

EUROALLIAGES' CONTRIBUTION TO THE CONSULTATION ON REGISTRY OPTIONS TO FACILITATE THE LINKING OF THE AUSTRALIAN AND EUROPEAN UNION EMISSIONS TRADING SYSTEMS

EUROALLIAGES welcomes the efforts recently deployed to link the EU ETS with the forthcoming Australian ETS. Climate change is a global concern which requires coordinated global action. Furthermore, the linking is a first step on the way to global carbon pricing. In this regard, it provides a unique opportunity to harmonize climate change policies and place global competitors on an equal footing.

Global level playing field can only be achieved through linkages based on symmetry and reciprocity in terms of privileges and burdens on the industry.

While the short deadline for the present consultation does not allow for a thorough legal assessment of the linkage, a preliminary analysis shows that **the linking scheme does not address the competitiveness issue on a fair basis** since differentiated targets and rules cohabit. In order to avoid increasing carbon cost-related competition distortions (reinforced by the linkage), the ETS rules for sectors competing on global markets (carbon leakage sectors) need to be aligned.

MAJOR DIFFERENCES BETWEEN THE SCHEMES

In this regard, EUROALLIAGES would like to point out the **crucial differences between the European and the Australian emission trading schemes**:

- While in the EU, allocation is based on historical production levels and therefore accounts as emission reductions the decrease of production, the Australian scheme builds on **allocation on actual production level (ex-post) with annual true-up adjustments**.
- The Australian benchmarks are based on the weighted average emissions of the sector, **including indirect emissions** (emissions due to power consumption). On the contrary, free allocation in the EU - which concerns only direct CO₂ emissions - is based on stringent benchmarks set at the average best 10% of the industry. With regard to indirect CO₂ costs, the EU rules foresee a compensation mechanism limited at 80% of the electricity benchmarks applied to the historical electricity consumption (the amount is capped at 64% for sectors with no electricity benchmarks). As this compensation mechanism is not harmonised and only sets an upper limit to what Member States are allowed to give, it is unlikely to provide a sufficient protection against carbon leakage.
- The Australian system has a **rolling cap** (adjusted yearly 5 years in advance) whereas the EU CO₂ emissions cap is fixed at a lower level. In particular, it is worth pointing out that Australia is committed to a very modest CO₂ reduction effort and is unlikely to reduce its dependency on coal. On the other hand, the EU agreed on ambitious CO₂ reduction and renewable targets. From that perspective, the difference in mitigation efforts is compelling.
- Australian **companies exposed to competition distortions due to the climate regulation** will receive financial support to help them in the transition.

In summary, the rules of the Australian scheme support growth whereas the EU scheme includes barriers for growth and investment.



THE IMPACT OF THE INTERIM ARRANGEMENT

For the period from 2015 to 2018, the EU and Australia have agreed on an interim arrangement allowing only Australian operators to purchase EU emission allowances. This one-way system means that the advantages of linking and of a broader market will be for a significant period of time solely fruitful for Australian industry, whereas EU industry will be blocked on the own isolated market while having to face additional demand with the logical consequence of price increases.

Adding to the existing differences in allocation methodology, cap setting principles and marginal mitigation costs, the first visible consequence of the linking between the EU and the Australian ETS is likely to be an increase in EU allowances demand, reducing the number of allowances available for EU operators, indirectly decreasing the EU cap and driving the EU carbon price up, with detrimental consequences on EU businesses, all this to the benefit of a coal-reliant economy.

EUROALLIAGES insists that equal treatment and equal opportunities be ensured for both sides of the linkage.

CONCLUSION

EUROALLIAGES believes that the EU should use the opportunity of this first linkage of EU ETS with a third country's emissions trading scheme to set up the conditions for such linkages. **A thorough impact assessment needs to be conducted after properly consulting the relevant stakeholders** (the time assigned to the current consultation is too short). **The conditions for the linkages must be established by seeking convergence of the rules the schemes rely upon.**

The Australian ETS seems to have taken stock of the conceptual weaknesses of the EU ETS as it shows positive features meant to address them. **These positive features should be taken into consideration in view of the reform of the EU ETS to come.** In particular, EuroAlliages believes that basing allocation on actual production levels and granting allowances to energy-intensive installations in order to compensate the impact of CO₂ costs passed on power prices represent the right approach. If replicated in the EU, it would lead to a consistent and efficient compensation scheme, facilitating the harmonisation with the Australian ETS.

In any case, **linkages with third countries putting in place emission trading schemes should not affect the EU measures aiming at preventing carbon leakage** as long as EU institutions have not ensured and demonstrated that carbon leakage has been effectively tackled.

PRESENTATION OF EUROALLIAGES

EUROALLIAGES represents about 95% of the sector in the EEA. Its members provide major industries with essential base materials: they supply the iron and steel industries, while representing the most efficient and economical way of introducing alloying elements into iron and steel melts in order to produce the required steel grades. It also provides to the electronic, chemical and solar industries with essential base materials for their products. All processes are energy-intensive.

For further information, please contact:
Iva GANEV
European Energy Policy Manager
EUROALLIAGES
Tel.: +32 2 775 63 08
E-mail: ganev@euroalliances.be