BUSINESSEUROPE

KEY MESSAGES

5 October 2009

Meeting of the European Parliament Committee on the Environment, Public Health and Food Safety, 6 October 2009

Ad agenda item 8: Exchange of views on list of sectors and subsectors deemed to be exposed to a significant risk of carbon leakage

BUSINESSEUROPE urges policy makers to ensure certainty for industry for the whole third ETS trading period (2013-2020)

It has now been ten months since the approval of the EU Climate and Energy package by which the EU will achieve its 20:20:20 vision by 2020. The revision of the EU Emission Trading Scheme (ETS) Directive is a key element, including a reduction of 21% emissions for the energy intensive industries. The Directive recognised the ambitious and unilateral challenge for our industries in the absence of an international agreement to introduce similar carbon costs in competing regions. European Industry accepted the challenge because vital measures were included in the Directive to mitigate the effect on competitiveness of our industries and to prevent carbon leakage.

On 18 September, the Climate Change Committee voted in favour of the list of sectors exposed to a significant risk of carbon leakage proposed by the Commission. The list will apply until 2014.

BUSINESSEUROPE supports the proposed list of exposed sectors but urges policy makers to ensure that these sectors will have the certainty to remain on the list until 2020. The exposed sectors need to receive their allowances 100 % free of charge for the entire trading period from 2013 to 2020, and even beyond in the absence of similar costs in other regions. Changing the cost baseline established for the third trading period would entail huge uncertainties for ETS installations. Certainty and a stable framework are of utmost importance for companies to plan their investment decisions and strategic action.

The intent of the Directive is clear: to recognise the risks industry faces by incurring the full costs of CO_2 allowances when international competition would restrict their ability to recover those costs. At stake are the competitiveness, and thus the survival of many of Europe's major industrial sectors: sectors that employ millions of people contribute hugely to Europe's economy and are in turn critical parts of EU industrial infrastructure.

The carbon leakage criteria and thresholds in the Directive were set with these high stakes in mind, clearly looking at the *full cost* impacts of the ETS at the end of its term in order to give business the predictable framework to plan and invest for the future. Looking only at the partial costs of allowances, is clearly neither adequate to

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correctly measure the risks nor is it in line with the intent of the December 2008 agreement. Furthermore, the full cost will only emerge once the benchmarking principles are clear and the benchmarks are introduced. The free of charge allocation of allowances to exposed sectors is therefore crucial.

Sectors exposed to a significant risk of carbon leakage do not automatically receive 100 % of their allowances free of charge. The Directive indicates that only those installations in a sector that fulfil a certain benchmark receive 100 % of their allowances free of charge. The starting point for this benchmark is the average of the 10% most efficient installations in a sector. In addition, companies do not necessarily get the quantity of emission allowances they may actually need for their activity, but only a proportion of the average of their emissions between 2005 and 2007, thus not accounting for any growth in activity.

The risk factors that led to the Directive's measures to prevent carbon leakage and maintain industry's competitiveness have not changed since December 2008. In fact, the current economic environment is significantly worse, with many parts of the EU in recession, businesses struggling and unemployment rising.

Installations manufacturing products of the same type must be treated equally. Some sectors are assigned a statistical classification (NACE) code that does not clearly represent their activities or products. In some cases, two different sectors, which are in reality both at risk of carbon leakage, produce similar products. However, due to the assigned statistical classification code, only one is included in the list of sectors at risk of carbon leakage. Since both sectors are in direct competition with each other, they must both be treated equally and receive 100 % of their allowances free of charge, based on the relevant benchmark. This is crucial in order to avoid market distortions.

The Commission has completed their initial assessment of the exposed sectors following the intent of the Directive. This has not been an easy task but it is one that the Commission has approached constructively and pragmatically, working closely with business associations and Member States. However, an inexplicable shortcoming of the list is the exclusion of the bricks and roof tiles sector. The fact that the Commission deemed it necessary to include a special recital in the draft decision to reassess the situation of this sector "as soon as possible", signals that the strong concerns about its exclusion from the list of exposed sectors were well founded.

In conclusion, BUSINESSEUROPE supports the adoption of the proposed list of exposed sectors but urges policy makers to ensure that all these sectors will have the certainty to remain on the list until 2020.