IFIEC Europe's response to

EU Inception Impact Assessment: National Emissions Reduction Targets (Effort Sharing Regulation) – review based on 2030 climate target plan

25.11.2020

IFIEC welcomes the opportunity to participate in the consultation on the review of the National Emissions Reduction Targets by Member States, the so-called Effort Sharing Regulation (ESR).

This regulation covers all greenhouse gas emissions which are not covered by the EU Emissions Trading System (ETS) or by the Regulation on Land-Use, Land-Use Change and Forestry (LULUCF).
It must be ensured that the **most cost-efficient and internationally sound burden sharing between ETS and non-ETS should be applied** when the target is increased. The planned review of effort sharing regulations should not lead to additional cost increase for the ETS sector, and thus to a decrease in competitiveness of the European industry. This would lead to the departure of production facilities to non-European countries or -in other words- carbon leakage.

IFIEC therefore emphasizes the importance of **continuing to ensure carbon leakage protection** for European industry. In this context, existing measures such as free EU ETS allowances and indirect cost compensation should remain and even reinforce in line with the new climate targets.
One of the options considered by the EU commission is the introduction of emission trading for a significant share of the existing effort sharing sectors and its combination with the existing ETS sector. This would have substantial consequences and risks for the economic competitiveness of the ETS sector.
The building and transport sectors have different characteristics as compared to the ETS sector: low price elasticities, long investment cycles, and in some cases, few alternative technologies. These differences indicate that market-based climate protection instruments such as carbon pricing/emission trading are likely to have a different impact on these sectors than on the ETS sector. This will cause an increase in CO_2 prices, which as a consequence will put additional pressure on the competitiveness of European industries in the ETS sector. As global competitors do not incur these additional costs, the risk of carbon leakage increases. Therefore, **a shared emissions trading system would lead to a disproportional increase of financial burden for the ETS sector**.

Moreover, a significant reduction in CO_2 emissions has already been achieved in the EU ETS sector over an extensive period of time, whereas transport and building sectors fall behind the targets. Again, long investment cycles and low price elasticities have led and will continue to lead to a delay in emission reduction for non-ETS sectors, reinforcing the increase of financial burden for the ETS sector. The consequence will be a significant imbalance in CO_2 costs and avoidance measures and a further distortion of competition. **IFIEC therefore supports a continuation of a separate ETS sector.**

In conclusion, IFIEC re-emphasizes that secure legal and economic framework conditions with effective and adequate carbon leakage protection are crucial for the energy-intensive industry in order to maintain international competitiveness and at the same time enable the transformation towards a climate-neutral economy.

About IFIEC Europe

IFIEC Europe represents 13 national European associations that comprise - on a cross-sectoral level - those industrial sectors for which energy is a significant component of production costs. IFIEC´s membership represents a diverse set of industries including: aluminium, automobile, brewing, cement, chemical, copper, fertilizer, food, glass, industrial gases, metals, paper, pharmaceutical, plastics and steel.

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