

Mr José Manuel Barroso
President of the European Commission
Rue de la Loi 200
1049 Brussels

6 September 2013

EMISSIONS TRADING SYSTEM – UPCOMING COMMISSION DECISION ON MEMBER STATES' NATIONAL IMPLEMENTATION MEASURES

Dear President Barroso

We are extremely concerned about a decision to be taken by the College of Commissioners regarding the implementation of the EU Emissions Trading System (EU ETS) which – as a result of an error in implementation – will lead to an unjustified reduction of free allocation to those sectors designated to be at a risk of carbon leakage. This would undermine the Commission's efforts against carbon leakage.

The European Commission plans to adopt a decision on Member States' National Implementation Measures (NIMs) for the third trading period of the EU ETS. This requires the Commission to calculate and take a decision on the cross-sectoral correction factor (CSF) that reduces the allocation to companies designated to be at risk of carbon leakage.

The CSF is foreseen if the calculated amount of free allocation exceeds the maximum amount of allowances available for free allocation. Research by IFIEC Europe showed that the ambitious "top 10%" benchmark already achieves the foreseen 21% reduction by industry in 2020 (versus 2005). Therefore, any CSF before 2021 would be unjustified and in our opinion in breach with the EU ETS Directive and with political promises. This finding was communicated to the Commission.¹

However, we are aware and have informed the Commission already earlier² that it is an error in the methodology developed by DG Climate Action, which leads to an underestimation of the maximum amount of allowances available for industry and thus to an unjustified early application of the CSF.

Recent news from Ecofys was that the CSF could be as low as 0.85 already in 2013.³ With the linear reduction factor of 1.74% points per year the CSF would then decrease from 0.85 in 2013 (15% shortage) to 0.75 in 2020 (25% shortage).

¹ Letter of IFIEC Europe on behalf of the European Alliance of Energy Intensive Industries on 12 December 2012 to Mr Jos Delbeke – Director General, European Commission, Directorate-General Climate Action "Re: NIMS and uniform cross sectoral correction factor".

² See footnote 1.

³ http://www.ecofys.com/en/news/eu-ets-industry-will-receive-fewer-free-emission-allowances-than-expected/?utm_source=buffer&utm_campaign=Buffer&utm_content=buffer4229c&utm_medium=twitter

The shortage by an unjustified CSF of 0.85 in 2013 combined with the stringent top 10% benchmark would then lead for the average industry performer to a shortage of almost 40% over the period 2013-2020.

The root cause of the unjustified low reduction of free allocation is the interpretation of which activity is “electricity generator” (falling under full auctioning) and which one is “industry” (falling under free allocation). This was also recognized by e.g. Ecofys calling it the “*mismatch between allocation methods and real emissions included in the industry cap*” (see footnote 3). The major issues hereby are about waste gases and heat from combined heat and power (CHP).

You have personally asserted many times that Europe will do anything to prevent carbon leakage. As acknowledged by the Commission, adequate free allocation of allowances is an essential prerequisite for that aim. Taking a decision on the NIMs and the CSF will have important implications and must not be based on mistakes. IFIEC Europe therefore asks you and your colleagues to ensure a correct calculation of the CSF.

IFIEC Europe is at your disposal for support and any required clarification of the above mentioned points and is convinced that their inclusion in your considerations would enhance the effectiveness and trust in the EU ETS.

Yours sincerely,



Dr Annette Loske
Chairwoman WP Climate & Energy Efficiency, IFIEC Europe

Copy: College of Commissioners

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.