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EU ETS manipulates State Aid Rules: UK uses public money to subsidise polluters

Brussels, 3 June 2013 – Today, energy intensive industries in the United Kingdom (UK) may apply for subsidies of up to Euro 295 million to offset any increase in energy prices as a result of the European Union Emissions Trading Scheme (EU ETS), (1) despite many of these industries having already made windfall profits selling excess carbon permits, and despite the low carbon price.

The European NGO FERN has been covering the EU ETS for over a decade and their new report 'Subsidising Climate Change' puts these subsidies into a context of low carbon prices and historic windfall profits for industry from the EU ETS. (2) The report explains the origin of these subsidies and shows how governments and industry are using the EU ETS to manipulate State Aid rules, taking public funds to subsidise a pay-out to polluters.

The subsidies the UK is making available today come as a result of a 2012 change of EU rules on State Aid. These were negotiated because carbon permits for energy producers became fully auctionable from January 2013. The aim was to mitigate any heavy cost increases for industry that might lead them to become uncompetitive. (3) The European Commission has already approved the granting of subsidies to one UK scheme - in the mining, quarrying and manufacturing sector. It is the only scheme to receive such support so far. (4)

Many Member States have said that using State Aid to offset energy prices when carbon prices are rock bottom is 'wasteful' since there is no evidence of carbon leakage in the current carbon price.

"The use of State Aid may lead to internal market distortions. Furthermore, the calculations to evaluate eligibility for State Aid contributions for indirect EU ETS costs are based on a carbon price that is over 1000% higher than the real price of carbon" says Saskia Ozinga, campaigns coordinator at FERN. The spot price on 30th May was EUR 3.75.

Hannah Mowat, campaigner at FERN explained: *"The aim of the EU ETS is to send a price signal to industry to pull out of polluting energy sources and become more efficient. These new guidelines undermine and even counteract that. In this context, EU plans to reform the market cannot be taken seriously: it's time to replace the EU ETS with strong direct regulation to shift the EU onto sustainable renewable energy."* FERN is one of 140 organisations that are calling the EU to replace the ETS with ambitious climate action that cuts fossil fuel use at source. (5)

(1) See press release issued by the Department for Business, Innovation and Skills and the Department of Climate Change here: https://www.gov.uk/government/news/compensation-scheme-for-energy-intensive-businesses

(2) To see this report, see (www.fern.org/subsidisingclimatechange) Link goes live on Monday 9am

(3) In the end nineteen sectors and subsectors were considered eligible: aluminium production; mining of chemical and fertiliser minerals; manufacture of other inorganic chemicals; lead, zinc and tin production; manufacture of leather cloths; manufacture of basic iron and steel and of ferro-alloys, including seamless steel

pipes; manufacture of paper and paperboard; manufacture of fertilisers and nitrogen compounds; copper production; manufacture of other organic basic chemicals; spinning of cotton-type fibres; manufacture of man-made fibres; mining of iron ores; manufacture of plastics in primary forms sector; and mechanical pulp

(4) http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_35543

(5) www.scrap-the-euets.makenoise.org