



To: EU Deputy Permanent Representatives

Brussels, 7 May 2021

Re: Energy-intensive industries' recommendations on the "Fit for 55 package"

Dear Ambassador,

We are writing to you ahead of the meeting of the European Council on 25th May, where Heads of state and government are to discuss elements of the "Fit for 55 package". Please find attached the more detailed joint statement with our policy recommendations on the revision of the EU Emissions Trading System (ETS).

Energy-intensive industries (EIIs) provide directly around 2.6 million jobs. As recognised in the European Green Deal Communication, EIIs are indispensable to Europe's economy as our sectors supply many of the key value chains.

We support the objectives of the European Green Deal and the EU's ambition to accelerate significantly the transition towards the 2050 climate neutrality objective to ensure timely action by 2030, provide a balanced reduction pathway and redistribute in time efforts across the EU society.

Our sectors have collectively identified a range of technological pathways and companies work on concrete projects to deliver deep emission reductions. The successful deployment of breakthrough technologies requires three key enabling conditions, notably (1) access to abundant and competitive low carbon energy and feedstock, (2) funding support for the upscale and roll-out of such technologies and (3) a supportive regulatory framework that creates lead markets for low carbon solutions while preserving the competitiveness of industries highly exposed to global competition.

An effective and balanced "Fit for 55 package" needs to include concrete measures to deliver these framework conditions as soon as possible, as requested by the European Council on 10-11 December 2020.

The carbon leakage risk is more pressing than ever given the recent evolution of the carbon price reaching unprecedented values in spite of the economic impact of the COVID-19 pandemic, and considering the further increase expected in the fourth trading period. Therefore, while delivering higher climate ambition, the revision of the EU ETS Directive must provide strengthened carbon leakage measures. Any weakening of such measures, for instance through a reduction of free

allocation to raise more auctioning revenues, would have a disruptive impact on EIs and undermine their financial ability to invest in low carbon technologies.

We would like to raise the following recommendations so that the “Fit for 55” package contributes to the competitive transformation of EIs:

- **Strengthened carbon leakage protection for EIs and their value chains:** carbon leakage measures like free allocation and indirect costs compensation need to be applied at full benchmark level without any undue reduction. The decarbonisation of the power sector leaves room for increasing the free allocation share and avoiding the cross-sectoral correction factor. Should any other instrument such as a Carbon Border Adjustment Mechanism be introduced, it should co-exist with the current system of free allocation at full benchmark level and include a solution for exports to preserve the competitiveness of EU producers also in third countries.
- **Cost-efficient achievement of the ETS target without rebasing and MSR strengthening:** the climate ambition of the EU ETS will be defined by the stricter 2030 cap. Rebasing (i.e. one-off cancellation of allowances) and strengthening of the Market Stability Reserve (i.e. putting more allowances in the reserve) are not needed as they artificially increase the costs for the same level of climate ambition. Instead of invalidating allowances in the MSR, they should be used to avoid the cross sectoral correction factor and to support innovation.
- **Fairer burden sharing between ETS and non-ETS sectors:** sectors currently covered by the Effort Sharing Regulation need to increase their contribution to the enhanced 2030 climate ambition above the indicative 40% defined in the Commission Impact Assessment accompanying the proposal for the 55% GHG emission reduction target by 2030.
- **Avoiding extension of the current ETS scope to transport and buildings:** compared to EIs, transport and buildings have different abatement costs, elasticities and limited or no exposure to international competition. Should they be subject to a European carbon market, this should be done through a dedicated and separate cap-and-trade system, without any links to the existing ETS as long as relative abatements costs do not converge.
- **Focussing ETS revenues to support industrial transformation:** to accelerate the development and market uptake of low-carbon technologies, it is of utmost importance to increase the financial support for industry in line with the technology neutrality principle.
- **Addressing the impact of the COVID pandemic on free allocation:** once a comprehensive assessment of the full impact of the pandemic is available, it should be ensured that production and emissions reductions related to it will not unduly reduce the amount of post-2020 free allocation.

We invite you to consider these recommendations when preparing the May meeting of the European Council.

Sincerely,

Marco Mensik
Director General of CEFIC



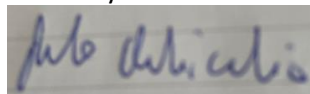
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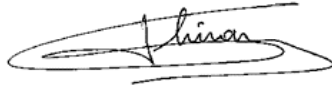
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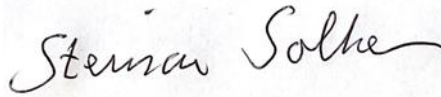
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