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Alliance of Energy Intensive Industries' statement on post 2020 ETS revision

Auctioning and free allocation shares: Rebalancing climate ambition and industrial competitiveness

We - the Alliance of Energy Intensive Industries - represent over 30.000 European companies and 4 million direct jobs. Our sectors are at the core of critical value chains and provide products that are vital for the EU economy and for helping deliver Europe's commitment to fight the global challenge of climate change.

While we recognise political progress has been achieved through the Paris Agreement, competition between EU industry and the rest of the world will remain characterised by asymmetrical carbon costs, at least in the short and medium term.

Therefore, we call on EU institutions to strike the right balance between climate ambition and industrial competitiveness when reforming the EU Emissions Trading System (EU ETS) in order to avoid undue direct and indirect carbon costs.

As far as direct costs are concerned, the distribution of the overall ETS cap between auctioning and free allocation is a key parameter to achieve that balance. Effective carbon leakage protection for the whole industry's value chain can be ensured only if the free allocation budget is sufficient to grant eligible sectors 100% free allowances at the level of 10% most efficient installations.

If fixed for 2021-2030, the auction share should not be higher than 52% and any other unused allowances should remain available to manufacturing industry in order to avoid any correction factor. Such a distribution between auctioning and free allocation has robust justifications, both from an economic and environmental point of view, notably:

- ✓ Unallocated free allowances: with the European Commission's calculation methodology, the auctioning share would be 52% if unallocated free allowances in the third trading period are not included in the auctioning volumes. In fact, industry was entitled to receive those allowances, but they will remain unused mainly as a result of the crisis, which has caused partial or total cessations and lack of new investments. Moving these allowances permanently to the auctioning share means that industrial recovery will be exposed to additional carbon costs.

- ✓ Environmental integrity: a lower auctioning share is fully consistent with the environmental integrity of the system, which is guaranteed by the linear reduction factor set in combination with the 2030 climate target.
- ✓ Decarbonisation path of manufacturing and power sectors: fixing a 57% auctioning share on the basis of the historical distribution of emissions between power and manufacturing industry disregards the fact that the abatement potential of the two sectors is very different, at least in the short and medium term. A lower auctioning share would be more consistent with the actual decarbonisation path of the power sector, while allowing better carbon leakage protection to energy-intensive sectors.
- ✓ Early actions by EU industry: the 2050 Low Carbon Roadmap developed by the European Commission recognises that EU industry already reduced its emissions by around 20% between 1990 (reference year of the UNFCC process) and 2005 (reference year of the EU ETS). Hence, the 43% emission reduction target for ETS sectors vs. 2005 levels will require a much larger effort to industry by 2030 (more than 55% emissions reduction vs. 1990 levels).

We – energy intensive industries - are ready to play our part by reducing our emissions further through innovation and by delivering innovative solutions. We call on EU institutions to establish a regulatory framework that prevents carbon and investment leakage while decarbonising the EU economy.