ALLIANCE OF ENERGY INTENSIVE INDUSTRIES

President of the European Commission

Jean-Claude Juncker

European Commission

200, rue de la Loi

B-1049 Brussels

Brussels 29 June 2015

Dear President Juncker,

The revision of the Emission Trading Scheme (ETS) should take into account the Commission's priorities on investment and growth.

We, the signatories of this letter, are several industrial associations representing over 30.000 European companies and 4 million jobs in the EU. Our industries are the core of the EU economy and the starting point of many essential value chains (cars, fuels, buildings, energy production, including renewable energies, food and drinks, pharmaceuticals..). Our industries are also capital-intensive. We are major investors in the EU and a large part of these investments are geared to energy efficiency, decarbonisation and emission reduction in full support of the Climate and Energy Package 2030.

We are fully supportive of the priorities that the Commission set in the 2015 Work Programme. Jobs, growth and investment are indeed also key for us!

In particular, we are strongly convinced that the Investment Plan[1] that you designed will be crucial to give a boost to the EU economy and must be supported.

[1] The Investment Plan foresees a smart mobilisation of public and private sources of finance - at least €315 billion over the next three years (2015 - 2017)

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As the Investment Plan is about mobilizing private investments in the real economy with a very high leverage ratio (1 to 15), it is absolutely crucial for the EU to attract long term investment in energy-intensive industries, which are at the root of the EU economy value-chain.

Regulatory constraints and burdens, lack of predictability, high energy-related costs and other factors act as impediments to investment activities in Europe and result in investments leaking out of the EU.

In this context, we are particularly concerned by the upcoming review of the Emission Trading Scheme (ETS) Directive which could undermine the Investment Plan if it does not create sufficient protection for industry against the risk of carbon and investment leakage. Two important measures could lead to a decreasing level of protection against carbon leakage: (i) if our sectors are not recognized as being at risk of carbon leakage after 2020. And, (ii) if the best performers face an arbitrary cut of their carbon leakage protection for direct and indirect emission costs due to a limit on free allocation.

If any of these two measures were to be decided at EU level under the ETS revision, it would add costs (hundreds of billions of Euros for the 2020-2030 period) to the sectors concerned. Costs that our international competitors do not face.

Energy Intensive Industries, unlike the power sector, cannot pass through their carbon costs to consumers. Therefore, these carbon costs will largely erode profit margins and the ability for industry to make a return on investment. This would make non-EU countries a more attractive place to invest and will put a brake on investments in the EU, undermining the objectives of the Investment Plan.

Contrary to what is sometimes said, the EU ETS can ensure that long-term environmental goals are achieved while still allowing for industrial growth and industrial investments in the EU. The European Council conclusions of October 2014 could serve as guidance. There is no need to penalize the best players in the ETS sectors and to add unilateral costs to them which will inevitably cause an investment leakage. We are of the opinion that all energy-intensive industries should be put on the carbon leakage list and that all installations should receive a free allocation based on ambitious but realistic benchmarks and should benefit from an off-setting in all member states of the CO_2 costs passed through in electricity prices by the power sector. This is essential to ensure the return on investment needed for the high leverage effect of the Investment Plan.

We would be happy to discuss with you our detailed recommendations to reconcile environmental and growth objectives.

Yours sincerely,

Alliance of Energy Intensive Industries

CC:

- College of Commissioners
- The Secretary General