



**Dr Josè A. Herrera**  
Minister for Sustainable Development, the  
Environment and Climate Change  
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MALTA

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Dear Minister, 

The Paris Agreement entered into force during the discussions of the EU ETS reform. BusinessEurope believes this was a major achievement and applauded the speedy ratification and entry into force. It is now crucial that parties deliver on their promises. If not, it would be a major blow against international efforts to protect our climate.

For Europe, the EU ETS should be the central policy tool to achieve cost-effective GHG emission reductions through a meaningful carbon price while simultaneously safeguarding the global competitiveness of its industries. To do so, the reform must encourage investments within Europe as they are essential to achieving the EU's climate targets.

BusinessEurope is therefore very concerned about the Presidency's proposal to shift only 1% from auctioned allowances to free allowances. This 1% will fall short of what is needed to provide the appropriate level of support for sectors at risk of losing international competitiveness as long as no comparable efforts are undertaken by other major economies. **At least a 5% shift is needed to protect industry at the level of best performers**, reduce the risk of a cross-sectoral correction factor and ensure environmental integrity. Furthermore, we urge you not to close the negotiation on other key issues for the European business community. Please refer to the annex for BusinessEurope's other key positions.

We call on Ministers to agree on a general approach that strikes the right balance between achieving ambitious environmental targets, boosting energy sector investments and ensuring industrial competitiveness. No deal by 28 February is better than a bad deal: Otherwise, the risk of investments leaking to countries outside of Europe with less climate ambition remains real, and we might fail to reach the Paris Agreement's objectives. I believe I speak for all when I say that nobody wants that to happen. Let that be the common purpose of the EU ETS reform.

Yours sincerely,

  
Markus J. Beyrer

CC: Dr Christian Cardona, Minister of Economy, Investment and Small Business

## **Annex: Other key positions of BusinessEurope on the EU ETS reform**

In light of the important decisions to be made under the Maltese Presidency, BusinessEurope calls on you and your fellow Ministers to pay particular attention on the following key design features:

- **Keep the Linear Reduction Factor (LRF) at 2.2%**, which is already the most ambitious climate target amongst major economies in the world. Moving beyond 2.2% would create new uncertainties for business and increase risks of investments flowing out of Europe. There is currently no indication yet that Europe's main trading partners will be as ambitious as Europe under the Paris Agreement. If this changes, the first opportunity to revise the LRF will be during the global stock take exercise in 2023. BusinessEurope urges Ministers to leave the LRF at 2.2% as long as comparable measures are not undertaken elsewhere in the world.
- **Update benchmarks based on real production data.** BusinessEurope believes that the benchmarks should be widely applicable throughout Europe and not be subject to artificial efficiency improvements ("flat rates"). However, if the flat rates are not removed, they should at least be based on the real average annual improvements of the 10% most efficient installations and certainly not on the sector as a whole. Doing the latter would punish those installations that have already made the most improvements in recent years. Furthermore, new benchmarks should be fully aligned with real data and flat rates should be estimated until the beginning of each period instead of the middle of the period (i.e. 2021 instead of 2023 for the 2021-2025 period, and 2026 instead of 2028 for the 2026-2030 period).
- **Improve the current compensation scheme for indirect costs.** With an expected higher carbon price, the pressure of indirect costs will become stronger and cannot be met with declining compensation. It increases the need to properly address indirect cost compensation at the level of best performing installations and ensure a level playing field as underlined in the European Council conclusions of October 2014.
- **Allow quantitative assessments at more relevant aggregated statistical levels than NACE-4 codes for all sectors, such as PRODCOM-8.** PRODCOM levels allows for a distinction between upstream and downstream activities and their associated emissions. This ensures equality of treatment. On the contrary, NACE-4 codes can sometimes provide a statistical mismatch and underestimate the effective risk of carbon leakage. For example, the carbon leakage risk for the flat glass sector increases from 1.02 at NACE-4 level to 1.93 using PRODCOM data. There should be no criteria excluding certain sectors from being allowed to be assessed with PRODCOM data.



- **Lower qualitative assessment's threshold from 0.18 to 0.12.** BusinessEurope believes there should be no threshold to apply to the qualitative assessment, but it also understands the risk of an increased administrative burden for the European Commission. A threshold of 0.12 would make about 19 additional sectors eligible for such an assessment, which should be manageable. We are not asking to put all sectors on the carbon leakage list, we are simply asking for them to be able to “sit the exam”.
- **Take auctioned rather than free allowances to finance the Innovation Fund and the New Entrance Reserve (NER).** BusinessEurope applauds the Innovation Fund as an important way to support low-carbon industrial investments, and has recently proposed ways to make it fit-for-purpose. However, taking free allowances away from industry to finance the Fund would add pressure to industry to buy more auctioned allowances, which risks channelling away funds that industry was itself already investing in low-carbon innovation, thereby annulling the added value of the Fund. A similar reasoning holds for the NER.
- **Enable simplification for small emitters** in line with the overall goal of the better regulation agenda. Including a voluntary opt-out possibility to installations emitting less than 50,000 tonnes of CO<sub>2</sub> emissions per year would give the opportunity to significantly reduce the administrative burden particularly for SMEs and larger companies with very low emissions, without undermining environmental goals. Opt-outs leading to more administrative burden should be prevented.
- **Consider a temporary increase in the in- and outflow rate of the Market Stability Reserve (MSR).** Increasing the MSR intake rate at the beginning of the fourth trading period as currently discussed in the Council and the Parliament in order to bring more balance to the market appears sensible and acceptable from an industry point of view, but only if free allocation is provided up to the level of the benchmark.