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OF INDUSTRIAL ENERGY CONSUMERS

IFIEC Europe

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IFIEC Europe represents European energy intensive industries and their interests in competitive energy supply and usage. Most of these sectors are directly involved in the EU Emissions Trading Scheme (EUETS) and all of them are seriously affected by the EUETS effect on electricity prices.

Inclusion of Aviation into the EU Emissions Trading Scheme – Serious concerns about the consequences

IFIEC Europe expresses serious concerns about the proposal to include the aviation sector in the existing EUETS. IFIEC Europe fears that as a consequence, the cost-effectiveness of the existing system will deteriorate even further, with serious effects on the competitiveness of the participating sectors and all power intensive consumers. We, therefore, completely support the position paper of the Alliance of Energy Intensive Industry dated October 2005 (attached).

The intent to include aviation in the existing scheme is based on the findings documented in the Commission's Communication "Reducing Climate Change Impact of Aviation". This states that a comprehensive analysis of the experiences made with the newly established scheme have still to be made, but goes on to state that "*the broader the coverage of an emissions trading scheme, the lower the costs of achieving the same specific level of emissions reductions*". IFIEC believes that this is too simple an analysis and by focusing on the arguments in favour of including the aviation sector, it misses the more detailed assessment needed when comparing disparate sectors against such as technical and economic criteria.

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IFIEC questions whether the use of aviation fuel bears any technical relationship to refined oils or gas based combustion, which - with coal - provides the fuel options for both IFIEC members and the generators setting market power prices. Such tonnages will be included if aviation is to come within EUETS that it is essential to assess beforehand whether this will lead to distortion of the central principles of industrial combustion around which EUETS was designed.

Economic criteria are also dissimilar. Aviation is a sector with much higher CO_2 abatement costs compared with those of the energy intensive industries in EUETS, yet the cost for purchased allowances can easily be added to tickets prices, because the effect on the product price is proportionately low and would equally affect every airline without exception. Aviation would therefore be a net buyer in the CO_2 allowance market without this having a significant effect on their profits and losses. EU energy intensive sectors, on the other hand, cannot pass through such costs to product prices, as this undermines their competitiveness in international markets. Unlike the proposal for aviation where any "overflying" of EU would invoke EUETS, products imported into EU do not incur the EUETS costs that EU producers have to pay.

With aviation potentially being a substantial net buyer of allowances, resulting pressure on pricing effect needs careful analysis. The rise in price to 30 €/t of CO_2 soon after introduction in April 2005 produced the severe influence on the electricity price amounting to several billions € per year that IFIEC had warned about beforehand. In addition, windfall profits for the electricity producers have also resulted from them charging the highest production price regardless of the carbon content. The effect of adding further demand from aviation on an already constrained market when the effect is low on the new participants, but considerable on those already involved must be analysed thoroughly and independently at an early stage. IFIEC sees this as a priority task of the Commission before extending EUETS and risking further negative consequences.

In principle, IFIEC Europe welcomes all efforts to widen the policies meant to achieve the greenhouse gas reduction targets. However, one single instrument might not be appropriate for each addressee. Energy intensive industries have significant individual characteristics and efficiency improvement potentials and patterns. They are also dependent on competitive energy prices in order to survive in their globally functioning markets. In this respect, it is currently highly questionable that the current EUETS really delivers in terms of its cost-efficiency objectives. The cost saving potential as assessed by the Commission in the amount of 3 to 4 billion € per year (MEMO/05/84 updated version 20 June 2005), from the electricity consumers point of view is more than offset by the electricity price increases based on CO_2 allowances opportunity costs all over the EU.

It is not in the interest of the Commission to risk further CO_2 price increases and– as a consequence – increases of electricity prices. The focus should be on stopping CO_2 windfall profits in the electricity industry and – in line with the recommendations of the EU Council - to provide for an emissions trading scheme which is "*more effective while taking into account the need for promoting competitiveness and an affordable energy supply*" (Press Release on the 2695th Council Meeting, 1/5 Dec. 05). Only an emissions trading scheme which really provides for these objectives will have a realistic chance of being the model for a globally working climate change approach. And only with such an instrument in place will energy intensive industry be able to face the current severe competitiveness threats caused by the existing EUETS.

IFIEC Europe therefore calls for a serious review of the emissions trading scheme in line with our position paper dated June 28, 2005 (attached). A simple inclusion of aviation into the existing scheme, however, would be a step into the wrong direction – into still higher costs and a less efficient instrument.