

EU Climate and Energy Package Review of the Emission Trading Scheme (ETS)

WKO Position

WKO is in favour of splitting ETS and Non-ETS but sees a heavy burden for industry in this proposal. The danger of industry leaving Europe and producing elsewhere is very high and therefore needs to be taken into account with highest priority. We can neither accept the high costs of the proposal resulting from the linear reduction factor and the auctioning principle nor the high degree of uncertainty caused by many foreseen comitology procedures. Industry is stopping investment plans already now!

Main concerns

- 1. Challenge for business:** The Austrian ETS sector represents 76.000 jobs (industry only), which are at stake in the long run if the ETS review keeps the proposed content. ETS industry in Austria (energy generators excluded) covers a turnover of 33 billion euro which is more than a tenth of the Austrian GDP: ETS installations in Austria are facing additional costs of at least one billion euro per year. This is more than five times the current estimated costs for lacking certificates.
- 2. Imbalance between ETS and Non-ETS:** The EC attempt to harmonise allocation and to split ETS from non-ETS is to be welcomed. But the uneven sharing of reduction efforts between ETS (60%) and Non-ETS (40%) has to be corrected. We emphasise at least equalisation of shares, which would mean 13% reduction by both ETS and Non-ETS. The linear reduction factor for ETS would then be 0.92% p.a.
- 3. Procedures and timing:** Very important provisions (e.g. carbon leakage, new targets, auctioning procedure, number of free certificates) in the proposal are left for comitology, which is contradictory to EU democracy and transparency rules. Moreover, the ETS industry will be hit by lack of planning security and the latest trend of industry stopping investment plans as a consequence of the new proposal would go on. These provisions should therefore be included in the directive text.
- 4. New targets in case of an international agreement with an EU target stricter than minus 20%:** The directive calls for a "formula" calculated by the Commission leading automatically to new targets for ETS which may be up to minus 34% for the ETS. Such a decision, which is very relevant for Europe as a business location, must be made by all EU institutions. The present burden sharing then has to be re-discussed.
- 5. Energy intensive industries exposed to carbon leakage:** We welcome the EC idea to give free certificates to sectors exposed to international competition. But this has to be decided much sooner than 2010/11 and jointly by all EU institutions rather than by comitology.
- 6. Auctioning principle has to be eased:** Full auctioning by 2020 and an increasing auctioning share from 2013 onwards in combination with a linear decrease of the quantity of certificates is the heaviest burden for ETS. A fixed rate of a minimum free allocation over the whole period 2013-2020 should be considered.

7. **Benchmarking:** The best player in his league should bear the lowest reduction effort, which means as many certificates as possible with the highest possible free share. Where benchmarking is not feasible other criteria have to be taken into account.
8. **Base year for free certificates:** The year 2005 as a reference year for the overall 21% target for ETS is widely accepted. The base year for the allocations for free certificates should be as close as possible to the beginning of the period, possibly 2010.
9. **Safety valve for high prices:** There should be a safety net in case the carbon price is getting too high. For example, if the price exceeds 50 euro companies should be able to could get rid of the obligation to buy certificates by paying a penalty of 50 euro.

Further issues

10. **Solidarity redistribution** is the right idea in the wrong place. This should be done where it belongs, i.e. by the cohesion funds of the EU.
11. **Electricity generators:** Apart from inconsistencies in the text it has to be made clear that industrial electricity generators producing energy for their own installations should receive free certificates. This would also be consistent with the option for the heat share of CHP to receive free certificates.
12. **SME release:** The current threshold for Opt-out of SMEs of 10,000 tons should be expanded of up to 50,000 which could reduce administrative burden for a high number of installations (up to 75%) representing a very low percentage of emissions (up to 6%). The 25 MW threshold is not necessary and therefore to be eliminated as well as the provision to an "equivalent contribution to emission reductions".
13. **CCS installations** should be encouraged and promoted by receiving free certificates instead of being obliged to full auctioning.
14. **CDM:** A moderate carbon price must be in the interest of a sustainable EU economy. Reductions shall be made preferably at the lowest possible costs. Therefore flexible instruments such as JI and CDM must be implemented and acknowledged on a much larger scale than in the ETS proposal as it stands.
15. **The concept of "new entrants"** should be extended to existing installations expanding their production volume. Otherwise formal new permitting procedures are to be expected.