

Dear policy makers involved in the EU ETS reform,

we would like to encourage you to include in the EU ETS Directive a focused review provision for the year 2020 or before to ensure the EU ETS price is reflected in the price of carbon intensive materials.

### **EU ETS price needs to be reflected in the price of carbon intensive materials**

Carbon intensive materials such as steel, cement and aluminum give rise to 16% of European CO<sub>2</sub> emissions. Improved production efficiency with current technologies only allows for small emissions reductions. Hence policy needs to support the use of a broader portfolio of mitigation options, including new climate friendly production methods, use of innovative and carbon friendly materials, efficient material use, and recycling. This requires that the EU ETS price is reflected in the price of carbon intensive materials to create the appropriate incentives.

Three strategies can be pursued to include the EU ETS price in carbon intensive materials without creating significant carbon leakage:

- *International convergence of carbon prices and parallel phasing out of free allocation.* The Paris agreement supports convergence of global effort and this might eventually result in longer-term convergence of carbon prices. However, this is unlikely to provide the required price signal to support a European low-carbon transition on the necessary timeframe.
- *Border adjustment for carbon price differences to avoid need for free allocation.* While concerns about political repercussions remain prevalent, they have been discussed as a measure of last resort for a long-time.
- *Complementing upstream EU ETS with a consumption charge* on the consumption of carbon intensive commodities like steel or clinker (cement). The approach follows well-established consumption charges on fuel use (excise duties) that are a common and internationally accepted element of energy policy (<http://climatestrategies.org/publication/inclusion-of-consumption-of-carbon-intensive-materials-in-emissions-trading-an-option-for-carbon-pricing-post-2020/>)

Since success of the first strategy hinges upon international developments, it seems unwise to lock the EU into this strategy until 2030 without options for a timely ETS adjustment beyond the current review of the Directive.

### **A focused EU ETS review provision required for 2020 or before**

As a commitment of European governments to the EU ETS price in carbon intensive materials, a focused review provision for the year 2020 or before is required. This may comprise three elements:

1. A statement of principle on the need for a carbon price reflected in the cost of carbon intensive materials without creating significant carbon leakage.
2. The requirement of additional measures creating financial incentives for climate friendly material choices and investments while not giving rise to significant carbon leakage, if national regulations in place in Europe and other major emitting countries imply a largely muted carbon price for carbon intensive materials.
3. Given the urgency of the challenge, the European Commission should be requested to analyze options for further developing EU ETS in this regard prior to 2020 to allow for implementation no later than 2020.

**A strong EU ETS is an essential part of EU energy and climate policy**

A strong EU ETS is required to translate the commitment under the 2015 Paris Agreement of carbon neutrality by mid-century into a clear emission pathway coordinating public and private innovation and investment choices. For the industrial sector this requires that the EU ETS price is also reflected in carbon intensive materials. Then it can turn climate friendly choices into economic success.

**John Barrett**

Professor of Energy and Climate Policy  
University of Leeds

**Michel Colombier**

Scientific Director  
IDDRI

**Heleen de Coninck**

Associate Professor in Innovation Studies  
Radboud University

**Simon Dietz**

Professor of Environmental Policy  
London School of Economics

**Jean-Michel Glachant**

Professor, Florence School of Regulation,  
European University Institute, Florence

**Michael Grubb**

Professor of International Energy and Climate  
Change Policy  
Imperial College London

**Edeltraud Günther**

Professor of Business Management  
TU Dresden

**Thomas Hale**

Associate Professor  
Blavatnik School of Government  
St. Antony's College Oxford University

**Cameron Hepburn**

Professor of Environmental Economics  
University of Oxford

**Christian von Hirschhausen**

Professor of Economic & Infrastructure Policy  
Berlin University of Technology

**Roland Ismer**

Professor of Law  
University of Erlangen-Nürnberg

**Peter Kaderjak**

Director, REKK  
Corvinus University Budapest

**Claudia Kemfert**

Professor of Energy Economics & Sustainability  
Hertie School of Governance and DIW Berlin

**Uwe Leprich**

Professor,  
University of Applied Sciences, Saarbrücken

**Pedro Linares**

Professor of Industrial Engineering  
Universidad Pontificia Comillas

**Ralf Martin**

Assistant Professor of Economics  
Imperial College Business School

**Catherine Mitchell**

Professor of Energy Policy  
Exeter University

**Karsten Neuhoff**

Professor of Energy and Climate Policy  
Berlin University of Technology and DIW Berlin

**David Newbery**

Professor of Economics  
University of Cambridge

**Stefan Pauliuk**

Assistant Professor for Industrial Ecology  
University of Freiburg

Open Letter on making EU ETS price effective for climate friendly materials

**Jean-Pierre Ponsard**

Professor of Economics  
École Polytechnique

**Philippe Quirion**

Senior Researcher  
CIRED

**Oliver Sartor**

Research Fellow  
IDDRI

**Joachim Schleich**

Professor, Management & Technology  
Grenoble Ecole de Management

**Stefan P. Schleicher**

Professor, Wegener Center Climate and Global  
Change, University of Graz

**Bernd Siebenhuener**

Professor of Ecological Economics  
Carl von Ossietzky University of Oldenburg

**Thomas Spencer**

Director of Climate and Energy Program  
IDDRI

**Thomas Sterner**

Professor of Environmental Economics  
University of Gothenburg

**Lars Zetterberg**

Director Business Development and Marketing  
IVL Swedish Environmental Research Institute