EUROMALT

Brussels, 12 April 2010

EUROMALT* CONTRIBUTION

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

** Established in 1959, Euromalt represents the interests of the malting industry in the European Union. Through its various committees, Euromalt aims to represent and promote the interests of the EU malting industry at EU and international levels on issues that affect the ability of maltsters to source their raw materials or to manufacture, distribute and market their products.*

Euromalt welcomes the opportunity to contribute to the analytical report assessing the situation of energy-intensive sectors and sub-sectors deemed at risk of carbon leakage, in the light of the outcome of the international negotiations and the extent to which these lead global greenhouse gases reduction.

The key quantitative indicators of the risk of carbon leakage must assure transparency in their assessment and application. The current thresholds indicators for the qualitative assessment should consider the peculiarities also of the sectors falling within the Emission Trading Scheme (ETS) by virtue of having combustion installations. Although not listed in the Annex 1 of the ETS Directive and smaller in number of installations than the major Annex 1 sectors, the malting industry guarantees competitiveness in a niche sector in the EU, which has been indeed included in the sectors at carbon leakage risk. A unilateral European Union decision on cutting carbon emissions can have disastrous effects on the loss of competitiveness under uneven global carbon constraints.

The Copenhagen Accord has set an important milestone in the international carbon cap negotiations. Euromalt is committed to serve the ambitious leading role that the European Union intends to keep in the forthcoming negotiations in Bonn and Cancun. However, the unbinding pledges made by international competitors following the COP15 will hardly ease the economic pressure put on the EU industry due to the increased costs for curbing carbon emissions. Moreover, if the upcoming negotiations will not align the European Union and its competitors' commitments in the short term, more European industrial sectors will likely be

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exposed to increased risk of carbon leakage. The carbon leakage risk indicators should reflect this reality and safeguard sectors and subsectors already deemed at risk as well as those that may reveal a notable exposure due to the ongoing international process.

Free allocation of allowances has the potential for being an adequate measure to address the risks of carbon leakage. This can only be true if some conditions are met. Firstly, the risk indicators have to sufficiently reflect the constraints faced by the European industrial sector when competing with international industries. Additionally there must be continuity in the periodically revised list of sectors deemed at carbon leakage risks, as it is crucial that a sufficient time period under free allowances is granted to a sector. Uncertainty over the inclusion of a sector in the carbon leakage list following the periodical revision may jeopardize the possibility to invest in cleaner technology, thus endangering the very objective of the EU energy and climate strategy.

Moreover, Euromalt would like to stress the contradiction born by Art. 10a4 of the ETS Directive in respect to those non-Annex 1 CHP installations, which are nonetheless included in the carbon leakage risks list. Applying article 10a4 in its apparent interpretation would imply that high efficiency CHP installations in these non-Annex 1 but carbon leakage sectors will get a declining allocation starting at 80% of the heat (or other "fall-back") benchmark and declining to 30% in 2020 instead of 100% free allocation as applying to heat boilers but not high efficient CHP. This goes against the aim of the Directive which is to ensure that installations in a sector or supplying to a sector or sub-sector at risk of carbon leakage get 100% of their benchmarked allocation for free. On this subject we recall the letter sent by several European Associations, including Euromalt, on 08 April 2010.

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