



Ref: Answer to the consultation on structural options to strengthen the EU ETS. Finn fjord AS, transparency register nr. 90705737862-82

Finn fjord AS

Finn fjord AS is a Norwegian, privately held, manufacturer of ferrosilicon (and the by product silica dust) located in Northern Norway. Ferrosilicon is an essential ingredient in steel production and the metal is as such closely integrated in the steel value chain and market. Finn fjord holds around 15 % of the European market of ferrosilicon.

Ferrosilicon is as of 2013 covered by the EU ETS. With high energy intensity and facing fierce global competition the sector has been defined at risk of carbon leakage. ETS allowances have been allocated on the basis of a fallback benchmark and historical emissions in a period of dumping of Asian/Russian ferrosilicon in the EU market (antidumping measures taken in 2008). Finn fjord has since built a waste heat recovery plant, an investment of EUR 100 million, that enables the company to recover as much as 40% of its electricity, and is by now the world's most efficient ferrosilicon producer. However, at full production allowances only cover around 50% of real emissions.

The need for ETS reform

Finn fjord is a strong supporter of a predictable, market based system for carbon pricing, with the recovery plant now also party within the electricity market. We see a need for structural reform of the EU ETS, in order to increase the price of allowances, and align climate policy with the goal of increasing industry's share of EU GDP to 20% by 2020. Carbon leakage must be stopped.

There is no doubt that the price of EUAs is very low. This is first and foremost a result of a severe economic downturn in Europe, secondly the politically initiated introduction of renewable energy in the market. As for the price, the system is working as planned: Keeping emissions below the cap at the lowest possible cost (aid to renewables aside). The problem is only that emission cuts are not done by CCS or energy efficiency, it is done by reduction of production. Setting a higher price, will not fix the basic faults of the EU ETS, which is the close connection between economic development and emission price, and the system's lack of protection against carbon leakage. Breakthrough technology will not be financed by a higher price of EUAs in those sectors that have no possibility of pass-through of costs, quite the opposite.

As fixing the price will not fix the EU ETS and rather increase the unpredictability around the market and its functioning, we do not support any of the structural options put forward by the Commission. Options to tighten the market should only be considered for the period after 2020 on the basis of the development of a

global CO2 price. Extending the market to new sectors might strengthen the scheme and climate results, but must be seen in relation with international negotiations and plans to couple the EU scheme with other similar schemes around the world.

Decoupling of economic development and emission price, and protection against carbon leakage

In order to be able both to protect industrial sectors that are exposed to carbon leakage and increase the price of EUAs other measures than those suggested need to be taken.

Both goals can only be reached allocating allowances on the basis of actual production rather than historical emissions/production.

This would effectively decrease the amount of allowances available for many sectors and in total, thus increasing the price. This will make capacity increases, where possible, easier. This will create predictability and, ***together with increased focus on and protection for the indirect costs of ETS***, provide sufficient protection for these sectors to thrive and innovate in Europe, despite competing with companies in countries without climate costs.

The report issued by the Commission contains only a brief analysis of the problems at hand and only mentions some, inadequate, options for reform. A reform is needed but must be based on a thorough analysis and discussion of the total effect of climate, energy, environment and industrial policy and how to solve the challenges that we face in this regard.

We therefore urge the Commission to:

- Issue a roadmap and a timetable for real structural reform
- Start the process by commissioning in-depth analysis along the whole value chain, and
- Take the time required to conduct a stakeholder consultation

The European manufacturing industry, and Finnjord AS, does not oppose reform of the EU ETS. We oppose unilateral price increases without sufficient protection for carbon leakage, in manners that are only suitable to increase the already severe political unpredictability surrounding the EU ETS.

Best regards,



Finnjord AS

Toini Løvseth
Head of Energy and Public Affairs

