4 September 2014

To the
Heads of State and Governments of the EU Member States
European Parliament
Council of the European Union
European Commission

The 2030 climate and energy framework must guarantee predictability for industry by setting the principles for measures against carbon and investment leakage <u>now</u>.

The undersigned manufacturing industries are the foundation of Europe's economic fabric, drivers of jobs and growth in Europe. We represent over 30 000 companies in the EU with more than 4 million direct jobs, and around 30 million jobs in our manufacturing value chains.

The EU should focus on promoting recovery and growth of industrial production in Europe, in line with the objective to reinstate industry's share of EU GDP to 20% by 2020[1]. European industries need a stable and long term legislative framework that effectively combines EU climate ambition with EU industrial competiveness.

Current carbon leakage provisions under the EU Emissions Trading Directive, if not revised rapidly, will result in a huge shortage in free allowances and increasing direct and indirect costs (the pass-through of carbon costs into power prices) for even the most efficient installations in Europe. In the period from 2021 to 2030, when the provisions against carbon leakage and free allocation would be phased out, our industries are expected to face **hundreds of billions of Euros in direct costs and costs passed through in electricity prices**.[2] The impact on energy intensive industries will simply be overwhelming.

Knowing that the Commission will be looking at "an improved system of free allocation of allowances with a better focus" for 2021-2030 is not enough. **Industry needs a clear outline of policy measures to effectively prevent the risk of carbon and investment leakage.**

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[1] European Commission Communication "For a European Industrial Renaissance", COM(2014) 14/2

[2] The Commission expects a price of €40/tCO_2 in 2030, modelling presented by Point Carbon expects ca. €48/tCO_2 (source: www.ceps.eu/taskforce/review-eu-ets-issues); Climate Economics Chair calculates a price of up €70/tCO_2 in a high scenario in its report *EU ETS reform in the Climate-Energy Package 2030: First lessons from the ZEPHYR model*, Paris 2014.

The Commission's legislative proposals currently only cover EU ETS structural reforms, which increase both carbon prices as well as the unilateral burden on EU industry, and expose EU jobs and growth to aggravated carbon leakage risk. Unfortunately, the Commission intends to publish proposals to prevent carbon leakage only at a later stage.

This is contrary to the **guidance resulting from the March 2014 <u>European Council</u>**, instructing the Commission "**to <u>rapidly</u> develop measures to prevent potential carbon leakage in order to ensure the competitiveness of Europe's energy-intensive industries**", and this to provide by October 2014 "the necessary stability and predictability for its economic operators".

The <u>European Parliament</u> stressed in February 2014 **"that the 2030 climate and energy policy targets must be technically and economically feasible for EU industries and that <u>best performers should have no direct or indirect additional costs resulting from climate policies</u>; [that] the provisions for carbon leakage should provide 100% free allocation of technically achievable benchmarks, with <u>no reduction factor for carbon leakage sectors</u>."** [3]

We therefore urge the European Council to give guidance at its summit on 23/24 October confirming that carbon leakage measures will be continued after 2020, as well as outlining the principles for the level of protection in order to safeguard predictability, investment certainty, jobs and growth in Europe:

Until a global agreement on climate change provides for a level playing field for energy intensive sectors at risk of carbon and investment leakage, best performers should not be penalised by direct or indirect additional costs resulting from the framework. This implies:

- **Truly 100% free allocation based on technically and economically achievable benchmarks (including heat and fuel based benchmarks), reflecting recent production, <u>and without a correction factor</u>.**

- **Harmonized off-setting of all CO_2 costs passed through into electricity prices in all Member States.**

The Market Stability Reserve must only be considered <u>in conjunction</u> with the above measures, instead of through piecemeal approach.

The undersigned energy intensive industries are all at risk of carbon and investment leakage and therefore must be safeguarded through the above measures.

These measures provide the essential signal towards industry for predictability and investment certainty, and secure an environmentally and economically sound EU ETS which does not distort the market. We strongly believe that these measures, together with strong innovation funds to support breakthrough innovation in industrial technologies and processes, will offer a win-win situation for the global climate and the European economy.[4]

[3] European Parliament resolution of 4 February 2014 on the Action Plan for a competitive and sustainable steel industry in Europe (2013/2177(INI))

[4] The agreement on the reform of the EU ETS between the Dutch government, industry and NGOs proves that a compromise and a balanced solution between the pillars of EU sustainable policy – growth, jobs, and environmental protection – is possible by applying an allocation more closely linked to economic reality e.g. a dynamic emissions trading system.