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Brussels, 26th of February 2013

Ref: Answer to the consultation on structural options to strengthen the EU Emissions Trading System – by Eurometaux, transparency register nr. 61650796093-48

Dear Sir/Madam,

Eurometaux is the Brussels-based EU association of the non-ferrous metals industry, representing the main EU and international metals producers, EU and international metal commodity groups and national metal federations. The industry covers base metals (Al, Cu, Pb, Ni, Zn, Sn Sb), precious metals (Au, Ag, PGM's) and technical metals (e.g. Co, W, Cr, Mo, Mn, Si, FeS), manufactured from both virgin and recycled raw materials.

Eurometaux hereby submits its reaction to the consultation on structural options to strengthen the EU Emissions Trading System. Eurometaux is a registered organisation in the transparency register (n° 61650796093-48).

As there is no formal questionnaire in the stakeholder consultation request, our reaction consists of this letter and the attached position paper. Although the Commission carbon market report is listed as a background document, Eurometaux strongly **feels that an ETS review needs to bring a structural solution to the EU's competitive position**. We have therefore looked beyond the carbon pricing issues, and propose options in addition to those listed in the carbon market report.

The options listed in the carbon market report will only provide a quick fix for EU ETS by tightening the market balance. To avoid similar situations later on, the EU ETS needs deep structural reform, and Eurometaux calls upon the European Commission and member states to allow sufficient time for a proper and informed debate on real structural reform, focusing on the structure of post-2020 ETS.

The EU ETS functions well as a trading market and the goal of reducing GHG emissions by 20% by 2020 compared to the 1990 level is met. Options to tighten the EU ETS market should only be considered for the next trading period after 2020 on the basis of a global agreement on the UNFCCC in December 2015.

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 should remain a **key instrument** of EU climate policy. However, we very much doubt that a global climate agreement will assure a homogeneous global carbon cost and a level playing field. All other emissions trading systems world-wide are, in most cases, designed as stand-alone systems with strong in-built protection of domestic industries. Linking ETS to other carbon schemes therefore requires scrutiny in order to ensure symmetry and reciprocity in terms of privileges and burdens on the industry on a global scale.

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. Consequently, the European non-ferrous metals industries, as well as other energy-intensive industries in Europe, are now fighting for their survival, carrying significant extra cost burdens in carbon and energy costs. "Back-loading" and other ad hoc measures to tighten the balance of the EUA market will exacerbate the problems for industry without rectifying the weaknesses of the EU ETS. Eurometaux sees the need for structural reform and will support such processes, but only if they also include measures to adequately protect Europe's industrial competitiveness.

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, and in a context of worldwide competition for our industry sector, 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 present low EUA prices are, however, only a symptom of the issues at hand: the EU ETS needs to be redesigned, together with the renewable energy schemes and the energy efficiency tools, in order to fill its new role as a regional system with loose links to other systems worldwide. A more flexible supply system for allowances with a much longer time horizon has to be devised. Such a system should take into account the effect of supplementary climate action and the availability of unused allowances, to a certain extent adapting supply to demand, naturally without jeopardising the integrity of the ETS cap.

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 incomplete, however, lacking a

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

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:

- The main objective is to tighten the EUA balance, i.e. curing the symptoms.
- None of the options on the list will change the structure of the EU ETS.
- The setting of targets for the post-2020 period, ensuring visibility for long-term investments, should be part of a comprehensive reform package.

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

Kind regards,



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