



Mr Clyde Kull

Deputy Permanent Delegate
Permanent Representation of Estonia to the EU
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BELGIUM

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Dear Ambassador,

The recent preliminary agreement reached in Trilogue on the temporary doubling of the Market Stability Reserve (MSR) is an important step to move the EU ETS closer to a meaningful carbon price as repeatedly called for by BusinessEurope. However, it is equally important now to see rapid and substantial progress on key provisions to safeguard industrial competitiveness and to prevent investment leakage from Europe. Therefore, the EU business community has high expectations on Trilogue negotiators to:

- **Minimise the risk of a cross-sectoral correction factor (CSCF).** Whereas the trading phase will last 10 years, industrial investments last for up to 30 years. Free allocation up to the level of the benchmark is the main mechanism to safeguard against undue costs and incentivise companies to be amongst the “best in class”. If the CSCF is triggered, this stable principle falls away, and Europe will never bring about the necessary industrial investments in low-carbon technologies. All recent independent studies agree that the Commission and Council proposals will trigger a CSCF in phase 4. According to [FTI Consulting](#), the CSCF can cost industrial sectors up to EUR 21 billion over Phase IV. Therefore, we need to make sure that the funds under the EU ETS are funded with auctioned instead of free allowances. Furthermore, there must be a conditional shift from auctioned to free allowances of up to 5% in case the CSCF is still triggered.
- **Not introduce thresholds on the cross-sectoral correction factor (CSCF).** BusinessEurope is concerned about reports that a “binary CSCF” is again being proposed. Such a binary CSCF creates distortions as it would exempt certain sectors under Phase IV, which means that the other sectors would be hit much harder. This will destroy Europe’s supply chain value. The CSCF should be prevented as much as possible, but if it is triggered it should be done so in a non-discriminatory manner.



- **Strengthen indirect cost compensation and prevent degression.** Member States should strive for a harmonised EU approach on indirect cost compensation. Furthermore, as state aid is already degressive by nature, Trilogue negotiators should prevent a further degression of indirect cost compensation as proposed by the Parliament.

We count on you to address the issue of carbon and investment leakage at your next Trilogue meeting. On these and other issues, BusinessEurope will keep engaging in a dialogue with EU policy-makers.

Yours sincerely,

Markus J. Beyrer