INTERNATIONAL FEDERATION
OF INDUSTRIAL ENERGY CONSUMERS

IFIEC Europe

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PRESS RELEASE

EU ETS review now shown as essential

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.

IFIEC Europe welcomes the initial Report of the High Level Group on Competitiveness, Energy and the Environment, particularly the emphasis given to the severe problems with the EU Emissions Trading Scheme (EU ETS). These were endemic in the design and IFIEC, with others, has pointed to the problems these have created since before inception. They now present a serious threat to the competitiveness of EU energy intensive industry. IFIEC Europe stresses that it is now urgent that the Report's conclusions are developed and realised, in order to align the EU's obligations under the Kyoto Protocol with its Lisbon strategy, whilst making the system more acceptable internationally.

IFIEC Europe believes the following need to be taken into account to improve EU ETS:

- The cap and trade approach building on historic emissions has led to large and commercially unjustifiable losses for all electricity consumers in the EU through its outrageous effect on the electricity price. This cost burden, especially for electricity intensive industrial consumers, should not exceed actual costs and be combined with measures to realise supply side efficiency improvement measures.

- Ex-post adjustment should be considered, as business is constantly adjusting against forecast as external factors affect the ability to trade as predicted. To be a true market tool, EU ETS must allow similar adjustments to be included;

- The “long” position in allowances many companies are shown as holding in national reports need balancing against future economic activity before conclusions are drawn. The actual level of 2005/2006 economic performance needs to be compared with forecasts when allocations were considered. If the “long” position has arisen from lower than expected economic performance, these allowances are not “surplus” and will be needed when economic conditions improve. However, ex-post adjustment would also help to improve the handling of changing economic activity. EU ETS should encourage efficiency development and assist efficient economic activity rather than adding constraint and cost;

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Head Office: 200 Avenue Louise Box 132 B- 1050 Brussels
Tel: 32 2 542 06 87 Fax: 32 2 542 06 92
www.ifieceurope.org – E-mail : ifieceurope@ifieceurope.org

- The HLG correctly identifies the constrained market in allowances. This highlights the different motives between those holding allowances as part of their business development and “market traders”. Only the largest EU companies covered by EU ETS should be expected to set up trading arms and operate in the same manner as pure “market traders”. Other companies should be expected to hold any surplus allowances against future growth as a normal business reaction to retaining competitiveness. If allowances are seen as restricted, as in a cap and trade system, then those companies will not trade. A “short” market may be an inevitable result of EU ETS, adding to the malfunctioning of EU ETS in its current form.

- The contribution made by small installations is minimal in terms of carbon emissions, but the costs are considerable. IFIEC supports the idea of excluding these installations. This should not damage market liquidity, as these are not installations that will actively trade allowances.

- The Recommendation of the European Parliament to include Aviation in EU ETS can only aggravate the current serious constraints of the system. The existing EU ETS must first be resolved before including Aviation, as the cost of the carbon component is not comparable between this sector and those already involved in EU ETS, meaning serious distortions will be introduced.

- IFIEC Europe welcomes the recognition of the need for truly liberalised gas and electricity markets. Present cap & trade allocation rules, however, build a significant obstacle for a liberalised, free undistorted market. This allocation methodology leads to power producers to charge allowance values to customers, regardless of their actual emissions and true cost of allowances. Winners of market share with existing power plants must buy allowances, which works like a penalty to be paid to the losers of market share. Furthermore, since allowances to new entrants are not linked to actual future production, but are determined on an ex-ante decision of annual operating hours by the Member State, this works as determination of allowed operation and profit capability of new entrants, which has the effect of a plan economy. IFIEC therefore calls on the EU Commission to abandon the fundamental problem of the absence of a link of actual production with the allocation of allowances, in order to abolish this important obstacle to the process of liberalisation in the electricity market.

IFIEC Europe is ready to continue taking part in evolving methods to improve the operation of EU ETS and to make it internationally acceptable for wider adoption under United Nations Conventions. EU ETS cannot remain an isolated European regime without prejudicing further the ability of EU companies to compete in global markets. The necessary changes must therefore be implemented urgently for the second trading period.

Contact

Annette Loske, Climate WP, tel +49 201 810 84 22, mobile +49 172 234 07 30, email: a.loske@vik.de

David Gillett, Director of Coordination, tel +44 1249 816792, mobile +44 7989 701480, email: david.gillett@talktalk.net