

An environment for manufacturing - IFIEC Europe's thoughts for the EU ETS trialogue

24 May 2017

IFIEC Europe acknowledges the improvements made by the European Institutions, by the European Parliament in a plenary vote on 15 February and the Council general approach achieved on 28 February, regarding the EU Commission's proposal on the EU ETS directive, as it reconfirms importance of safeguarding EU industrial competitiveness.

Industrial enterprises in the EU are global manufacturing leaders dedicated to deliver solutions for a low carbon future. This is only possible if there is a level global playing field with major competitors outside the EU. Therefore to ensure that the EU ETS can deliver decarbonisation across Europe at the lowest costs, it is of paramount importance that exposed industries are properly safeguarded against the risk of carbon and investment leakage.

Therefore, IFIEC Europe calls on the European Institutions to ensure that the following main EU ETS elements, crucial for EU industrial competitiveness, are supported in the trialogue discussions:

1. Ensure sufficient amount of free allowances

Enough free allowances need to be made available to avoid undue carbon costs for exposed EU industrial manufacturers. It is essential to compensate for the discrepancy between the costs for EU and non-EU industrial manufacturers.

- The share of free allowances needs to be increased by 5 percent point, to prevent triggering the CSCF;
- The new entrant reserve should be established using surpluses of phase 3 rather than curbing the available amount for phase 4;
- The innovation fund should be fully financed from the auctioning share.

2. Carbon leakage measures that meet the needs

EU industrial competitiveness can only be maintained when undue costs are controlled:

- Real benchmarks (without flat rate or haircut beyond realistic performance level) based on actual EU industry performance to avoid undue costs for best EU manufacturers;
- Carbon leakage list criteria must allow sectors to present evidence concerning their carbon leakage risk exposure either through the quantitative or the qualitative assessment route at the appropriate level of data disaggregation (NACE or PRODCOM). Since thresholds on the possibility for a qualitative assessment introduce discrimination between sectors, thresholds should be as low as possible;
- Ensure a legislative basis for member states that allows proper level of compensation for indirect carbon costs. Partial or digressive aid level still leaves best performers with undue costs and discourages efficiency investments. A cap on compensation related to the auctioning revenues would distort the level playing field in Europe, reducing potential member states with indirect cost exposure but low-carbon power generation and low auctioning revenues;
- There should be no distortion between insourced and outsourced production.

3. Nourish the investment climate in Europe

New installations, investments and efficient growth in EU should not face undue carbon costs. Therefore:

- Applying the linear reduction factor (LRF) for new entrants must be removed, at least the definition of new entrants should be updated to limit the negative impact;
- The lowest production threshold for more dynamic allocation is preferred since this brings a closer reflection of real output fluctuation and thus avoiding over and under allocation;
- Excessive cancellations or invalidation of allowances need to be avoided, because it would put the MSR on auto-pilot and would prevent predictability of available allowances. Even meeting highest abatement ambitions will not prevent high costs for industry;
- The MSR is meant to absorb allowances when there would be too many in the market and release them when they are again needed (for example in an economic upturn). There is a need for doubling the rate of channelling the allowances back into the market for the whole period to improve the market functioning and avoid price shocks.