

Aluminium S.A. response to the EU Commission's consultation on the structural options to strengthen the EU Emissions Trading Scheme

The EU ETS functions as a trading market and meets its goal.

The main purpose of the EU ETS when established, was to be a central pillar of the EU effort to reduce GHG emissions by 20% by 2020 compared to 1990 level, and hence to achieve its obligations according to the Kyoto Protocol. According to the Commission's own projection, the EU ETS is on track to deliver the target set for the GHG reductions.

We think therefore, that any option to tighten the EU ETS market should only be considered for the next trading period after 2020 and preferably be based on a global agreement on the UNFCCC in December 2015.

Aluminium SA fully supports the EU ETS and believes that a functioning cap and trade system is **the most cost-effective tool** to reduce Europe's industrial GHG emissions, and the EU ETS must remain **a key instrument** of the EU climate policy. However, we have many doubts whether a global climate agreement will assure a homogeneous global carbon cost and a level playing field as for the moment, all other emissions trading systems world-wide are designed as stand-alone systems with a strong embedded protection of domestic industries. Linking the EU ETS to other carbon schemes therefore requires scrutiny to ensure symmetry and reciprocity in terms of privileges and burdens on the industry on a global scale.

Commission's back loading and structural options proposal.

Relying on the expectation that an international agreement would solve the problem, EU ETS was designed without any alternative planning with adequate long-term carbon leakage prevention measures. Aluminium SA in particular and the European aluminium industry in general, is now fighting for its **survival**, carrying significant extra cost burdens, particularly in **energy costs**. "Back-loading" and other ad hoc measures, like the six options proposed in the carbon market

report to tighten the balance of the EUA market, will exacerbate the problems for aluminium industry without rectifying the weaknesses of the EU ETS. The significant consequences on the global competitiveness of the European industry as a result of such initiatives has been brought to the attention of the Commission repeatedly through questions posed by MEPs. It is our firm conviction that the Commission should seriously take into account these concerns and abstain from any measures that distort the internal market as well as the market concept and functioning of ETS.

Without going into detailed comments on each of the six options listed as structural options, they all have in common that these are short term measures intended to address the issue of carbon pricing only, which should be decoupled one day from the realisation of the low carbon economy, and do not address some of the fundamental structural issues with the ETS.

In their place, we think that measures should be adopted in Phase III to provide for an effective mechanism to compensate energy intensive industries for the indirect costs of the EU ETS and to reduce the risk of **carbon, investment and jobs leakage**, while also addressing the problem of over-allocation. This can be achieved through:

- **Free EU-based allocation for direct and indirect** emissions to the Energy Intensive Industries based on **benchmarks**
- The Commission has already been asked to confront the threats to cohesion of the internal market due to a lack of harmonized approach/regulation of compensation schemes among Member-States. Predictable, long-term cost compensation for high energy costs as long as this is required. The unstable and incomplete (in terms of scope and level) financial compensation for indirect emissions should be changed to a comprehensive long-term predictable **indirect allocation**, to complement the allocation for direct emissions. Companies cannot base investment decisions on inherently unstable financial compensation.
- Allocation must be based on **actual** – rather than historic - industry **production**, which would improve the ETS capability of delivering cost-efficient emissions reductions and which would also address the issue of **over-allocation**.

Revising and strengthening the EU ETS.

EU climate policy should be **aligned** with the Commission's goal of **increasing industry's share in the EU GDP** to 20 % by 2020. In the absence of global emission pricing, continued industrial presence and further investment in Europe would require predictable long-term compensation at higher levels than now.

The report issued by the Commission to deal with these issues contains a brief analysis, and mentions some of the options for ETS reform. The analysis is however incomplete, lacking a weighting of the effects of complementary policies and the competitiveness challenges for European industry. The present input from the Commission is therefore inadequate as a basis for a discussion of the content of structural reform.

We therefore call the Commission to:

- Issue a roadmap and a timetable for **real structural reform**,
- Start the process by commissioning **in-depth analysis**, and an **impact assessment** which also includes the impact on the energy intensive industries like aluminium
- Perform a critical analysis of the criteria necessary for a link up to other ETS schemes in order to ensure a level playing field for industries exposed to global competition.

The present hearing should be seen as a first, preliminary step in the reform process.

In summary, Aluminium SA believes that options listed in the Carbon market report are unsuitable and inadequate whereas sufficient time should be allowed for a proper and informed debate, implementing any changes decided upon only after 2020.

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