

**PRESS RELEASE**

**EU ETS “COMPENSATION” PROPOSAL WILL FAIL TO PREVENT INDUSTRY CLOSURES AND WORSEN THE CURRENT CRISIS**

The draft Guidelines to compensate CO2 costs in electricity prices due to the EU emission trading scheme are now being discussed in the interservice process in the EU Commission. The current draft is not in line with the ETS Directive and fails in its objective of mitigating carbon leakage for industries such as aluminium, copper and zinc, thereby risking further industry closures in Europe.

For this to be achieved, industry must be allowed to receive compensation for the production within its existing capacity and not only for historical production for most of the years 2005 to 2011, which includes the years of the challenging financial crises. The best method would be to base the aid on the actual production of an installation, which is easily managed and the only way of avoiding under- or overcompensation. It is surprising that the Commission is ignoring the clear request from **all** the member states to do this. If the Guidelines do not allow for appropriate adaptations to possible production increases but maintain the rigid reference to historical production, the entire proposal would be undermined, particularly for companies that are operating at reduced production level and in most need of aid.

The so-called ‘fall-back’ benchmark levels for highly energy-efficient sectors without benchmark possibilities, such as copper, should not arbitrarily be set at 70 per cent, but rather at levels comparable to sectors with benchmarks. If this proposal is upheld, the companies exposed will be compensated for a maximum of half of the CO2 costs they have paid.

The EU Emissions Trading Directive has already resulted in a significant rise in European electricity prices. Competitive power prices are critical for the survival of Europe’s non-ferrous metals industry, as it is prevented from passing on to its customers the price increases resulting from the European CO2 cost, product prices being globally set at the London Metal Exchange (LME).

Closures and curtailments recently announced in the UK, Netherlands, Italy and Spain show the importance of competitively priced power for the future of the non-ferrous industry in Europe. As this industry is not exposed to such indirect emission costs elsewhere in the world, considerably reduced or absent compensation, even at low carbon prices, will lead to further job and plant closures in the EU even at low carbon prices.

*“It is surprising that the EU Commission is proposing a scheme that will only serve to speed up the de-industrialization of Europe, thereby increasing the EU’s dependency on imports of strategic metals and adding to higher unemployment. Once closed, these smelters will never come back to Europe”* says Robert Jeekel, Director Energy & Climate Change Policy at Eurometaux.

By contrast, if properly designed, the system could help the non-ferrous metals industry in Europe to continue its strategic role of providing innovative materials for climate protection and for downstream European industry.

For more details, see the attached Eurometaux position paper with Annex on this issue. [www.eurometaux.eu](http://www.eurometaux.eu)

*Eurometaux is the Brussels-based EU association of the non-ferrous metals industry, representing the main EU and international metals producers, EU and international metal commodity groups and national metal federations. The industry covers base metals (Al, Cu, Pb, Ni, Zn, Sn), precious metals (Au, Ag, PGM’s) and technical metals (e.g. Co, W, Cr, Mo, Mn), manufactured from both virgin and recycled raw materials.*

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## **GUIDELINES ON CERTAIN STATE AID MEASURES IN THE CONTEXT OF THE GREENHOUSE GAS EMISSION ALLOWANCE TRADING SCHEME**

Response to the DG Competition Consultation as published on their website on 21 December 2011

*We welcome the draft Guidelines for the recognition of the need for our industry to receive compensation for the indirect CO<sub>2</sub> costs in power prices to avoid plant closures and carbon leakage. The current EC Consultation proposal will, however, not prevent carbon leakage. The draft Guidelines contain multiple levels of provisions which will result in severe under-compensation and lead to continued risk of plant closures in the non-ferrous metals sector.*

***This is not in line with the mandate given to the Commission, which was asked to develop rules to avoid carbon leakage as a condition for the agreed Amended ETS Directive.***

### **A. Historical level of production as a basis for support hurts the installations that need it most**

Many of our installations have maintained production at a low level in the last few years in the expectation that the Guidelines would address the competitive disadvantage faced by electro-intensive European producers under the EU ETS since 2005. Using the proposed period 2005 - 2011 as baseline output will lead to severe under-compensation for these installations<sup>1</sup>.

Compensation based on actual production would provide the correct incentive for optimized production and for energy-efficient investments. If this is not possible, a more flexible ex ante basis with a possible ex post correction should be used. A third option that would address the most critical issues, but not provide incentives to increase output and energy efficiency, would be to take out the crisis years from the calculation and have the same base years as for direct emissions: 2005 - 2008.

The single threshold of a 40 % production increase as a criterion for increased support is both arbitrary<sup>2</sup> and unnecessary. Any significant production increase should be taken into account. Furthermore, a new entrant provision has to be included. Incentives for capacity creep, de-bottlenecking, change of technology or investments in completely new facilities are critical for the long-term survival of the industry.

### **B. Aid intensity should be 100 %, based on benchmarks**

To be effective in preventing carbon leakage, compensation should be 100 % up to 2020 and not be reduced over time. The efficiency benchmarks provide for the appropriate incentives for optimized production and for energy efficient investments. Limiting the level of aid would weaken these incentives in the longer term. The only way to reduce electricity consumption and emissions further is to invest in new, more efficient technology. Reducing the level of aid would reduce the likelihood of investment in new technology.

The argument that limiting the aid-intensity would give an incentive for a transition from “grey” to “green” electricity is based on a misunderstanding. Due to the structure of the electricity market, power consumers are not able to influence the electricity mix. Hence, the argument that, by receiving less aid, energy-intensive industries would purchase more expensive “green” electricity directly from a producer, is based on a false premise.

Carbon leakage is in itself a result of weaknesses inherent in the design of the ETS system, creating distortions in the incentive structure. To classify the rectification of this situation as a distortion of competition is therefore inconsistent. Furthermore, by approving the compensation mechanism in the revised ETS directive, EU has accepted that national differences may occur.

### **C. The CO<sub>2</sub> emission factor & regions**

The pass-through factor of CO<sub>2</sub> emission costs into power prices must be based on the actual price-setting mechanism for the affected industry in each area, whether it is market-based or through bilateral contracts, tariffs or self-generation. The principles established for this purpose in the proposal could work if realistic parameters were to be used:

<sup>1</sup> Detailed data for primary aluminium on plant capacity % utilisation are in the Annex

<sup>2</sup> For example: if a plant increase its production by 39% the compensation level will remain, while an increase of 40%, means that the compensation will increase by 40%. If, however, the plant produces 70% more, the increase will still be 40%. This calculation methodology will provide for disincentives in production-optimisations.

- In setting the list of regions it is important to include the real price-setting regions as officially stated in DG ENER documents and intended by the EC policy. The stated 1% threshold for price convergence is arbitrary and too low. As the best example, reference can be made to all NordPool countries, which have a power price convergence and are one CO<sub>2</sub> factor region. Consequently, Denmark needs to be included in the NordPool region, also in this proposal.
- The emissions factor should be based on the most recent data available, i.e. the calendar year 2011.
- Since the guidelines will include a cap of compensation, but not prevent Member States from lowering that compensation, there is no need to further qualify the provisions by identifying regulated electricity tariffs for special treatment.

#### **D. Priority on preventing closures of non-ferrous metal smelters**

There should be no trade-off between the maximum amount of allowable aid and the numbers of eligible sectors. The main reason for financial compensation in the ETS Directive is to avoid carbon leakage, in order to save non-ferrous metals smelters from imminent closure. Hence, the aid has to reflect the actual indirect emission cost for those installations which should receive full compensation based on benchmarks. *The objective criterion for this treatment is the clear-cut inability to pass through EU ETS costs due to their unique global pricing system at London Metal Exchange.*

#### **E. Fall-back for energy efficiency benchmarks**

In the fall-back situation, when a benchmark is not applicable, the electricity consumption benchmark factor is 0.7. With this 30 % additional reduction, the aid level for these sectors would be much too low, the past efforts of the industry are not recognized, and the figure is far above the average reduction potential for the industry.

To achieve the purpose of a benchmark, this factor could reflect the relation between average energy consumption and the benchmark value for the sectors that do have benchmarks.

We would also like to draw your attention to the fact that the factor of 0.97 is used as a fall-back benchmark for process emissions related to free allocation of allowances in the Decision based on the ETS Directive.

#### **F. No carbon price floor**

We believe that a proposal may be put forward advocating that there will only be compensation if the CO<sub>2</sub> price is above a certain level. It is evident from the current closures in our industry that carbon leakage takes place at any carbon price level. Hence, any attempt to set a price floor for compensation or any other criteria that would lead to under-compensation would be counter-productive and in conflict with the objective of solving carbon leakage in the ETS Directive.

**G. In situations in which Governments cannot find the budget** for the aid, alternative solutions should be encouraged to avoid closures and carbon leakage.

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