

EU-ETS: ENSURE SUFFICIENT FLEXIBILITY FOR FREE ALLOCATION SHARE

Brussels 23 May 2017 – Many stakeholders were calling for a proper impact assessment ahead of the EU ETS Trilogue. Today Ecofys, a Navigant company, published a [study](#), commissioned by CEMBUREAU, which compares and analyses the supply and demand balance in terms of the free allowances available and this for the European Commission, European Parliament and Council proposals. The authors have also assessed the likelihood of the Cross Sectoral Correction Factor (CSCF).

"It's important the trilogue discussions on the reform of EU ETS are based on transparent analyses of all design options on the table" states Maarten Neelis from Ecofys. "Our analysis shows the impact of the various MSR, cancellation and benchmark update options and also makes clear that the proposed changes to the hot metal benchmark to account for the full carbon content of waste gases does have an impact on the CSCF likelihood."

The study shows that the European Parliament proposal to use up to 5% of the auction share for free allocation reduces the probability of the CSCF significantly compared to the other reform proposals. The study also shows that the Parliament amendments have the largest impact on lowering the surplus on the market by end of 2030 whilst the Council General approach cancels the largest amount of allowances from the MSR.

The study also provides calculation details on the inclusion of steel waste gases in its benchmark. According to Ecofys, this would amount to an increase of the steel sector's free allowances by an additional 0.4% of the total allowances, under the assumption of an annual 1% flat reduction of all benchmark values. This, in turn, would increase the risk of triggering the CSCF if not enough flexibility is provided for at the same time.

The study hence confirms that the trilogue negotiators must strive to ensure that enough free allowances are made available to **all** sectors at risk of carbon leakage at the level of the best performer and this without any discrimination.

CEMBUREAU therefore calls on policymakers to adopt an EU-ETS which:

- Applies the concept of a 5% "flexible reserve" to the allowances earmarked for auctioning in favour or the free allocation share. Compromise positions between Parliament and Council may include a recourse to unused allowances from Phase 3 or set aside cancelled MSR allowances to avoid the CSCF;
- Does not discriminate between sectors through the application of a tiered CSCF;
- Calculates benchmarks based on real data and ensures continuous improvement by providing a minimum reduction level. Proposals to recalculate benchmarks for a specific sector should thoroughly be assessed to identify their potential impact and ensure that they do not significantly reduce the total amount of free allowances available to other sectors at risk of carbon leakage. If needed, extra flexibility between auction share and free allocation should be provided for;
- Supply the innovation fund for breakthrough technologies (CCS and CCU) from the auctioning share.

The full study can be downloaded from [here](#).

About CEMBUREAU: The European Cement Association based in Brussels is the representative organisation of the cement industry in Europe. Currently, its Full Members are the national cement industry associations and cement companies of the European Union (except for Malta and Slovakia) plus Norway, Switzerland and Turkey. Croatia and Serbia are Associate Members of CEMBUREAU. A cooperation agreement has been concluded with Vassiliko Cement in Cyprus.

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