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

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VIK 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 planned review of effort sharing regulations does not lead to a disproportional additional cost increase for the ETS sector, and thus to a decrease in competitiveness of the European industry. This would lead to the exodus of production facilities to non-European countries or -in other words- carbon leakage. In this regard, signals of carbon leakage are not only the immediate loss or closure of production capacity but leakage of investment to locations outside the EU because of a more attractive investment case.

VIK therefore emphasizes the importance of continuing to ensure effective carbon leakage protection for European industry. In this context, existing measures such as free EU ETS allowances and indirect cost compensation should remain in place, respecting the results of the 3 year lasting negotiation period from 2015-2018 resulting in the emissions trading directive for 2021/30 as a compromise between climate protection ambition on the one hand and minimizing the risk of carbon leakage on the other hand. ETS should remain a core policy instrument to incentivise CO<sub>2</sub> abatement at the lowest practicable cost.

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, which would have substantial consequences and risks for the economic competitiveness of the current ETS sector.

The building and transport sectors have different characteristics as compared to the ETS sector: low price elasticities, long investment cycles, no or limited international competition 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<sub>2</sub> 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 common emissions trading system including the ESR sectors would lead to a disproportional increase of financial burden for the current ETS sector.

Moreover, a significant reduction in CO<sub>2</sub> 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<sub>2</sub> costs and avoidance measures and a further distortion of competition. The non-ETS sector should carry at least an equivalent share of CO<sub>2</sub> reduction expectations to the ETS sector. VIK therefore supports a continuation of a separate ETS sector, with no extension of the ETS current scheme to building and transport sectors.

In conclusion, VIK re-emphasizes that secure legal and economic framework conditions with effective and sufficient 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.

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*Der VIK ist seit über 70 Jahren die Interessenvertretung industrieller und gewerblicher Energienutzer in Deutschland. Er ist ein branchenübergreifender Wirtschaftsverband mit Mitgliedsunternehmen aus den unterschiedlichsten Branchen, wie etwa Aluminium, Chemie, Glas, Papier, Stahl oder Zement. Der VIK berät seine Mitglieder in allen Energie- und energierelevanten Umweltfragen. Im Verband haben sich etwa 80 Prozent des industriellen Stromverbrauchs und rund 90 Prozent der versorgerunabhängigen industriellen Energieeinsatzes und rund 90 Prozent der versorgerunabhängigen Stromerzeugung in Deutschland zusammengeschlossen.*