EUROFER summary position on the EU's 2030 energy and climate framework

Urgent solutions are needed to prevent carbon and investment leakage resulting from expected extreme allowances shortages and power price increases

The European steel industry welcomes the European Council conclusions of March 2014 on the EU 2030 energy and climate framework as an important step for the rapid reconciliation of the EU's energy and climate policy with industrial competitiveness. The conclusions rightly stressed that "Europe needs a strong and competitive industrial base as a key driver for economic growth and jobs" (§ 5). "Industrial competitiveness concerns should be systematically mainstreamed across all EU policy areas and be part of impact assessments in view of getting a stronger industrial base for our economy. This should go together with competitiveness proofing" (§ 6).

Most notably, we welcome that the European Council

- "invites the Council and the Commission to **rapidly develop measures to prevent potential carbon leakage** in order to ensure the competitiveness of Europe's energy-intensive industries" (§ 18);
- sets out the "**principle**" for the new framework to "ensure security of energy supply for households and businesses at **affordable and competitive prices**" (§ 17) stressing that "a coherent European energy and climate policy must address the issue of high energy costs in particular for energy-intensive industries" (§ 14).

We welcome the Commission having started work on this and the European Council taking stock of progress in June with a final decision on the new policy framework by October 2014 aiming to provide "the necessary **stability and predictability for its economic operators**" (§§ 16, 18).

Keeping the provisions against carbon leakage in the EU ETS unchanged would soon result in a huge shortage in free allowances and increasing indirect costs for even the most efficient installation in Europe; in the period from 2021 to 2030, when the provisions against carbon leakage and free allocation will be phased out, the EU steel sector as a whole, even if it exploits its full CO_2 reduction potential by 2030, is expected to have shortages of over 2 billion allowances and **costs of around 70 to 100 billion Euros**.[1]

[1] At a price of 30 to 40 Euros per ton of CO_2 which potentially will result from the EU ETS and structural measures as proposed by the Commission in January 2014. 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).

To secure the above objectives set out by the European Council, we urge the institutions to

1. discuss proposals for structural measures for the EU ETS (Market Stability Reserve) only jointly with legislative proposals to prevent carbon and investment leakage;
2. provide sectors at risk of carbon leakage with truly 100% free allocation at the level of the 10% most efficient installations, based on technically achievable benchmarks, real production, and no correction factor, already now and up to 2030;
3. provide sectors at risk of carbon leakage with a system that fully off-sets CO_2 cost-pass through in electricity prices in all member states;
4. conduct realistic impact assessments on a sectoral level for the current proposals, notably on the proposals for the EU ETS revision (43% target, Market Stability Reserve);
5. adopt policy measures with the clear objective to stop increasing industrial energy prices and which reduce the widening gap in prices between the EU and its main competitors;
6. avoid any double burdens for EU ETS sectors, such as additional energy efficiency measures. Enhanced energy efficiency is part of our business optimisation. The European steel industry is amongst the most energy efficient worldwide;
7. consider that the objectives of the 2030 framework will make the EU's new efforts to reduce Europe's high gas dependency even more challenging to achieve.

These necessities for action to prevent carbon and investment leakage would still constitute an enormous hardship for our industry as over 90% of installations would not meet the benchmarks and therefore would have to buy additional allowances on the market at a much higher price than today or invest massively to improve efficiency up to the benchmarks.

The measures proposed above would secure a just EU ETS without distortions in the market. We strongly believe that these measures will be a win-win situation for the climate and the European economy.

The essence of above action has also been requested by an overwhelming majority of the European Parliament on 4 February 2014, in particular, to "step up efforts to decrease the energy price and cost gap between the EU industry and its main competitors" (§ 22), that "best performers should have no direct or indirect additional costs resulting from climate policies", and that "provisions for carbon leakage should provide 100% free allocation of technically achievable benchmarks, with no reduction factor for carbon leakage sectors" (§ 23).[2]

[2] European Parliament resolution on an Action Plan for a competitive and sustainable steel industry in Europe, 4 February 2014, adopted with 505 votes in favour and 95 against.