

Mr J. Delbeke
Acting Director-General,
Directorate General Environment
European Commission
B-1049 Brussels
Belgium

13 November 2008

Dear Mr Delbeke,

We met on 26 August 2008 in the European Parliament and exchanged views on using benchmarks for the allocation of allowances instead of auctioning. We are convinced that auctioning should be avoided, unless agreed globally, due to loss of both competitiveness and profits as well as to avoid carbon leakage. And we are convinced that the concept of dynamic benchmarking would be the better option.

Auctioning should be avoided both for industry and the fossil-fuelled generation of electricity. With the CO₂-price in the range of € 40-60/ton, auctioning for electricity would lead to an unnecessary cost burden of € 55-83 billion per annum for the EU. This would not only be detrimental to the competitiveness of the energy-intensive industry as a whole, but for other parts of the EU industrial sector as well.

Furthermore, auctioning for electricity without a proper compensation mechanism for the energy-intensive industry frustrates a robust application of benchmarks. In accepted benchmarking practice, the efficiency of electricity use is also taken into account.

You raised a series of concerns against dynamic benchmarking, which we have studied carefully. The result of this analysis is documented in the attached publication. The conclusion is that static benchmarking, just like historical grandfathering, is not a sustainable system.

Our meeting also covered the carbon price signal, carbon leakage and the need to eliminate windfall profits. Our analysis of these is also presented in the attached publication, along with misunderstandings over dynamic benchmarking. One such is that dynamic benchmarking "jeopardises the absolute cap". The IFIEC method fully guarantees the absolute cap, which was checked and confirmed by the Ecofys study (attached). Another is the fear for greater uncertainties and less market liquidity. However, in our proposal benchmarks are also set ex-ante and provide full market transparency to ensure a liquid carbon market. Benchmarks may be adjusted for future years to ensure the total cap if needed. However, such adjustment is done ex-ante for allocation which gives the same market transparency as auctioning.

In the conclusions for the preparation of COP 14, the Environment Council stated *"that the European Union intends to preserve the environmental integrity of its policies and the competitiveness of its economic sectors and that it therefore intends to take effective steps to prevent potential carbon leakage and to ensure a level playing field, compatible with the principles of international trade"*. Such requirements are not compatible with static benchmarking, so cannot solve the carbon leakage problem.

Finally we note that ex-post correction to actual production is allowed in the EU Emissions Trading Scheme Directive (ETS). The Court of First Instance ruled that ex-post corrections to actual production applied in Germany while preserving the total cap were not only legal, but were justified.

Under all these considerations and findings, as described in the attached comprehensive investigation, we conclude that dynamic benchmarking is the only logical and straightforward approach for an ETS until an adequate international agreement agrees auctioning.

Please be assured that we are united with you in the aims of the policy to reduce GHG emissions in the European Union. To achieve this, an effective, robust and predictable ETS is essential. Without this, the resulting loss of competitiveness will lead to loss of investment confidence, carbon leakage and social consequences across EU. I would be very pleased to discuss this with you further, as these are key issues both for energy intensive sectors represented in IFIEC and EU policy in international negotiations. I would be pleased to receive any dates for a meeting from you.

Yours sincerely

Hans Grünfeld
President

Attachments

"The benefits and feasibility of an ETS based on benchmarks and actual production", Annette Loske and Vianney Schyns, 27 October 2008.

"The IFIEC method for the allocation of CO₂ allowances in the EU Emissions Trading Scheme", Bart Wesselink, Kornelis Blok, Sebastian Klaus and Alyssa Gilbert, Ecofys, March 2008.

CC:

Mrs A. Doyle, MEP, European Parliament
Mrs L. Ek, MEP, European Parliament
Mr M. Ouzky, MEP, European Parliament
Director Generals of DG ENTR, DG Trade, DG Competition
French presidency