securing competitive energy for industry

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Response on Consultation on Registry Arrangements to Facilitate Linking with the EU Emissions Trading System

Introduction

The Australian ETS is decided and laid down in law. The Australian government and the European Commission intend to link the EU ETS with the Australian ETS. Fundamentally this is a good development, because by linking ETSs between more and more countries and areas the same carbon price will be achieved, which is a precondition for a global level playing field so urgently needed for EU industry which for years already suffers from unilateral burdens based on isolated EU and national climate change policy measures.

Therefore, IFIEC Europe welcomes for its members these efforts to internationalise climate change efforts, which linking with Australia will bring us a step closer to.

1. Linking with a commitment to globalised allocation rules

However, the carbon price is not the only and sufficient element to become equal for the main competitors around the globe. For a global level playing field also the allocation (or compensation) methodology for direct and indirect (electricity) emissions must be the same (or similar). Surely this will take some time, but the intention to globalise also the allocation should be committed to at the start and finalisation of a formal linking agreement, as foreseen in the EU ETS Directive Art. 10a (1). Otherwise, IFIEC Europe cannot evaluate linking with Australia positively, because it is a missed opportunity to bring in line challenging climate change policies with an industrial growth strategy as expressed in the recent EU Commission Communication on 'A Stronger European Industry for Growth and Economic Recovery'.

Currently, the Australian and the EU ETSs differ significantly in terms of allocation rules to industry in global competition, where the Australian regime offers much better conditions for industry mostly in line with EU industry's requests stated already for years towards the political decision makers. A comparison is shown below:

Linking EU-ETS with Australia – Comparison of allocation rules	
EU	**Australia**
Benchmarks based on average of 10 % best (which decrease sharply for new entrants)	Benchmarks based on average
Unstable, incomplete system for compensating costs of indirect emissions	Allocation for indirect emissions to consumers
No allocation for new entrants once NER depleted	Capacity and production extensions: basis allocation is "true up to actual production" (= ex post correction)
Capacity extensions: risky basis of 2 highest monthly production volumes within 3 or 6 months after 'start-up' (e.g. technical problems risk)	NER de facto safeguarded (there is no NER but 'true-up')
Allocation based on fixed historic production level (up to n-15)	Allocation on actual production level by annual true-up adjustment
= Huge barriers for growth	**= Supporting growth**

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The consequences of these massive and important differences are:

1. Albeit a future similar carbon price for European and Australian industry the financial burden is very much higher for EU industry based on the lower level of free allocation especially caused by different benchmarking standards.

2. Perspectives for future growth of efficiently operating installations are limited in the EU, whereas in Australia all options for growth are supported and stimulated.

These differences tackle the essence of the future of industrial operations and make clear, why we must insist on a linking which puts pressure on a global approach to allocation rules in linked regimes also.

2. Linking cannot be a one-way street

In their press release on the linking plans Connie Hedegaard (EU Climate Commissioner) and Greg Combet (Australian Climate Change minister) made clear that Australian liable entities will be able to purchase EU allowances for future compliance in Australia. This one-way interim arrangement should be valid until a full linking in 2018. Such interim arrangements, however, mean that the advantages of linking and of a broader market will be for a significant time solely fruitful for Australian industry, whereas EU industry will be blocked on the own isolated market while having to face additional demand with the logical consequence of price increases.

IFIEC Europe cannot welcome a one-way linking mechanism, but requires equal treatment and equal opportunities for both sides of the linking game.

3. Linking plans with Australia means a permanent set-aside of EUAs

Deutsche Bank evaluates the magnitude of Australian demand on EUAs as follows:

"*Australian installations are expected to be short over 2015 - 2020 and as a consequence, and as reported by our Australian colleagues, Australia could import as many as 350 million international units over that period. Assuming they use their entire quota for Kyoto units (revised down to 12.5 % of units to be surrendered by each liable Australian firm), installations should have a 100 million residual demand for EUAs."*[1]

Such an amount of potential outflow of allowances from the EU scheme is equal to a bit less than the three years reduction obligation volume in the 3rd trading period, meaning a significant volume, which must be considered in the structural reform to improve the functionality of EU ETS.

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[1] Deutsche Bank, Global Market Research, Breaking News: Linking the European ETS and the Australian ETS, 28 August 2012.