

Brussels, 9 April 2010

Response to DG Climate Action on the public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors

Euro Chlor is the European federation representing the chlor-alkali industry. The sector underpins more than 55% of European chemical industry turnover (2008: almost 770 billion euro). More than 20 million tonnes of chlorine, caustic soda and hydrogen are produced each year at 69 manufacturing locations across Europe. The sector employs about 39,000 people in 22 countries.

Chlorine is produced by passing electricity through brine. Electricity is used as a raw material and as such cannot be substituted. The industry average energy consumption (electricity and steam generation) is about 3.4 MWh/t of chlorine produced. Electricity represents up to 50% of the cash cost of production. This makes the chlor-alkali industry an energy-intensive industry.

1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

There has been no change in the key indicators of the risk of carbon leakage since the revised ETS Directive was adopted. The identification of exposed sectors is based on an assessment of the possibility of sectors to pass on the direct cost of allowances or indirect costs from higher electricity price resulting from implementation of this directive without loss of market share to installations outside the Community. The directive applies to the period 2013-2020 (and beyond) thus it does not make sense to change indicators based on the current situation. In particular as the directive still has to be implemented and the future carbon market is not known today.

2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?

No, the Copenhagen Climate Conference did not succeed to achieve an international agreement and mandatory reductions of GHG emissions. As a consequence, the EU has become even more isolated as the only region in the world that has a legally binding cap and trade system. This gives the EU manufacturers' competitive disadvantage vis-à-vis its competitors. For electro-intensive industries, such as the chlor-alkali industry, that uses electricity as a raw material and that competes on the global market the possibility to pass

on the CO2 costs are very limited. In addition, the economic crisis has worsened the situation for the EU industry and the carbon leakage risk has even increased.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

When there is a global level playing field and all producers are faced with the same carbon costs constrains on their profitability.

4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

The current legislation only applies to direct emitters and the free issue of allowances can only compensate for the cost of direct emissions. For indirect emitters, electro-intensive industries such as the chlor-alkali industry, significant costs occur due to the cost of carbon being passed through in electricity prices. The revised ETS Directive does not foresee granting free allowances for such sectors. Instead the risk of carbon leakage has been addressed in Article 10a 6, which provides for financial compensation in the form of state aid. The drawback of this scheme is that the implementation will be arbitrary as there is no obligation on Member States to implement the measure.

An alternative solution could be that electro-intensive installations should be allocated free allowances to compensate them for the cost of carbon built into electricity prices. Allocation should be calculated using performance-based benchmarks. The free allocation could be drawn from the pool of allowances earmarked to be auctioned to the electricity generation industry. In effect, this means that the electricity generators will buy the vast majority of their allowances at auction, and a small minority would be provided from electricity-intensive installations. This solution would put the indirect emitters at the same level of protection to carbon leakage as direct emitters, and it would ensure harmonisation of compensation across all Member States.
