TRANSPARENCY REGISTER IDENTIFICATION NUMBER: 19153965510-75

STATEMENT OF THE EUROPEAN FERRO-ALLOYS AND SILICON INDUSTRY ON STRUCTURAL OPTIONS TO STRENGTHEN THE EU ETS

- FEBRUARY 2013 -

The European Commission published on 14th November 2012 a Carbon Market Report, containing proposals for six options to strengthen the EU ETS. 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, and to suggest **new structural options** which should be considered during the review of the EU ETS.

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.

EUROALLIAGES believes that **the EU ETS should remain the principal driver of climate policy in the EU**. The member companies are supporting EU's efforts in the fight against climate change and in particular contributing to its success through the improvement of their energy and carbon emission efficiency. They welcome the present debate about the purpose, the efficiency and the sustainability of the EU ETS since they believe that **the current scheme does not adequately reconcile climate protection and industrial growth**.

The **global competitiveness of European industry**, linked to the Commission's goal of increasing industry's share in the EU GDP to 20 % by 2020, do not appear properly addressed in the Carbon Market Report, while they should be given a central place in a piece of legislation covering European industry.

The six options proposed in the Carbon Market Report do not appear suitable to strengthen the EU ETS since they address short-term issues without engaging in a **real long-term vision**. They are centered on the carbon price level, while by so doing they tend to modify the nature of the EU ETS which is a market-based instrument; besides, they do not necessarily solve the issue of the transition to a low carbon economy.

EUROALLIAGES calls on to the Commission to take into account the following:

- Real long-term measures are needed to strengthen the EU ETS;
- The preservation of the European industry's global competitiveness should be the central issue;
- A better coordination of European policies is needed to avoid overlaps and counter-actions.

EUROALLIAGES has developed **proposals for new structural options**, described hereafter, to address the problems currently identified within the EU ETS, and namely the over-supply of emission allowances and the realisation of a low carbon economy:

- Replace the current rigid ex-ante allocation rules by dynamic allocation linked to actual production;
- Decouple the carbon price from the financing of low carbon technologies.

1. THE EU ETS IS WORKING AND SHOULD REMAIN THE CENTRAL INSTRUMENT OF EU'S CLIMATE POLICY

EUROALLIAGES supports the cap-and-trade system as the principal driver of climate policy in Europe. This system is clearly working since **the industry sectors covered by the EU ETS are on track to meet the 20% reduction target**. The ETS is designed to deliver the objective of 20% GHG emission reduction by 2020 compared to 1990 levels **at the lowest cost for society**. The emission reduction achieved so far has been done at a low carbon price.

The essence of the EU ETS is a **free market-based mechanism**. It is currently responding to the economic conditions in Europe and therefore working as designed.

The current desire to adapt this market to the political goal of achieving a low carbon economy by 2050 through the financing of low carbon technologies is not compatible with the nature of the system. The carbon price as such cannot be a unique instrument for introduction of low carbon technologies. EUROALLIAGES therefore calls for a **decoupling of the carbon price and the financing of low carbon technologies**. Additional measures, such as funding schemes, are required. Moreover, higher carbon prices do not necessarily bring breakthrough technologies; instead, higher carbon prices guarantee higher costs for the industry and potentially increase the risk of carbon leakage rather than increasing the capacity of industry to invest in new technologies.

2. ADDRESS THE GLOBAL COMPETITIVENESS ISSUE

Any structural changes to the EU ETS need to take into account the fact that the economic situation of European industry has drastically changed since 2009, resulting in a **severe reduction of its competitive position**. Unfortunately, the statistics are clearly showing that the ferro-alloys and silicon production is decreasing in Europe, while it is growing elsewhere. The current industrial reality must therefore be the basis for any proposals to review the EU ETS. Besides, the system must offer sufficient flexibility to adapt to future changes of the economic situation. In any case, **no unilateral cost increase should take place in the absence of a global carbon price.**

The global competitiveness of EU industry is today addressed in the EU ETS through measures to avoid carbon leakage. These measures offer a certain legal predictability which is key to a healthy investment environment. **The measures aiming at preventing carbon leakage must therefore remain in place until there is a global agreement** under which third countries would commit to similar emission reduction targets. Moreover, the carbon leakage list should not be reviewed every five years, which undermines the confidence basis for new investments. In the absence of global emission pricing and in a context of worldwide competition for the ferro-alloys and silicon sector, continued industrial presence and further investment in Europe would require predictable long-term compensation at higher levels than now.

In times of economic crisis, the objective should be to **ensure the creation of value and growth in the long-term**, as acknowledged in the Commission's Communication on Industrial Policy, published on 10th October 2012. The European climate policy should be aligned with the Commission's goal of increasing industry's share in the EU GDP to 20 % by 2020. 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 global level playing field**.

In this context, EuroAlliages is opposed to *option e*, which would only bring additional pressure risking hindering a global agreement.

3. EUROALLIAGES SUGGESTS OTHER OPTIONS

The options presented in the Carbon Market Report are not structural measures, but only address the issue of raising the carbon price level. To strengthen the EU ETS, **the Commission needs to consider a long-term vision** and not short-term adjustments serving only one of the features of the current system.

In this context, EUROALLIAGES cannot support *options a, b, c* which only address the carbon price issue; *option e*, which risks hindering the achievement of a global agreement and *option f*, which would turn the EU ETS in a tax instead of a market. The only option which could, under certain conditions, be supported is *option d*.

Permanent solutions exist to address the weaknesses in the ETS Directive, as described below. EUROALLIAGES considers that the current system is faced with two challenges: (a) the over-supply of emission allowances and (b) the financing of the transition to a low carbon economy.

(a) Over-supply of emission allowances

EUROALLIAGES invites 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**. The allocation would thus follow in proportion the industrial production, especially for sectors exposed to a high risk of carbon leakage. This solution would allow accounting real CO_2 process efficiency instead of only seeing CO_2 reduction through production decrease. Such an option would create the ground for fair allocation and solve the over-supply problem by disconnecting economic cycles and the drive for emission cuts.

This system is the baseline of emerging emission trading schemes globally and would thus facilitate future linkages with the EU ETS.

Moreover, there should be **no absolute emission reduction cap** but a flexible system, allowing keeping in place the incentives for emission reduction and efficiency improvement, while taking into consideration the reality of the situation of European industry.

One major flaw of the current system is the lack of compensation of indirect emissions. The costs which are passed on energy-intensive sectors such as ferro-alloys and silicon are not taken into consideration, while their impact is in fact higher than the one of direct emissions. EUROALLIAGES asks the European Institutions to consider the **enlargement of the carbon leakage list to indirect emissions**.

(b) Financing of the transition to a low carbon economy

The EU ETS is in the center of **too many expectations on the functions of the carbon market**: reduce CO_2 emissions, stimulate investments in low carbon technologies, bring renewable energies to the market, become the basis for a global carbon market, etc. Political choices need to be made. Besides, it covers different types of industrial actors: the power sector benefits from cost pass-through, which is not an option for a sector like ferro-alloys and silicon.

The EU ETS plays a role in the realisation of a low carbon economy by providing incentives for emission reduction. The industrial sectors targeted by this legislation should not be asked to bear alone the cost of new low carbon technologies. Although EUROALLIAGES believes that innovation is key for the realisation of EU policy goals, it insists that additional measures for adequate financing must be put forward to support it.

The realisation of a low carbon economy through low carbon technologies is a separate issue and must not be mixed with the policy aiming at CO_2 emission reduction. Although the revenues from the EU ETS can be useful in this context, they cannot be the only solution. Additional financing must therefore be envisaged.

Emission reduction is a global problem and it must find a global solution. The EU ETS does not cover the emissions due to transportation and household consumption. The future EU ETS should not penalise the industry for its achievements, putting a higher target for industry to offset failures elsewhere. The **inclusion of other sectors in the scheme**, especially of those responsible for a large part of CO_2 emissions, could be explored post-2020 (as per *option d*). However, such a decision alone would not solve the problems faced by the EU ETS today.

As a general comment, it is essential to provide **stronger coordination of the EU energy, climate and industrial policies towards 2030** by avoiding overlaps. Only after establishing a long-term vision should shorter-term actions be considered to ensure the achievement of such a vision. Advocating shorter-term measures such as those proposed in the Carbon Market Report can only undermine predictability for business, confidence in the EU ETS and the economic sustainability of European industry at international level.

For further information, please contact:

Iva GANEV, European Energy Policy Manager

EUROALLIAGES

Tel.: +32 2 775 63 08

E-mail: ganev@euroalliages.be