EUROMETAUX
EUROPEAN ASSOCIATION OF METALS

**ENC-020-13**

Australia – EU Registry linking
Carbon pricing and market division
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Brussels, 23rd of March 2013

**Ref: Answer to the consultation paper on Registry options to facilitate linking of emissions trading systems, by Eurometaux,** EU transparency register nr. 61650796093-48

Dear Sir/Madam,

Eurometaux is the Brussels-based EU association of the non-ferrous metals 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, FeS), manufactured from both primary and recycled raw materials.

Eurometaux hereby submits its reaction to the consultation paper on Registry options to facilitate linking of emissions trading systems. Eurometaux is a registered organisation in the EU transparency register (n° 61650796093-48).

**EUROMETAUX wants particularly to point out that global level playing field can only be achieved through linkages based on symmetry and reciprocity in terms of privileges and burdens on the industry. Furthermore, all compensation and allocation of free allowances must be linked to actual production output and integrated into the ETS system.**

The announcement that the EU ETS will be linked with the forthcoming Australian ETS raises a number of questions and concerns. While linking the EU ETS with third parties' schemes should in general be supported as a means to promote effective global mitigation efforts and reduce carbon cost-related competition distortions, the consequences of linking schemes that are based on a different set of targets and rules should be carefully assessed.

In view of the differences in allocation methodology, cap-setting principles and marginal mitigation costs, the first visible consequence of the linking between the EU and the Australian ETS is likely to be an increase in demand for EU allowances driven by Australian companies entering the EU market in order to take advantage of the allowance price difference. This will in reality reduce the number of allowances available to EU operators, indirectly decreasing the EU cap and driving the EU carbon price up, with all the detrimental consequences on the EU business listed above. And this to the benefit of coal-reliant economy.

A preliminary assessment of the linking shows that linking schemes does not address the competitiveness issue on a fair basis that applies the principles of **symmetry and reciprocity in terms of privileges and burdens on the industry.** In order to avoid increasing carbon –cost-related competition distortions (reinforced by the linkage) the ETS rules for sectors competing on global markets (leakage sectors) need to be aligned.

In this regard, Eurometaux would like to point out the major crucial differences between the EU ETS and the Australian ETS:

- Australian compensation for direct and indirect emissions (emissions relating to power consumption) is incorporated in the trading scheme, whereas in the EU compensation for indirect emission **may be** granted by Member States.

- The Australian scheme supports growth, whereas the EU scheme puts up barriers to growth. In Australia, compensation for direct and indirect emissions is based on actual production, whereas in the EU compensation is based on historical production, with an incomplete scheme for capacity extensions.

- The Australian benchmarks are based on the weighted average emissions of the sector, whereas in the EU benchmarks are set at the average best 10% of the industry.

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- The Australian benchmarks for indirect emissions are based on the weighted average energy consumption of the sector, whereas in the EU benchmarks are set at the best of the industry, and for products without product-benchmark, the compensation level is set at 80% of historical electricity consumption and at a level of about 64% for sectors without benchmarks and with fall-back factors.

- The Australian system is a rolling cap (adjusted annually 5 years in advance), whereas the EU CO2 emissions cap is fixed at a lower level.

- Australian companies exposed to competition distortions due to the climate regulation will receive financial support to help them in the transition, which is not the case for European companies.

In particular, it is worth pointing out that Australia is committed to a very modest CO2 reduction effort and is unlikely to reduce its dependency on coal. On the other hand, the EU has agreed on ambitious CO2 reduction and renewable targets. From that perspective, the difference in mitigation effort is compelling.

The fact that the rules of the Australian ETS haven't been fully decided yet adds another layer of complexity and uncertainty to an already very complicated issue.

**EUROMETAUX wishes to point out that a global level playing field can only be achieved through linkages based on symmetry and reciprocity in terms of privileges and burdens on the industry. Furthermore, all compensation and allocation of free allowances must be linked to actual production output and integrated into the ETS system.**

In the light of this, the Eurometaux believes that the EU has engaged prematurely with Australia in the linking discussions. The EU should first set up conditions for such linkages and only start up discussions on the basis of a proper and in-depth impact assessment.

As an aside, the linkage can be seen as an attempt to drive EU carbon prices up, which will drive the EU ETS further away from cost-efficiency, as the EU allowances will flood a coal-based economy.

However, Eurometaux wishes to point out that the Australian ETS seems to have taken stock of the loopholes of the EU ETS, as some of its features are

evidently aimed at addressing them. In particular, Eurometaux believes that granting allowances to electro-intensive installations in order to compensate the impact of CO2 costs passed on power prices is the right approach. If replicated in the EU, this would lead to a harmonized, consistent and efficient compensation scheme.

With kind regards,

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28 March 2013

# Alliance of European Energy Intensive Industries' comments to the linking between the EU ETS and the Australian ETS

The Alliance of European Energy-Intensive Industries (AEII) welcomes the efforts recently deployed to link the EU ETS with the forthcoming Australian ETS. Climate change is a global concern which requires coordinated global action. Furthermore, the linking is a first – albeit modest – step on the way to global carbon pricing. In this regards it provides a unique opportunity to harmonize climate change policies with a view to placing global competitors on an equal footing.

While linking the EU ETS with third parties' schemes should in general be supported as a means to promote effective global mitigation efforts and reduce carbon costs-related competition distortions, the consequences of linking schemes which rely on a different set of targets and rules should be carefully assessed. In view of the differences in allocation methodology, cap setting principles and marginal mitigation costs, the first visible consequence of the linking between the EU and the Australian ETS is likely to be an increase in the demand for EU allowances driven by Australian companies entering the EU market to take advantage of the allowance price difference. This will in reality reduce the number of allowances available for the EU operators, indirectly decreasing the EU cap and driving the EU carbon price up, with detrimental consequences on the EU business (the linkage could indeed be understood from an EU perspective as an attempt to increase carbon prices, drifting the EU ETS further away from cost-efficiency as the EU allowances will be fuelling a coal-based economy).

A preliminary assessment shows that the linking of the schemes is not addressing the competitiveness issue on a fair basis since differentiated targets and rules cohabit. In order to avoid increasing carbon-costs related competition distortions (reinforced by the linkage) the ETS rules for sectors competing on global markets need to be aligned.

In this regard, the AEII would like to point out the crucial differences between the EU ETS and the Australian ETS:

- The Australian benchmarks are based on the weighted emissions average of the sectors, <u>including indirect emissions</u> (free allocation will be granted to power users through benchmarks in order to compensate CO2 costs passed on power prices). On the contrary free allocation in the EU – which concerns only direct CO2 emissions – is based on stringent benchmarks set at the average best 10% of the industry and applid to the historical production. As regards indirect CO2 costs, the EU rules foresee a compensation mechanism limited at 80% of the electricity benchmarks applied to the historical electricity consumption (the amount is capped at 64% for sectors with no electricity benchmarks). As this compensation mechanism is not harmonised and only

sets an upper limit to what Member States are allowed to give, it is unlikely to provide a sufficient protection against carbon leakage.

- The Australian scheme supports growth whereas the EU allocation rules include barriers for growth.

- The Australian system has a rolling cap (adjusted yearly 5 years in advance) whereas the EU CO2 emissions cap is fixed once and for all for the whole trading period.

- Australian companies exposed to competition distortions due to the climate regulation will get financial support to help them in the transition.

In particular, it is worth pointing out that Australia has committed to a comparatively modest CO2 reduction effort (unilateral 5% CO2 reduction between 2000 and 2020) whereas the EU will reduce its emissions by 20% between 1990 and 2020, meaning a reduction of 21% between 2005 and 2020 for the EU ETS sector.

**The AEII wishes to point out that global level playing field can only be achieved through linkages based on symmetry and reciprocity in terms of privileges and burdens on the industry. As these conditions are currently not being met, the linking of the EU ETS with the AUS ETS should not affect the review of the EU carbon leakage list.**

In the light of this, the AEII believes that the EU has engaged prematurely with Australia in the linking discussions. The EU should **first set up conditions** for such linkages (i.e. seek **convergence of the rules** the schemes rely upon) and link the schemes only after an **impact assessment** has been carried out and **stakeholders have been properly consulted** (the time assigned to the current consultation is too short to allow stakeholders to make a proper assessment of the linking proposal).

Furthermore the linkage should not take place before adequate measures to **prevent fraud and criminal activity** have been put into place. In this respect, the AEII welcomes the EU's and Australia's commitment to design the linking with adequate safeguards.

To conclude the AEII wishes to point out that the Australian ETS seems to have taken stock of the conceptual weaknesses of the EU ETS as it shows quite positive features meant to address them. These should be taken into consideration in view of the EU ETS reform of to come.

***The Alliance of Energy Intensive Industries***
***Europe's energy-intensive industries have an aggregated turnover of more than 1000 billion Euros per year and provide direct employment to over 3 million people. These industries are fundamental to Europe's entire economic fabric and support downstream processing and employment through the entire value chain. They also contribute to Europe's R&D, innovation and technical excellence, as well as to European balance of trade and through economic value added and taxes to the economies of its Member States.***

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