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EU Inception Impact Assessment: Climate change – updating the EU emissions trading system (ETS)

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VIK welcomes the opportunity to participate in the consultation on the roadmap to update the EU Emissions Trading Scheme and supports the EU Commission's discussion on an improved emissions trading scheme.

It must be ensured, however, that the planned reform of emissions trading does not lead to a disproportional, additional cost increase for industrial installations in Europe, and thus to a decrease in competitiveness of the European industry. This would lead to the exodus of production facilities to non-European countries, so-called carbon leakage.

VIK therefore emphasizes the importance of continuing to ensure effective carbon leakage protection for European industry. In this context, existing measures such as the free EU ETS allowances and indirect cost compensation should remain in place, respecting the results of the 3 year lasting negotiation period from 2015-2018 resulting in the emissions trading directive for 2021/30 as a compromise between climate protection ambition on the one hand and minimizing the risk of carbon leakage on the other hand. Further reducing free allocation and the possibility for electricity price compensation would harm this compromise.

In order to achieve the planned increase in the EU's climate targets to 55% reduction in greenhouse gas emissions by 2030, both the linear reduction factor and the Market Stability Reserve (MSR) might have to be modified. These options for a more rapidly shortage of allowances will lead to an increase in CO₂ prices, which will put additional pressure on the competitiveness of European industries. As global competitors do not incur these costs, the risk of carbon leakage increases.

It is also foreseeable that the future free allocation of emission allowances will be further reduced, so that it will be a challenge for the EU ETS to continue to ensure adequate protection against carbon leakage. The European Commission should

therefore assess all possible options to complement free allocation with additional policy instruments to ensure effective carbon leakage protection throughout the fourth trading phase.

With regards to adjusting the market stability reserve, VIK would like to point out that this will render the market for allowances in Europe unpredictable and will lead to high costs for the energy-intensive sector in particular. Again, it must be stressed that reliable legal and economic framework conditions are of the utmost importance for the energy-intensive industry in order to maintain international competitiveness while at the same time enabling investment in climate-friendly technologies.

When it comes to the option of extending emissions trading to maritime transport, it is important to create a level playing field in international maritime transport. Efforts to find a solution at European level will likely disadvantage European maritime transport and thus lead to carbon leakage. In addition, the CO₂ emission reduction in the maritime transport sector will only happen over a longer period of time, as there are few alternative technologies available, and this will increase the price pressure on the ETS.

Similarly, with regard to the potential option of extending emission trading to the 'buildings' and 'road transport' sectors, it must be noted that this may pose a risk to the EU ETS-sector as it exists today. While a significant reduction in CO₂ emissions has already been achieved in the EU ETS-sector over an extended period of time, transport and building sectors fall behind the targets. Low price elasticities in the building sector, together with long investment cycles, indicate that market-based climate protection instruments such as carbon pricing are likely to have less impact than in other sectors. This would lead to a delay in emission reduction for non-ETS sectors on the one hand, but also to a disproportional increase of financial burden for the ETS sector – especially for energy intensive industries – on the other hand. The consequence will be a significant imbalance in CO₂ costs and avoidance measures and a further distortion of competition.

In conclusion, VIK re-emphasizes that secure legal and economic framework conditions with effective and sufficient carbon leakage protection are crucial for the energy-intensive industry in order to maintain international competitiveness and at the same time enable the transformation towards a climate-neutral economy.

Der VIK ist seit über 70 Jahren die Interessenvertretung industrieller und gewerblicher Energienutzer in Deutschland. Er ist ein branchenübergreifender Wirtschaftsverband mit Mitgliedsunternehmen aus den unterschiedlichsten Branchen, wie etwa Aluminium, Chemie, Glas, Papier, Stahl oder Zement. Der VIK berät seine Mitglieder in allen Energie- und energierelevanten Umweltfragen. Im Verband haben sich etwa 80 Prozent des industriellen Stromverbrauchs und rund 90 Prozent der versorgerunabhängigen industriellen Energieeinsatzen und rund 90 Prozent der versorgerunabhängigen Stromerzeugung in Deutschland zusammengeschlossen.

VIK would like to note that members of the automotive industry do not fully agree with this view, as they themselves are not energy-intensive, but are supplied by the companies that have participated in the preparation of the position as members of the VIK.