

ETS REVIEW



A view from an
Energy Intensive Industry

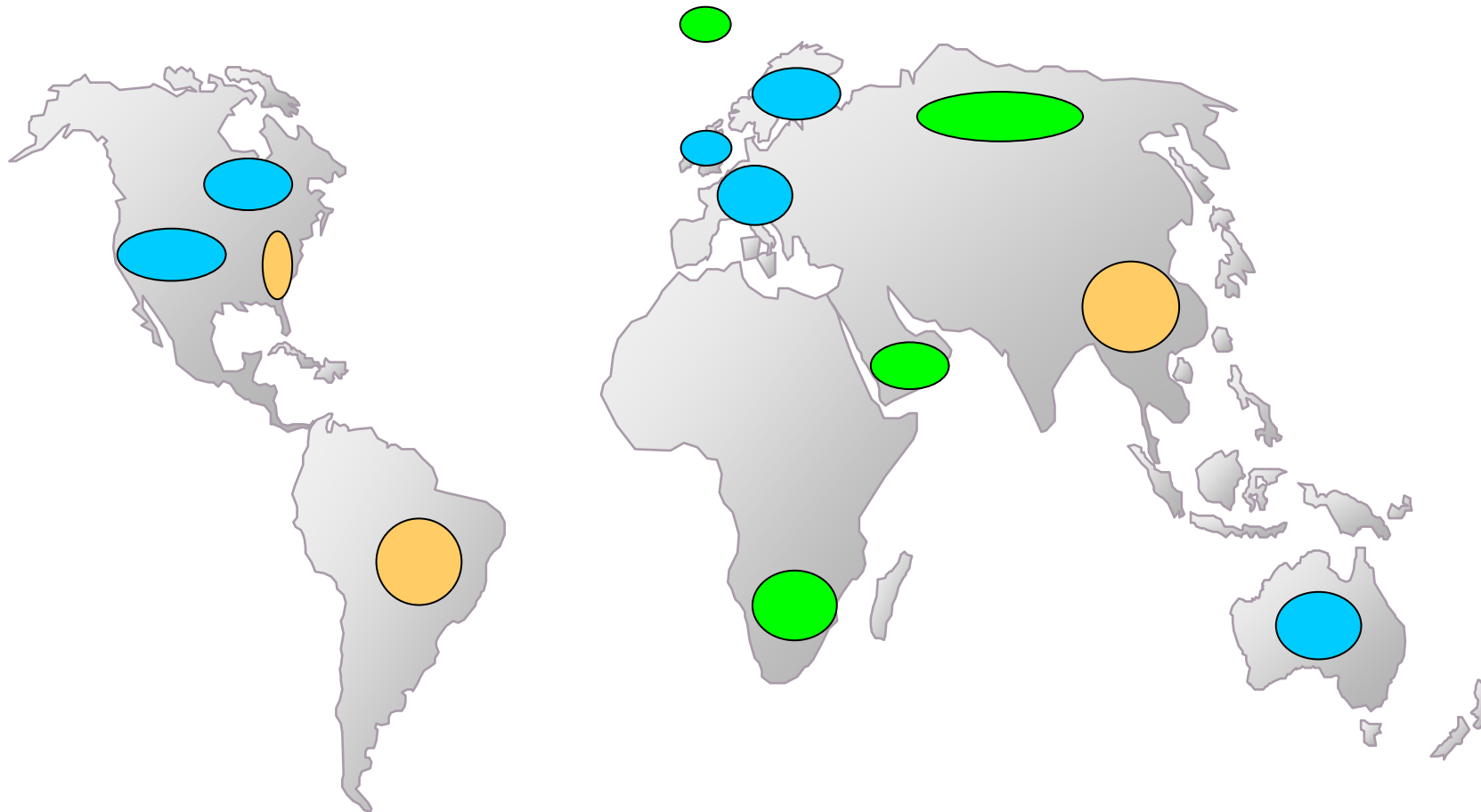
Brussels, February 2008

Executive summary

- **there is no structural reason for the EU power markets to be uncompetitive as Europe has a favourable primary energy mix, including hydro, nuclear and coal**
- **the recognition of market failures and plans for improvements are essential**
- **introduction of ETS has exacerbated the problem and the Review has not solved it**

No reason for the EU power market to be uncompetitive

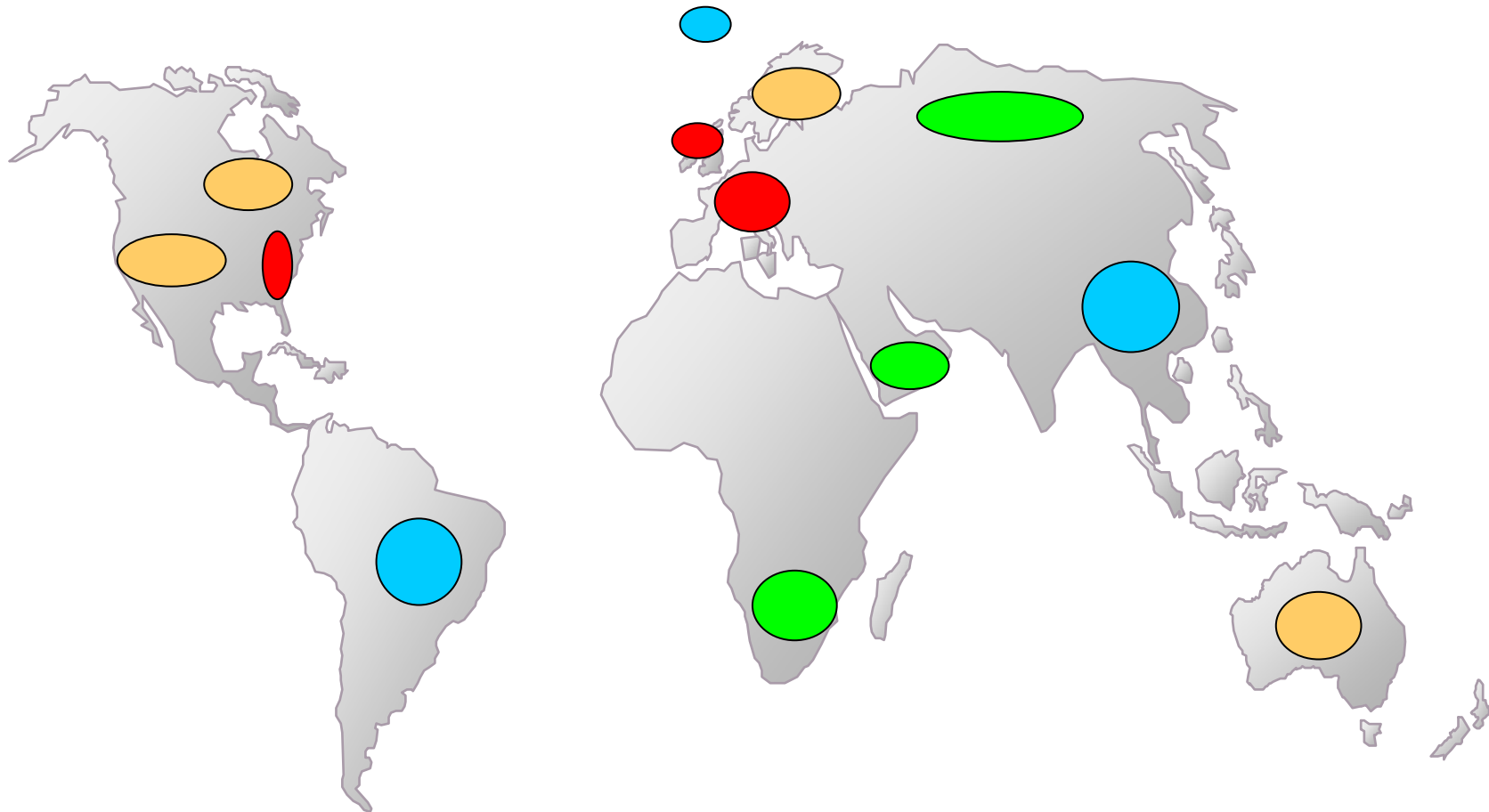
A favourable primary energy mix, including hydro, nuclear and coal



Source : Uniden

Sales price offered to big industrial consumers in 2002, all taxes excluded

Look what happened in two years

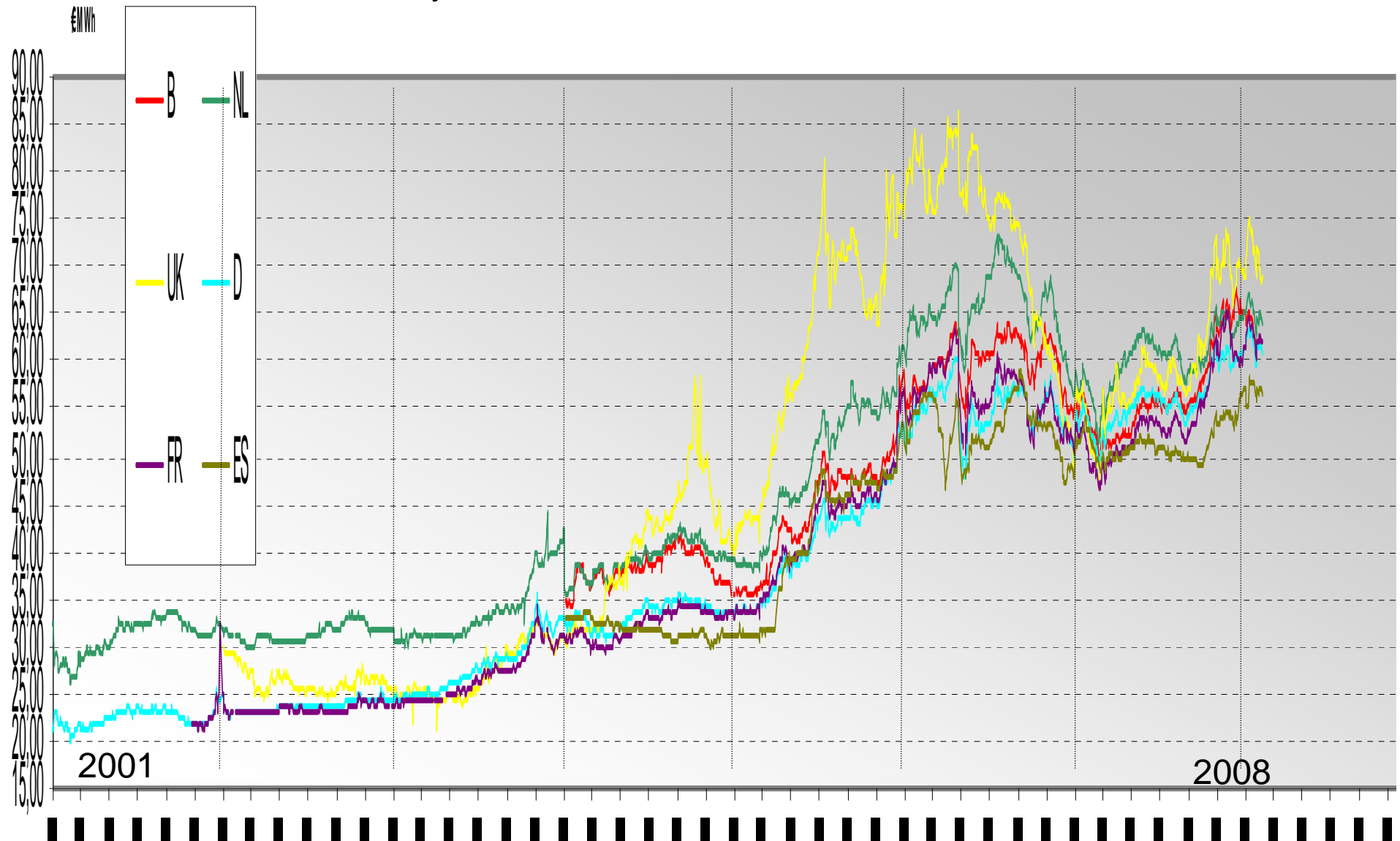


Source : Uniden

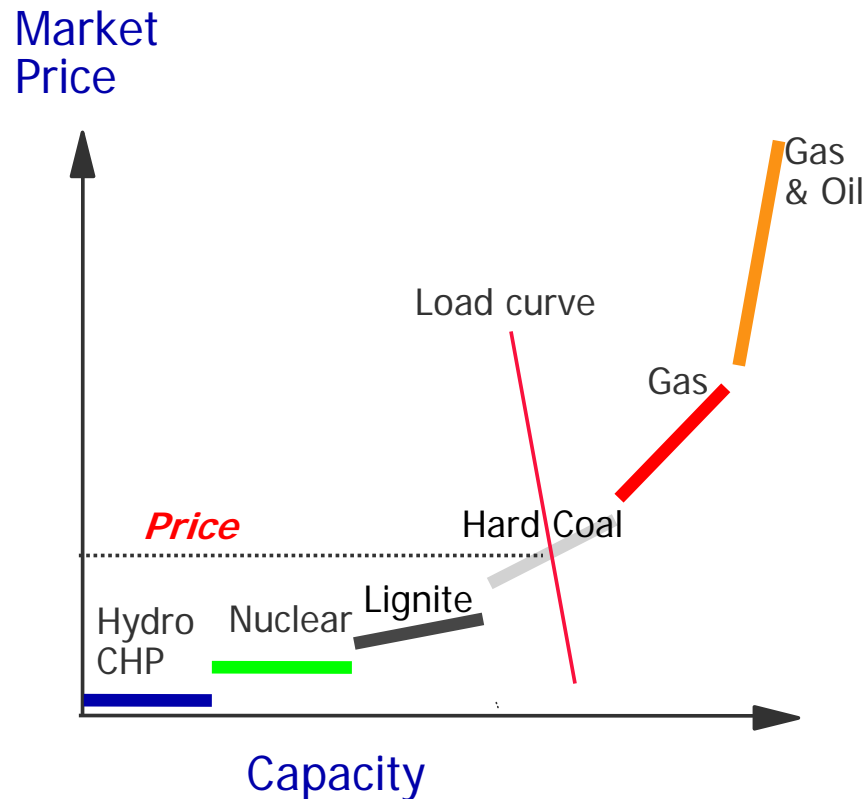
Sales Price offered to big industrial consumers in 2005, all taxes excluded

Evolution of the electricity price

Electricity: Platts Forward Assessments Y+1 in several EU countries



Cost of electricity : merit order illustration

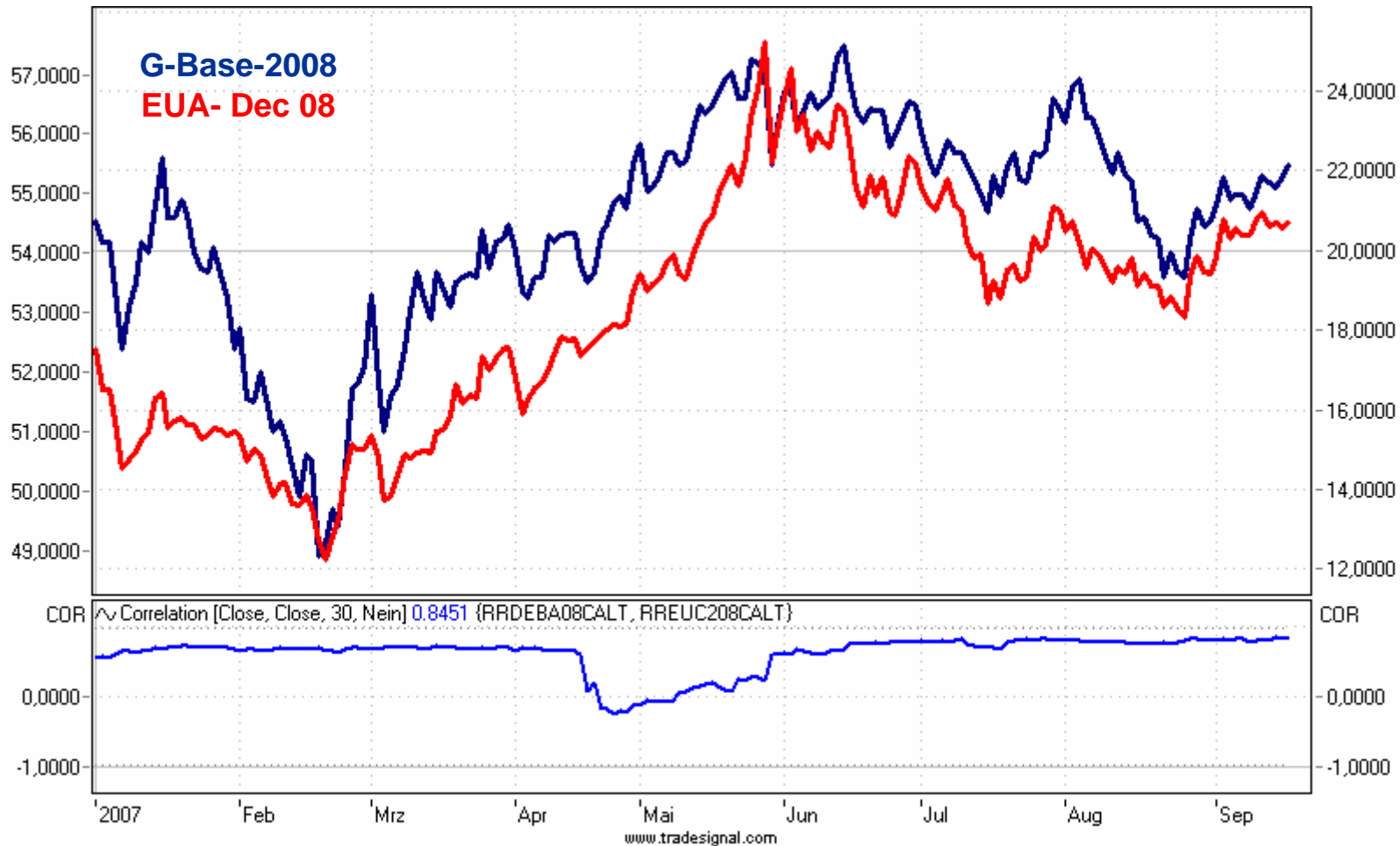


- The power price is determined by the cost (plus margin) of production of the marginal supplier
- No real possibility for a bilateral negotiation based on different pricing concepts

... based on the cost of the most expensive supplier

Correlation between CO2 and the power price

German power vs carbon (Cal 08 vs Dec 08)



ETS REVIEW

A common view from the Energy Intensive Industries



EII support market based mechanisms

- ➡ To accelerate real GHG reductions
- ➡ To stimulate the development of new solutions
- ➡ To give business flexibility

However, we are far from an effective global system; the world remains divided on how best to tackle climate change

The EU ETS is not without defects

- ☞ Exclusive focus on industrial sectors
- ☞ Distributional effects had not been taken into account
- ☞ The impact of CO₂ cost pass-through into electricity prices
- ☞ No certainty on prices & timing
- ☞ Unilateral process

What is needed ?

- ➡ EII are part of the solution
- ➡ ETS Review must preserve EII competitiveness
- ➡ ETS Review must better define the scope
- ➡ All EII sectors must receive free allocation
- ➡ ETS should allow for growth
- ➡ ETS should exclude small emitters
- ➡ Own generation must not be disadvantaged
- ➡ Electricity price impact must be compensated
- ➡ For some sectors, equal treatment for domestic production / imports

Specific recommendations

- ➡ EII should not bear a disproportionate burden
- ➡ 2005 should not be the reference year
- ➡ A flat-rate reduction allows no flexibility
- ➡ Lack of clarity on what constitutes an international agreement
- ➡ Use of CERs and ERUs must not be restricted
- ➡ The Review must provide certainty within a reasonable timeframe