

UNESID's response to the "Consultation on review of the auction time profile for the EU Emissions Trading System"

UNESID reg. ID: **44209611834-88**

- ✓ The proposal blatantly **underestimates the effects of the measures on the industry** and the power consumers in general. Rising electricity prices due to a higher carbon price will destroy value and hamper the economic recovery.
 - Higher carbon prices will inevitably result in higher power prices. This will damage the competitiveness of electricity-intensive industries (in particular the EAF steelmaking route based on steel recycling) and increase their exposure to carbon leakage.
 - Free allocation covers only a part of the operators needs because they are based on benchmarks.
 - In principle under a BAU scenario, 95% of the operators will face a shortfall in allowances because benchmarks are set at the average of the best 10% of the benchmarking curve. Furthermore it's worth recalling that the methodology used by the Commission to set the integrated route benchmarks makes them technically unachievable (natural gas equivalent subtracted from the waste gases carbon intensity).
 - Surpluses vary significantly from one operator to the other, depending on which market he supplies and how it is being affected by the economic crisis. In any case, the value of the surpluses is way below of the cost of the crisis. As matter of fact, the cost of the crisis has to be added to the value of the surplus. Higher carbon prices will deteriorate the overall position of industrial players.
 - Since the so-called oversupply in allowances is due to the economic crisis, it would be unwise to respond to it with a measure jeopardizing the competitiveness of the industry.

- ✓ The proposal is **against the fundamentals of the EU ETS Directive**. Cost-effectiveness is at the core of the EU ETS and therefore low carbon prices should be supported as they make the scheme affordable for the industry.
 - The objective of the ETS is to meet the CO₂ emission target at the lowest cost for the economy. In this regard, the back-loading of allowances towards the end of the period will bring no environmental benefit since the emissions are capped.
 - On the contrary, as mentioned above, increasing scarcity in the beginning of the third trading period will increase the impact of direct and indirect CO₂ costs on the industry, in particular energy-intensive industries, which may result – depending on a number of factors – in carbon leakage.
 - Recent studies have shown that the quantity of carbon embedded in imports has increased dramatically over the last years, exceeding by far the

reduction in domestic emissions. By increasing the carbon leakage risk, this trend will be exacerbated, leading to more global emissions.

- ✓ Piecemeal intervention in the market will hamper predictability and not reinforce it. In that sense, the proposal **infringes a core principle of the EU ETS Directive**.
- ✓ The political process could lead to the re-opening of other elements of the EU ETS which **will create instability**.
- ✓ The proposal may pave the **way for a permanent set-aside of allowances**. UNESID is opposed to a change of the 2020 EU ETS target by cancelling phase III allowances or by any other means. Energy-intensive industries cannot adjust to more ambitious targets at short notice.
 - The Commission will publish later this year a report on the functioning of the EU ETS and finalise the options for long-term structural measures. EUROFER understands that by doing so the Commission acknowledges that back-loading measures might not be enough and intends withdrawing allowances definitively from the system by cancelling them. If this is proved to be the case, then the back-loading of allowances would just be a means to buy time and ‘freeze’ allowances before cancelling them in a later stage.
 - UNESID is opposed to such tactics which would bypass the 2008 Climate and Energy Package objectives and change the EU ETS 2020 target through the backdoor without addressing the non-ETS sector.
- ✓ The EU must **stick to the 2008 Climate and Energy Package** and the conditional 2020 targets.
 - Steel, as many other energy intensive industries, has very long life-cycle investments, often spreading over several decades. In this context, 2020 is already too close to envisage being able to meet a more ambitious target in such a tight time-frame, and in the absence of economically viable alternative technologies. The investments needed to meet EU’s post 2020 objectives are not likely to be driven by a short-term carbon price, let alone an artificially manipulated carbon price. High carbon prices could also in certain circumstances prevent investments because of the deterioration of the global competitive position and the resulting pressure on profit margins. Therefore the EU must stick to its commitment to go beyond its overall 20% reduction target only in case of an effective global agreement on climate change.
- ✓ Instead 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 emissions reduction commitments by third countries so as to secure level playing field. Any unilateral action by the EU is ill-fated as it will destroy further the competitive position of the EU industry and have no impact whatsoever on global emission reductions.