

EU emissions trading: voestalpine's position on the "Market Stability Reserve"

Following the summit of the European Council last October, an important step has been made with regard to the future development of the emissions trading system (EU ETS). In particular, this involves the introduction of a "market stability reserve" (MSR), a mechanism that regulates available emissions trading certificates and thus ensures a correspondingly high CO₂ price. (Currently, the price is at around EUR 7.50/ton.) As, on January 22nd, the Industry Committee of the European Parliament failed to agree on a MSR policy, on February 24th, the Environment Committee created the basis for the decisive trilateral negotiations between Commission, Council, and Parliament that are supposed to take place in March and April.

The most important items decided upon by the Environment Committee

- Implementation of the **MSR already in 2018**, earlier than originally planned.
- Those 900 million certificates, which were temporarily held back ("backloading"), will be **permanently withdrawn from the market**.
- Furthermore, several million certificates resulting from the closure of production plants will be shifted **into the MSR**.
- The intention is that these measures will result in an **increase of the price of CO₂ certificates**.
- **It is a positive factor** that **this first-time legally binding definition** of the Council's political aims has been made, according to which the competitiveness of the energy-intensive industries in terms of worldwide competition is being protected and thus a production shift to non-EU regions ("carbon leakage") is being prevented. For example, it states explicitly that no direct or indirect costs may accrue to the best plants of an industry as a result of emissions trading.

However, it must be seen as a negative factor that the **imposition and the relieving of the burden are not congruent—neither with regard to content nor to time**. According to this, the market stability reserve will become effective three years earlier (2018) than the reform of the emissions trading system (at the earliest in 2021); this means that the burden imposed by higher CO₂ prices will become effective earlier than any measures for the protection of energy-intensive industries. In addition, these measures are much less precise and extensive thus far than the framework set by the Council would allow and than would be required considering the development of Europe as a competitive location for industry.

What does this mean for voestalpine?

For voestalpine, this asymmetry is of particular importance because the company anticipates a shortage of 28 million certificates just for the period from 2013 to 2020. A comparison with a certificate prognosis based on the decisions by the Environment Committee clearly reveals the **additional burden for the voestalpine Group already becoming effective in the current trading period**.

Therefore, voestalpine advocates that the Council should agree on additional provisions in its policy that is to be developed regarding the market stability reserve that will counter this imbalance. The key issues are the **adequate allocation of free allowances** for plants at risk of carbon leakage, that is, **based on real production, updated and realistic benchmarks without distortion from correction factors** as well as a harmonized approach that will provide protection against undue indirect CO₂ costs. This, however, requires that MSR and ETS reform become effective **concurrently** and that the systems be coordinated with one another as to content. At the present time, this is not the case.

Fundamental policy on the market stability reserve

The concerns of the manufacturing industries and energy production with regard to emissions trading are not necessarily in opposition to one another; on the contrary, it is feasible that they should be regarded in an integrated manner in order for the planned transformation process to be successful. voestalpine and VERBUND AG have made this clear in a joint position paper, which was also sent to the Austrian representatives in the Environment Committee prior to the deliberations.

On one hand, complete protection of the manufacturing industries against indirect and direct costs resulting from climate policies must be guaranteed in order not to impair their competitiveness any further. On the other hand, a CO₂ price that is as stable as possible is important for the energy sector to create incentives to invest in additionally needed (renewable) energy capacity.

Thus far, not only could neither one of these things be achieved even approximately by way of the existing regulations of the emissions trading system, but on the contrary, the system has resulted in a blatantly skewed situation. For example, despite the ETS, today, coal power plants are more competitive than lower emission natural gas power plants, and as far as manufacturing industries are concerned, some companies are generating windfall profits from their significant surplus of allocated certificates as a result of declining production due to the economic crisis, while plants with increasing production, such as those of voestalpine, have significant cost disadvantages, although they are CO₂ benchmarks in Europe.

Therefore, the surplus in certificates must be reduced, but at the same time, the allocation of certificates to the manufacturing industries must be completely overhauled. voestalpine will therefore continue to advocate at the European level for the implementation of the necessary measures—when possible jointly with the energy industry.