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BENCHMARKS AND OTHER ALLOCATION RULES MUST BE SET TO PREVENT CARBON LEAKAGE

BUSINESSEUROPE COMMENTS ON THE IMPLEMENTATION OF THE REVISED EU EMISSION TRADING SCHEME (ETS) DIRECTIVE

It has come to the attention of BUSINESSEUROPE that the draft proposals on “benchmarking and other rules for allocation of allowances” under the revised EU Emission Trading Scheme (ETS) Directive, currently being discussed within the Commission and to be adopted by comitology procedure this autumn, might violate some of the basic principles of the Directive as adopted in 2008.

The aim of the revised ETS Directive is to ensure that EU industry reduces its emissions by 21% by 2020 compared to 2005. A gradually tightening cap from 2013 to 2020 will ensure that this target is met but also allows time for cost effective emission reductions across industry.

In recognition of the significant risk of carbon leakage, many ETS sectors will be granted free allowances up to the level of a benchmark in order to mitigate the cost of buying allowances in a world of unequal carbon costs. The Directive states (Article 10a1) that benchmarks should provide “incentives for reductions in greenhouse gas emissions.” Too stringent benchmarks and related allocation rules will result in the leakage which the Directive tries to prevent. The benchmarks should result in a fair burden for all sectors.

Against that background BUSINESSEUROPE calls on Commission services to ensure in particular the following:

- The starting point for setting the benchmarks should be “the average performance of the 10 % most efficient installations in a sector”, after consultation of the sector as stated by the Directive. Transparency of the data used is key.
- The calculation of historical production with which the benchmarks will be multiplied must count out the exceptionally low production of the recent crisis years. Long-term impairment of production must also be excluded when justified. The proper reference period to determine the level of historical production should be the 2005-2007 period.
- Further investments within Europe must be encouraged with free allowances through the ETS “new entrants reserve”. The definition of capacity



extensions that count as new entrants must be either an increase of at least 10% or of 25 kilotonnes of CO2 per year. Significant increases in production levels should be awarded with allowances as well.

- BUSINESSEUROPE reiterates its demand for an allocation path in which the benchmarks must be achieved only in 2020 and not in 2013. In 2013, allocations should be based on average product-specific emissions. A trendline should be calculated per benchmark to set the yearly allocations between 2013 and 2020.
- BUSINESSEUROPE recalls that those measures should be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 23 (3).
