securing competitive energy for industry

Avoiding a reduction factor on carbon leakage protection

- how to avoid unnecessary erosion of the protection of carbon leakage exposed industry -

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Introduction

The October 2014 European Council Conclusions state that in order to maintain international competitiveness, the most efficient installations in those sectors at risk of losing international competitiveness due to the EU ETS should not face undue carbon costs. An analysis of the different elements in the Commission's proposal on ETS-reform reveals that the reform is not ensuring this, because (i) the application of a correction factor on the carbon protection measures has not been removed from the Directive, although measures have been taken to create a reserve for free allocation (ii) the update of the benchmarks (-0.5% up to -1.5%) is not based on real technological development and thus bringing protection levels below feasibility and (iii) allocation is not following actual production levels closely.

Free allowances need to be sufficiently available

This position paper will discuss the views of the energy-intensive industry on the first point, namely the correction factors applicable on the allocation for existing and new installations (like CSCF or LRF). The EC-proposal to fix the amount of allowances for free allocation (by fixing the auctioning share) increases the risk on a shortage of allowances for effective carbon leakage protection even though shrined on the performance of the most efficient installations. Therefore it is of utmost importance that solutions are provided to genuinely provide for an effective carbon leakage protection in order to retain and attract sustainable industrial production in Europe.

The following actions are necessary to make sure that the available free allowances are sufficient for genuine carbon leakage protection:

1. Need for recalculation of the auctioning share

An evaluation and recalculation is needed on the share of allowances to be auctioned in phase 4. The share of 57%, based on phase 3 auctions, was calculated by the Commission

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without taking into account the most recent information[1] on allowances for free allocation in that phase. A cross-check with additional information and more transparency on the calculation and assumptions are therefore necessary.

2. *Expand the free allocation reserve*

Building on the precautionary principle, often put forward by the Commission, a sufficient reserve of allowances must be foreseen in order to avoid undue correction factors on carbon protection for exposed ETS installations. Only then, a long-term perspective on competitiveness can be delivered, crucial to attract investments, create jobs and added value in Europe.

The carbon leakage risk for both existing and new or increasing production should be addressed. Therefore a uniform (like CSCF) or non-uniform reduction factor for existing installations and the linear reduction factor (like LF) for new installation must be avoided. With the implementation of the MSR, the Commission stated that "*in line with European Council Conclusions of October 2014 the ETS review will inter alia consider whether unallocated allowances should be used for addressing the risk of carbon leakage*". The Commission has formalized this statement by making 250 mio allowances of the phase 3 MSR available for free allocation to production increases and new installations in phase 4 (the NER phase 4)[2]. As for the calculations on the fixed auctioning share, also here we detect a lack of transparency whether this amount is sufficient to avoid a cutback on the carbon leakage protection. Knowing that the reserve of phase 3 allowances may mount up to 1.9 billion allowances it is clear that shortage of allowances to fulfil the precautionary principle is not the issue. An equal repartition of these phase 3 allowances mirroring the repartition between auctioning and allocation in phase 4, could be a starting point to avoid the use of any reduction factor on new or existing installations. This would show the willingness of Europe to reconcile the European ambition on climate and industrial policy.

[1] EC report on the functioning of the EU carbon market report (COM(2015) 576 final) P12: 6.6 billion allowances are estimated to be allocated over phase 3 for free to industrial installations, not taking NER for new entrants nor the NER 300 program into account.

[2] EC proposal [COM(2015)337 final - 2015/148 (COD)]: Art 1(5)(e): "Allowances from the maximum amount referred to Article 10a(5) of this Directive which were not allocated for free up to 2020 shall be set aside for new entrants and significant production increases, together with 250 million allowances placed in the market stability reserve pursuant to Article 1(3) of Decision (EU) 2015/… of the European Parliament and of the Council(*)."

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