

PRESS RELEASE

**ECOFYS report supports economic and climate policy merits of an
IFIEC alternative to auctioning**

In the proposal for a new Directive on Emissions Trading published Jan 23rd 2008, the European Commission proposed full auctioning of CO₂ allowances after 2012. IFIEC Europe questioned whether this drastic change would be either the optimal way to remove windfall profits for power producers or a cost-efficient route to meeting the challenging CO₂ reduction targets. After a thorough investigation of the alternative proposed by IFIEC, ECOFYS, a research and consultancy company with broad experience and a clear mission to sustainable energy supply has concluded: Applying the IFIEC method in the electricity sector can save €billions for all EU consumers, while setting equal incentives for low carbon technologies and thus ensures the achievement of the CO₂ reduction target.¹

The IFIEC method builds on an allocation of free allowances based on a benchmark. The generation of windfall profits for power producers is avoided by linking the allocation to actual, not historical production. With this small change, windfall profits are set to zero. Adjusting the benchmark in later years means the overall CO₂-cap is ensured.

IFIEC Europe stresses that this is an alternative to the very expensive auctioning route, whilst still achieving the ambitious EU CO₂ reduction target and avoiding windfall profits. Furthermore, while auctioning of carbon only affects fossil fuel generators, the ECOFYS report shows that the IFIEC method can go further, as it also removes €20bn to €30bn a year of extra profits by nuclear power generators. IFIEC Europe believes that removing such extra profits would be to the benefit of a more competitive power market and would discourage further market consolidation by large incumbents.

The economic advantages of the IFIEC method as quantified by ECOFYS are that:

- the power price could be €20 to €30/MWh lower, i.e. possible savings of between 30% to 50% of the current power price;
- EU-27 consumers could save electricity costs of €55bn to €83bn a year;
- for EU Industry, the cost savings are between €23bn and €35bn a year.

During the launch of the ECOFYS study at a meeting organized by IFIEC Europe on April 17th in Brussels, Hans Grünfeld, President of IFIEC Europe, stressed: "With these economic merits and reduction incentives, an EU ETS with the IFIEC method can avoid the real threat of competitiveness disadvantage for EU industry and resulting carbon leakage. EU industry will be able to remain the global low-carbon leader, whilst further contributing to the EU's climate policy."

IFIEC Europe stresses the need to open up the discussion on the future EU ETS and poses the question: Can the EU afford to ignore an option for EU ETS which delivers the same CO₂ reductions by setting equal incentives for low-carbon technologies, but at significantly lower costs for all electricity consumers and without competitive distortions in the electricity market?

¹The study is available at: www.ifieceurope.org/documents.htm or www.ecofys.com

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IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.

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