



Mr Günter Verheugen
Vice President of the European Commission
Commissioner for Enterprise and Industry
European Commission
Rue de la Loi 200
1049 Bruxelles

17 January 2008

Dear Commissioner,

The European Round Table of Industrialists (ERT) wishes to raise a number of concerns regarding the directions being taken by the Commission on the forthcoming revision of the directive on EU Emissions Trading as seen from various drafts in circulation.

As an organisation representing approximately fifty of the top EU business leaders, ERT considers the efficient direction of capital within the economy towards low and zero carbon emission investment set against a backdrop of preserving Europe's competitive position to be the central objective of climate change policy.

Therefore, a carbon trading system should be designed in a way that does not take capital out of the industries to which it applies. Any such removal of capital would slow down the necessary investment in more CO₂ efficient technologies and projects to the detriment of the environment in the long term. Environmental objectives are not advanced by arbitrarily destroying shareholder value in existing firms; indeed this can act as a deterrent to necessary investment.

ERT believes there are five areas that should be urgently considered in the revision of the directive on Emissions Trading.

1. Allocation

The revised Directive represents a distinct shift from free allocation with limited use of auctioning, to one based on auctioning with free allocation by exception. It is too early to take such a step forward.

In effect, the design of the allocation process, and any use of auctioning, should consider the ability of the sector in which the company sits to "pass through" costs to the consumer. This means allowances are allocated freely, or auctioned depending on the ability of the sector to recover the marginal allowance cost from the consumer. Full free allocation must take place when the product price is driven by other factors, such as international competition, whereas full auctioning would take place when the product price fully embeds the marginal cost of an allowance.

Today, competitively priced products from emerging economies directly impact most industrial sectors within the EU. These products establish the market price and limit the ability of EU companies to pass on the marginal carbon price to the consumer. This applies to both the direct carbon price we see as a result of own emissions and the indirect carbon price we see in the electricity we purchase to run our facilities.

Whilst auctioning may be a valid tool for some specific sectors in an emissions trading system, we believe it is too early to establish the precise use of auctioning for a given sector for some future compliance period. The exact nature of the competitive landscape in, say, 2015, and the prevalence of carbon pricing throughout the world cannot be determined today.

ERT suggests that the revised directive describe a future process for establishing whether or not the use of auctioning for each sector, based on the design principle outlined above, rather than attempting to prematurely secure its establishment.

Furthermore, in the case of continued free allocation to sectors where "pass through" cannot be established, the Directive needs to consider the prospect of allocation on a pan-European sectoral basis rather than continuing with a national approach which can lead to effective subsidies to specific companies and impact unfairly on competition. This could be supported by industry led initiatives to develop common data and methodologies, with the ultimate goal of potential integration into a global sectoral framework.

Finally, for some industries for which electricity remains a significant cost, the full auctioning for the power industry will have a negative consequence on its global competitiveness. A proper mechanism to lighten the burden should be set up.

2. Ensuring a sustainable competitive EU industry

ERT member companies are acutely aware that open flows of both inward and outward trade and investment are fundamental to the competitive performance of European based companies, and to the European economy as a whole. In this respect, ERT is in favour of the removal of barriers to trade and investment both on a European and global basis, unless there is a truly compelling case otherwise.

A premature shift to auctioning would expose the industries vulnerable to import to loss of market shares. Should auctioning be implemented, a necessary but unwelcome consequence could be that a simultaneous and similar mechanism applicable to imports will be designed to ensure a level playing field between EU-based and non EU-based manufacturers encouraging industry to reflect the CO₂ costs in their prices.

ERT reiterates its concern that importers would be excluded from the scope of the Directive as it only refers to the publication of an analytical report in 2011 to assess companies which are most exposed to "carbon leakage". This creates further uncertainty and will certainly not entice relevant industry to invest in the meantime.

3. Auction Revenue

"Pass through" pertains to the government as well, in that they should not use the auctioning system to boost revenue. Auction revenue has come indirectly from the consumer and should therefore be returned to them, typically through the tax system. What remains is pure price differentiation between high and low carbon products, rather than overall removal of capital from the market or capital redistribution on some subjective basis. In early years, some auction revenue may provide a source of income to support the emergence of certain new energy technologies, e.g. Carbon Capture and Storage.

4. Measurement and Reporting

ERT believes that any proposals containing six month reporting and verification of emissions undermine the sizeable efforts already taken by the Commission on better regulation. Better regulation is a substantial part of the EU's Partnership for Growth and Jobs strategy which seeks to provide clear understandable and less bureaucratic regulatory environment for business. Adopting a twice yearly reporting and verification system is not congruent with ensuring the competitiveness of European businesses as it represents an unnecessary and costly addition to the ETS. As a result, ERT proposes a yearly reporting system for large facilities.

5. Carbon Capture and Storage

No doubt the Commission is aware that various proposals are under discussion to encourage the development, demonstration and longer term deployment of carbon capture and storage within the EU. This important technology has significant cost hurdles to overcome, and a variety of options may be required to offer the needed support. As such, ERT believes it is premature to specifically exclude free allocation to facilities involved in the carbon capture and storage process.

The EU ETS has the potential to be of unique value for the rest of the world. ERT continues to support ambitious targets, pragmatic implementation and economic effectiveness consistent with sustainable economic growth. ERT is ready to support the very considerable efforts needed to achieve this and is willing to work and invest for its success.

Yours sincerely,



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ERT Energy and Climate Change Working Group
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Martin Broughton
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