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EAA 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 introduced was to be a central part of the EU efforts to reduce GHG emissions by 20% by 2020 compared to 1990 level, and hence to achieve its obligations according to the Kyoto Protocol. There is now a market, there is compliance and there is verification. According to the Commission's own projections the EU ETS is on track to deliver the target set for the GHG reductions. Options 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.

The Aluminium industry fully supports the EU ETS and it is our belief 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 doubts whether a global climate agreement will assure a homogeneous global carbon cost and a level playing field since most other emissions trading systems world-wide are designed as stand-alone systems with a strong in-built 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 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 EU-based long-term carbon leakage prevention measures. Consequently the European aluminium industry is fighting for its survival, carrying significant extra cost burdens,

particularly in energy costs and lack of long term predictability. “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 industry without rectifying the weaknesses of the EU 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 and do not address some of the fundamental structural issues with the ETS.

The present low EUA prices are only a symptom of the issues at hand: EU ETS has to be redesigned to fit its new role as a regional EU based system with a more flexible supply system for allowances with a much longer time horizon starting at 2050 and working the way down to 2030. Such system should take the effect of supplementary climate actions and the availability of unused allowances into account, to a certain extent adapting supply to demand, of course without jeopardising the integrity of the ETS cap.

Revising and strengthening the EU ETS.

EU climate policy must 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. Furthermore, all compensation and allocation of free allowances, **must be linked to actual production output and integrated into the ETS system.**

The report¹ 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 discussion of both 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. Some of the elements needed to improve the function of the ETS would be to change the allocation system to an ex post allocation and also to implement measures for a full EU based compensation for both the direct and indirect emissions for the sectors which are really impacted by carbon leakage

We therefore call the Commission to:

¹ The state of the European carbon market in 2012, COM (2012) 652 final, November 2012

- Issue a roadmap and a timetable for **real structural reform**,
- Improve the predictability of the ETS system by including cost compensation for industry post 2020, thus making capacity investments possible
- Secure the competitiveness of European industry by keeping their costs related to GHG-emissions at par with competitors worldwide. Compensation should be given as free allocation of allowances linked to actual production based on appropriate benchmark
- Start the process by commissioning **in-depth analysis**, and an impact assessment which also includes the impact on the energy intensive industries like aluminium and covering the whole value chain.
- 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, EAA believes other options than listed in the Carbon market report are needed and sufficient time should be allowed for a proper and informed debate, implementing any changes decided upon only after 2020.