Eurometaux
European Association of Metals

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Input to public consultation on the revised EU ETS Directive; COM(2015)337/F1

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INTRODUCTION

Further to our contributions in 2014 and 2015, Eurometaux appreciated the European Commission's invitation to propose amendments to the current EU Emissions trading system (ETS), in order to improve its functioning and ensure a higher level of (global) competitiveness for European energy intensive industries. Eurometaux was also one of the major stakeholders involved in answering the Commission's questionnaire on the strategic choices for the future EU ETS, as supplied by eleven Energy intensive sectors in April 2015.

Eurometaux is the Brussels-based EU association of the non-ferrous metals ("NFM") industry, representing the main EU and international metals producers, EU and international metal commodity groups and national metal federations. The industry covers base metals (Al, Cu, Pb, Ni, Zn, Sn Sb), precious metals (Au, Ag, PGM's) and technical metals (*e.g.*, Co, W, Cr, Mo, Mn, Si, FeSi), manufactured from both primary and recycled raw materials.

With the present submission, Eurometaux expresses some serious concerns related to the European Commission's July 2015 proposal for post-2020 reform of the ETS, and seeks to further contribute to the design of a future EU Emissions trading system design that accomplishes its climate objectives while promoting competitiveness and industrial growth in Europe. For this reason, Eurometaux's contribution focuses only on the most relevant issues at stake for the non-ferrous metals industries in Europe.

Al Cu Ni Pb Sn Zn Au Ag Pt Sb W Be Si Cr Co Mo Ge V Mn Ir Ru Rh

European Commission proposal for the revised EU ETS falls short of expectations

Eurometaux welcomes the European Commission's efforts to address the most ambiguous issues in the existing EU ETS model. Some of the proposals represent a step in the right direction, but lack robust mechanisms to ensure the global competitiveness of Europe's energy intensive industries. Member states hold the key to the solution.

European non-ferrous metals industries are **globally priced** commodities using global pricing mechanisms. Therefore, they are directly exposed to all effects of the global market place (price takers).

At the same time, electricity represents the major energy input in the production of non-ferrous metals (NFM). European non-ferrous metals producers are therefore exposed to indirect CO2 costs, passed on in electricity prices by energy producers. This means that NFM sectors are directly exposed to the (negative) impacts of a not-yet-fully harmonized internal EU energy market, as well as (negative) impacts of the EU ETS.

While it is very obvious that these two issues are very closely linked, the Commission still insists on a different approach when proposing solutions to direct and indirect emissions, even though they **both deserve equal treatment**.

Eurometaux is of the strong belief that the non-ferrous metals industry's **global exposure,** as well as their **level of exposure to electro-intensity,** should **automatically qualify them** for the carbon leakage list. This should involve **100% (free) compensation** for the effects of indirect CO2 costs, **without** any reductions over time in aid/compensation intensity.

The European non-ferrous metals sector has made significant investments in the recent decades, in order to **remain competitive** in the global markets. The investments were primarily focused on energy and resource efficiency improvements and recycling. Mentioning one example, the copper own energy use has decreased by 60% compared to 1990. Similar process improvements and results can be observed in other non-ferrous metal industries.

At a certain point, **the improvement possibilities will be exhausted**, either for reasons of „natural laws" and/or technological availability. In this respect, the improvement factors on the benchmark levels as proposed in the Commission proposal are **economically and technically not viable**.

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In pursuance of improving the Commission proposal, with the aim to achieve effective carbon/investment leakage protection and protect jobs in the EU, Eurometaux proposes:

I. Direct and indirect emissions should be treated equally as they both result from EU ETS and determine industry's ability to invest, innovate and compete globally.

II. No undue costs resulting from EU ETS for best performers for direct and indirect CO2 costs

III. An EU-wide harmonized compensation system, which (fully) off-sets CO2 costs pass through in electricity prices.

IV. Removal of fixed auctioning share and 1% benchmark improvement factor. Benchmarks should be based on the recent technological status.

V. Free allocation for direct emissions and compensation for indirect CO2 costs should be based on actual production data, in order to reflect real dynamics of economic and investment developments.

VI. Price-taker element as well as electro intensity should become an integrative part of carbon leakage assessments.

Indirect compensation: The current Commission proposal brings minor improvements to the current model. Eurometaux cannot avoid the feeling the administrative complexity prevailed over the competitiveness of Europe's electro-intensive industries.

Eurometaux is in favor of an adequate **EU-wide harmonized** compensation system, which **fully** off-sets CO2 costs pass-through in electricity prices at the level of the **most** efficient installations.

A clear and stable **mandatory** framework giving predictability for the whole ETS phase IV should be implemented **through the EU ETS Directive in all Member states,** in order to create a **global level playing field** and to avoid competition distortion between Members States.

Fixed auctioning share. The Commission proposal would fix the auctioning share at 57%, referring to the European Council's 2014 Conclusions. **Systematically assessing** the Council Conclusions and article 2.9. demonstrates that article 2.9. does not mandate the Commission to do so. If the fixed auctioning share would apply as proposed, the most efficient European installations will not operate on a competitive basis **without any net undue** carbon costs, as was requested by the Council.

Benchmarks. The 1% improvement clause should be **deleted**. Instead a **realistic, data-based revision** of the benchmarks should be performed **once** at the beginning of every trading period.

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This is the only possibility to address **sector-specific** technological improvement potentials. This approach will also allow for all hidden potentials for CO2 reductions to be exhausted, in those sectors with potential for higher reductions.

The fallback benchmarks system should remain in place unchanged. The fallback benchmarks should be updated, recognizing theoretical lower limits / unavoidable process emissions, the sector's actual technology status and actual data, without an arbitrary benchmark updating factor.

The most efficient producers exposed to carbon leakage should receive **full compensation** of their indirect CO2 costs, calculated by using a consistent and appropriate methodology based on **realistic benchmarks** and the **most recent production** levels. This will safeguard their international competitiveness and enabling industrial growth. Compensation should be granted for the **entire trading period,** and **should not** be subject to any reduction factor over time.

Sectors with confirmed direct and indirect exposure to carbon costs and electro-intensity should be eligible for free allowances and indirect compensations.

Carbon leakage criteria. The Commission proposal on the carbon leakage groups keeps the two groups, but changes the impact of different parameters on the outcome and shape of the final list of eligible sectors.

A crucial shortage in the proposal is the **lack of the price taker element/factor** in the final calculation. All industries using a global pricing mechanism should be allowed to calculate their **trade exposure at 100%.**

Actual production level should be used to determine the allocation/compensation levels. The October 2014 Council Conclusions request a better alignment of free allocation with changing production levels. The Commission proposal to use more accurate data is a step in the right direction, but not ambitious enough.

Under the current proposal, Eurometux believes that the gap between the different alignments will remain too large, and will not accommodate the real dynamics of economic and investment developments in Energy intensive sectors.

Lack of solid impact assessment. Eurometaux regrets that the current proposed measures are not assessed properly. As the final political proposals are a mixture of those in the accompanying impact assessment document, the industry can only speculate what the real (negative) impacts might be.

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CONCLUSIONS

Pursuing the Council conclusions, companies that face international competition need to be compensated for **both direct and indirect carbon costs**, which their non-EU competitors do not have.

These additional European costs influence production and investment decisions. With too high carbon costs, energy intensive industries cannot produce and invest in Europe at a competitive level.

The Commission's proposal does not incentivise mechanisms for sufficient compensation, neither in the form of free allowances nor in other forms for guaranteed support.

European NFM Industries are committed to help combating climate change but at the same time want to remain competitive at the global level. Eurometaux has serious doubts that the current proposal can enable a competitive and long term investment climate in Europe. Therefore, Eurometaux considers it imperative to significantly improve the Commission proposal.

To accomplish our common goals for climate protection and industrial growth, Eurometaux is willing to share all our expertise and contribute constructively to the final legislation..

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