  - **The set-aside proposal puts an end to the notion of ETS as a market.** Such an intervention would modify the very core of the EU ETS system, transforming the carbon emission market into an artificial market with pre-set carbon price.

HIGHER CARBON PRICES DO NOT NECESSARILY BRING BREAKTHROUGH TECHNOLOGIES

- The EU ETS is a market-based instrument designed to reduce carbon emissions and is neither intended to promote one technology over another, nor to lead to the emergence of new technologies.
- Instead, higher carbon prices guarantee higher costs for the industry and potentially increase the risk of carbon leakage.

[1] Communication entitled "A Stronger European Industry for Growth and Economic Recovery" published on 10th October 2012.

Think globally

- No unilateral cost increase in the absence of a global climate agreement:
  - We believe that the proposal substantially underestimates the effects of its measures on industry and on power consumers in general. Raising electricity prices will not create value but only hamper the European economic recovery and decrease the global competitiveness of European industry.
  - Europe is the only region in the world to have a carbon market price resulting from a fully functioning cap and trade system. The direct and indirect carbon costs represent a burden for the EU industry which has no equivalent at international level. Increasing this burden, without addressing the impact of measures on industry, would only result in a **higher risk of carbon leakage**.
- Set a blueprint for a global carbon trade market:
  - After the announcement of a linkage between the European and the Australian carbon trade markets, EUROALLIAGES takes the opportunity to state its support for a global scheme and to insist on the need to use this important step towards establishing a set of rules applicable to future linkages.
  - For this purpose, **EUROALLIAGES invites the European Commission to launch a consultation on future linkages with all relevant parties, including industry**.

Address the right problems

- Permanent solutions exist to address the weaknesses in the ETS Directive:
  - The current economic situation shows that economy and the resulting demand for emission allowances cannot be planned in advance; the present proposal is trying to temporarily "fix" only part of the problem.
  - EUROALLIAGES would like to invite the European Institutions to **base a future review of the ETS Directive on the replacement of the current rigid ex-ante allocation rules by dynamic allocation linked to actual production**. This would create the ground for fair allocation and solve the over-allocation problem by disconnecting economic cycles and the drive for emission cuts.
- Future emission reduction policies should address largely untapped potentials:
  - The EU ETS does not cover the emissions due to transportation and household consumption. Setting aside ETS allowances would penalise the industry for its achievements, putting a higher target for industry to offset failures elsewhere.

Consult industry to find solutions

The EU should look forward and base its post-2020 climate and energy policy on sectoral roadmaps relying on technical feasibility and economic viability. This must be done taking into consideration binding emission reduction commitments by third countries and their impact at installation level for European industry, so as to really create a **level playing field**.

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