Position of the Alliance of Energy Intensive Industries on the Commission proposal to back-load (set-aside) EU ETS allowances

In July, the European Commission issued a proposal to postpone the auctioning of an as yet undefined number of CO2 Allowances until towards the end of the third trading period. The purpose is to ensure the 'orderly' functioning of the EU ETS. This is likely to be the first step in further regulatory proposals to intervene in Phase 3 with the overt intention of reducing the existing cap on emissions. This cap is already set to meet the EU's requirement to reduce EU ETS emissions by 21% by 2020 from a 2005 baseline.

While supporting the EU ETS as a policy instrument to meet the EU's climate objectives, the Alliance of Energy Intensive Industries is opposed to any modification of the EU ETS rules which would damage further industry's competitiveness. The EU must stick to the 2020 target formula agreed upon under the third Climate and Energy package and must not revise it unilaterally unless the carbon leakage issue is solved by a binding international climate agreement.

The proposed interference within the agreed policy framework will simply increase the costs for industry. By hampering predictability and by increasing regulatory risk of further intervention, it will also deter investments at a time when the EU economy is struggling to find a way out of the crisis.

Instead, policy makers should focus on the post-2020 policy framework and endeavour to work out a scheme that makes the EU more competitive.

In this context, the 'back-loading' initiative is inappropriate, and **the Alliance of Energy Intensive Industries therefore calls for the rejection of the back-loading proposal** for the following reasons:

1. **No artificial cost increase:** the back-loading proposal will inevitably lead to direct and indirect EU-only CO_2 cost increases, affecting the energy-intensive businesses and private consumers, at a time when growth and value creation are needed to combat the economic crisis. Rising energy and CO_2 prices do not create overall value or jobs. They will hamper Europe's economic recovery and diminish the global competitiveness of European industry.
2. **The carbon market is functioning.** The carbon price today reflects the economic downturn exactly as it should do.
3. **The proposal puts an end to the notion of the ETS as a market-based instrument.** Trying to manipulate carbon prices through political intervention will now require a risk calculation based on the likelihood of further political intervention.

4. **In the absence of an international climate agreement providing level playing field, higher carbon prices do not bring forward breakthrough technologies but do increase carbon costs and potentially carbon leakage instead.** It's worth recalling that the ETS is technology-neutral - neither intended to promote one technology over another, nor to lead to the emergence of new technologies. So only the mitigation objective matters, not the carbon price.
5. **Business needs predictability and transparency:** political intervention to change rules, often through Comitology, creates instability. Piecemeal interventions in the market hamper predictability and deter investments.
6. **Consult Industry in order to look forward:** the EU should look forward and link its post-2020 climate and energy policy to industrial competitiveness, working with industry on solutions based on technical feasibility and economic viability. Amendment of the present EU ETS must also remove barriers and risks for EU growth, taking into consideration binding mitigation commitments by third countries and their impact on sectors and sub-sectors, so as to secure an international level playing field for EU industries.