RePowerEU cannot come at the expense of carbon leakage protection

With industry already hit by the energy crisis, free allocation is not the right source to finance REPowerEU

Energy Intensive Industries provide direct employment to around 2.6 million people and make products which are the foundations of critical and strategic value chains for the EU economy and society.

In May 2022, the European Commission launched REPowerEU, an ambitious plan including measures on energy savings, diversification of energy supplies, and accelerated roll-out of renewable energy.

While most of the financial resources required for the implementation of REPowerEU were budgeted under the Recovery and Resilience Facility (RRF), the Commission proposed to increase the RRF financial envelope with €20 billion in grants from the sale of EU Emission Trading System allowances currently held in the Market Stability Reserve (MSR).

The file is being negotiated at the European Parliament in the BUDG, ECON, ENVI and ITRE Committees. In this context, amendments have been tabled that would finance part of the RePowerEU actions through free allowances that should have been used to mitigate the carbon leakage risk.

The undersigned sectors would like to raise high concerns against these proposals, which would reduce carbon leakage protection against international competitors that do not share the same level of climate ambition and would increase the likelihood and magnitude of the cross-sectoral correction factor well before 2030.

With gas and electricity prices that are about ten times higher than pre-crisis levels, a great number of industrial plants have either curtailed or closed production and implemented layoff programmes, and unfortunately more are expected in the near future if these conditions continue.

At a time when EU policymakers are urgently looking for measures to lower the energy costs for households and industry, it would be highly improper to expose European industry to additional carbon costs. As long as international partners do not introduce equivalent climate policies, free allocation is an essential instrument to mitigate the risk of carbon leakage in sectors that are highly exposed to international competition.

Therefore, RePowerEU measures should be financed only with allowances from the Market Stability Reserve, which can be used for this purpose without compromising the agreed climate ambition level or undermining the carbon leakage safeguards.