February 2016

STATEMENT OF THE ALLIANCE OF ENERGY INTENSIVE INDUTRIES ON CARBON COST PASSTHROUGH CLAIMS AND RECOMMENDATIONS IN THE CONTEXT OF THE ETS DIRECTIVE REVISION

On 20 November 2015, the European Commission DG CLIMA published a study drafted by CE Delft and Oeko-Institut entitled "Ex-post investigation of cost pass-through in the EU ETS An analysis for six sectors". Energy-intensive industries are concerned about claims made and the methodology used: until competing economies adopt similar GHG emissions reduction commitments, undue carbon costs will impair their position in highly competitive markets, discouraging recovery, growth and investments in the EU.

➷ **Until competing regions commit to similar carbon costs, any pass-through of EU carbon costs would have a negative impact on EU producers' market share or increase the extra-EU competitors' profit margin**

For industries exposed to international competition, product prices are determined by the international producer which sells at the lowest price. Therefore, if an EU producer would pass-through (parts of) EU carbon costs in their product prices, non-EU competitors not exposed to carbon costs would:

- either undercut EU products market prices without any disadvantage – thereby gaining market share;
- or follow the EU company's product price thereby increasing their sales margin with respect to the EU competitors and attracting future investments;

In both cases and without proper carbon leakage provisions the competitiveness of ETS installations will be impaired, discouraging investments in the EU. This would lead to a relocation of EU production activities and investment to off-shore.

The study authors themselves recognise that "[they] *have not further investigated the extent to which cost pass-through has resulted in a loss in market share or has (negatively or positively) impacted on the profitability of firms*" (Page 10).

➷ **It is inappropriate to draw firm conclusions from econometric analyses as they inevitably result in significant oversimplification**

Some of our industries already expressed strong concerns regarding the methodology used in the studies that are quoted in the literature review. As demonstrated by these analyses, it is not possible to draw any firm conclusions or even policy recommendations from existing literature.

The quantitative criteria recommended by Heads of States, used in the current ETS Directive and contained in the Commission revision proposal (Induced Carbon costs and/or Trade Intensity) are still the most appropriate and should therefore be kept as the key indicators. **Qualitative risk assessments must remain possible too,** to allow for a more comprehensive analysis, unburdened by statistical deficiencies, of the carbon leakage risks of certain product groups, value chains, their current and projected market characteristics (such as competition, investment capacities, job intensity) and their exposure to global pricing mechanism, etc.

➷ **In times of asymmetric climate policies full carbon leakage protection at the level of best performers is needed**

Undertakings that meet the benchmark standards of carbon efficiency - set at the actual level of the average 10% most efficient installations - should not bear additional carbon costs. Any additional carbon costs imposed on companies that already produce and grow, at benchmark levels of efficiency are in our view "undue costs" within the meaning of the European Council Conclusions of October 2014. Imposing additional carbon costs on even the best performers will not stimulate the needed investment and innovation.