EUROFER European Confederation of Iron and Steel Industries

CEMBUREAU Association Européenne du Ciment The European Cement Association

CPIV Standing Committee of the European Glass Industries Comité Permanent des Industries du Verre Européennes

EUROMETAUX EUROPEAN ASSOCIATION OF METALS

cepi confederation of european paper industries

Euro Chlor representing the chlor-alkali industry

EURO ALLIAGES DE LIAISON DES INDUSTRIES DE FERRO-ALLIAGES

EuLA European Lime Association

CERAME-UNIE Liaison Office of the European Ceramic Industry

EXCA EUROPEAN EXPANDED CLAY ASSOCIATION

IFIEC EUROPE

cefic

Contribution paper for the EU ETS review
Alliance of Energy Intensive Industries + CEFIC / IFIEC

SUMMARY

- As climate change is a global challenge which calls for a global response, an ETS must be developed to ensure that it is an attractive example to other regions: **the real target is a global emission trading scheme**. The first *and second* trading period will bring further indications for improvement.

- Accordingly the EU ETS for the 3rd period, from 2013 onwards, **shall create a level playing field within Europe and at global level**. It must lead to cost-effective CO_2 reductions and maintain the global competitiveness of EU Energy Intensive Industries. In that respect, the **indirect impact of the ETS on energy prices for these industries** also needs to be addressed.

- EU Energy Intensive Industries call on the European Commission, the European Parliament and the Council to take an early and unequivocal position in the review of the EU ETS Directive to abandon the option of **reduced-production as a means of lowering GHG emissions in Europe, to end distortions of the free market and to prevent further unequal treatment** for new entrants versus incumbents.

- From 2013 onwards, regulatory stability is required to ensure the necessary investments in order to reduce emissions and to prepare for those investments already in the 2nd period. To this aim, to solve the pressing problems, Energy Intensive Industries **propose that sectoral approaches and performance-based allocation based on actual production should be part of the system, favouring the most efficient installations**.

- Auctioning represents an unpredictable cost risk to industry: **Energy Intensive Industries therefore reject auctioning as an allocation tool** since that would harm EU competitiveness without improving the environment.

- Finally EU Energy Intensive Industries **call on the European authorities to avoid double regulation (EU ETS and IPPC) and double burdens** such as additional energy/CO_2 taxes, renewables and/or energy efficiency targets.

❖ Scope of the Directive

1. <u>Exclude small installations</u>: To maximise the effectiveness and efficiency of the EU ETS Directive, small installations shall be excluded from the scope on the basis of diversified sectoral thresholds. Such installations could be covered by negotiated commitments to the Kyoto targets.

2. <u>Include CCS with care</u>: Carbon capture and storage (CCS) is an essential technology to enable reduction of industrial emissions, including in Energy Intensive Industries interested in this abatement potential. Energy Intensive Industries are however concerned that the cost for fossil fuel power generation with CCS may serve as the price setter for the electricity market. In addition, the extremely long term nature of CO_2 storage needs a clear framework independent from the short term behaving electricity market. Therefore, the cost for CCS should be decoupled from the price setting in the electricity market by adequate funding support. Careful consideration needs to be given to the funding, development and access to CO_2 transport and storage infrastructure.

3. Inclusion of new sectors only when cost-effective and of benefit to the environment: It is recommended that any decision to include new sectors, such as aviation, be based on comprehensive impact assessments, demonstrating cost-effectiveness, environmental benefit and the absence of any significant anti-competitive effect, direct or indirect, on the sector itself, industries currently covered or those falling outside of the EU ETS Directive scope.

❖ Further harmonization and increased predictability

1. Conditions for burden setting: Energy Intensive Industries emphasise the importance of determining long-term objectives as well as a transparent and as competitiveness-neutral as possible procedure for burden setting.

2. The burden setting shall:

- Be done in a transparent, competitively neutral and fair way through consultation with relevant sectors
- Take into account the full reduction technological potential
- Be based on specific reduction objectives
- Allow economic growth and meet society needs

3. Level-playing field and global attractiveness: The ETS Directive must be re-designed to create a level playing field within Europe and at global level. Performance-based allocation (for example through benchmarks or through a baseline and credit system) should be an option for large emitting, homogeneous processes. Other more dispersed activities may remain with an allocation based upon grandfathering based on historical emissions.

4. Rejection of auctioning: Energy Intensive Industries reject auctioning as an allocation methodology: Auctioning equals to unpredictable upfront payments distorting companies investment planning. Auctioning costs for companies competing with non EU countries would harm EU industries' competitiveness without significantly improving the environment.

5. Long-term predictability: The EU ETS Directive shall provide long term predictability and safety for investments, e.g. by preventing spiking or reducing carbon price volatility.

6. Address pass-through: The actions taken by Member States in the preparation of NAP II, such as auctioning, will not solve the problem of the pass-through of the price of allowances in the electricity price. In fact, in many cases auctioning will reinforce the pass-through. The distributional effect upon the competitiveness of Energy Intensive Industries resulting from the pass-through must be addressed. A fully competitive energy market should help to reduce power prices, but will not affect the pass-through of CO_2 costs into power prices. This issue must be addressed in the ongoing EU ETS Directive review.

7. Impact on energy prices: The EU ETS cost on electricity prices must be remedied structurally for all sectors and in any case be offset for specific electricity intensive processes as defined in the EU Energy Taxation Directive.

❖ Linking provisions

1. Design a global emission trading scheme: As climate change is a global challenge, which calls for a global response, an alternative system must be developed and implemented on a broader base than that in place today: the real target is a global emission trading scheme.

2. Address GHG leakages: Therefore the Energy Intensive Industries encourage the linking of this redesigned EU ETS Directive to third countries and also to regional schemes and request the Commission to analyze and address possible leakage of GHG emission allowances to countries not participating in the international scheme.

3. Encourage sector approaches: A further method of encouraging linking could be the development of sector approaches, for certain sectors, as expressed by the Commission in the January Climate Change package[1].

4. Build in safety valves: In the absence of a comprehensive international agreement including sector approaches, it is essential to foresee safety valves on CO_2 price and encourage business and industry in Europe to engage in new CDM and JI projects. In that respect, conversion of credits from CDM/JI into EU allowances should not be limited.

[1] (COM(2007/2)