APRIL 2017

EU ETS Phase IV: Trilogue negotiations

Compensation for the Indirect Costs of the EU ETS in Phase IV

Introduction

Issues at stake: In the European non-ferrous metals industry, indirect costs from the EU ETS are up to 7 times higher than direct costs. Our production processes are more electricity-intensive than those used in other sectors. We cannot pass-on our additional indirect carbon costs because metals are traded at a globally-set price. Our producers therefore face a very real risk of carbon and investment leakage.

This document analyses the solutions put forward by the co-legislators to compensate for EU ETS indirect costs. We begin by outlining a number of principles which should be incorporated into the final agreement. We then give our suggested solution for indirect costs compensation in EU ETS phase IV.

Principles: Compensation for the indirect costs of the EU ETS

1. Direct and indirect costs should be treated equally

Co-legislators should remember the primary objective of compensation for indirect costs: to effectively address the carbon leakage risk created by those costs (which are not borne by any competitor outside of Europe). As acknowledged by the European Council conclusions in October 2014, the most efficient installations should not face undue carbon costs leading to carbon leakage - taking *both* direct and indirect costs into account.

Key takeaway: Both direct and indirect costs are a result of ETS and both should be treated equally. This is especially necessary since the CO_2 price is expected to increase in the next trading period.

2. Limited and degressive aid would amplify carbon leakage concerns for our sector

Our sector's carbon leakage risk increases with any limitation or degression of the compensation provided for indirect costs. A system of limited and degressive aid would be especially unfair for our best performing installations, which already operate at the highest energy efficiency standards with very little possibility to further improve their performance.

Key takeaway: Our installations are already incentivised to improve by an electricity consumption benchmark in the current system. This benchmark is also used in the free allocation rules for direct emissions, and should be continued.

3. Need to maintain a global level playing field

Policymakers must take into account the need to maintain a **global level playing field** in order to prevent investment leakage. The prices of our products are set at global commodity exchanges such as the London Metals Exchange (LME). European producers are demonstrably unable to pass on regional carbon costs to their customers.

Key takeaway: Our sector's competitiveness vis-à-vis non EU producers is negatively impacted by any additional load from EU Regulation. A primary objective of the ETS should be to ensure the competeveness of European installations.

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Our proposal: Compensation for EU ETS indirect costs

Our proposal for compensating ETS indirect costs responds to elements proposed by all three institutions.

1. Ensuring that best performers do not face undue costs for the indirect costs of the EU ETS

The European Parliament has recommended a system of partial and declining aid. This would expose even the best performing non-ferrous metals producers to substantial electricity costs. With an expected higher carbon cost for ETS phase IV, such a system would have a major impact on our sector's ability to compete with other regions of the world.

Our position:

a. We strongly oppose any measures calling for degression from the current level of Aid given for indirect costs - i.e. Parliament amendment 73 (last sentence). This amendment should be removed in the final agreed text.

b. Detailed stipulations on aid intensity should be kept out of the ETS Directive. These issues should be addressed in the updated State Aid Guidelines on compensation of indirect CO_2 costs in electricity prices.

2. Increasing transparency and reporting requirements

The Council has introduced a set of welcome measures around transparency and reporting requirements for Member State indirect costs compensation schemes.

Our position: We support the following new transparency measures:

a. Member States must report annual compensation levels given to the different sub-sectors, taking into account that such reporting should not breach confidential business information.

b. When a Member State uses more than 25% of the revenues generated from the auctioning allowances, it will produce a report setting out the reasons why it provided this aid.

c. Due to the inherent differences in Member States' auctioned revenues and industry structure, it should be possible to use sources other than auction revenues to compensate for indirect costs, as in the current regime. This possibility to use other sources should be fully clarified in the text. *N.B. Not allowing other sources would penalize Member States with a low share of auctioned revenues – due to their largely decarbonized power mix – and a strong industrial base. The EU ETS reform should not punish decarbonisation efforts.*

3. A centralised compensation fund

The European Parliament has proposed a centralised fund which introduces a minimum compensation at EU level. A fund of 3% of total allowances (465 million EUAs) would provide predictability for around 20% of the needed compensation.

Our position: While we welcome the increased predictability provided by the centralised fund, it is imperative that the fund is not linked to a partial and declining aid level.

ABOUT EUROMETAUX

Eurometaux is the decisive voice of non-ferrous metals producers and recyclers in Europe. With an annual turnover of €120bn, our members represent an essential industry for European society that businesses in almost every sector depend on. Together, we are leading Europe towards a more circular future through the endlessly recyclable potential of metals.

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Al Cu Ni Pb Zn Au Ag Pt Sb Be Si Co Mo V Sn Pd Ru Re Os Ir W Ta Ge Se Ga Cr Mg