



To the Deputy Permanent Representatives of
the Member States to the European Union

4 October 2017

Dear Ambassador,

Further to our letter from last week on the reform of the European Emissions Trading System (EU ETS), BusinessEurope, with all its national federations, are **seriously worried** about the proposed new mandate by the Estonian Presidency dated Friday 29 September. It does not strike the right balance between ambition and the necessary protection against carbon and investment leakage. In particular:

- On the one hand, it is highly insufficient on protection as it only proposes a 2.5% conditional shift from auctioned to free allowances if the cross-sectoral correction factor (CSCF) is triggered, where a 5% conditional shift is crucial. Furthermore, only 100 out of the 400 million allowances for the Innovation Fund come from auctioned allowances under the Presidency proposal.
- On the other hand, it proposes a strengthened version of the Council mechanism for invalidating allowances in the Market Stability Reserve (MSR) by bringing forward the start of the mechanism by one year.

It is inconceivable why the Council would not accept a shift of a couple of hundred million extra auctioned allowances to get to the 5% shift and to an Innovation Fund fully funded with auctioned allowances, while it at the same time would agree on an MSR mechanism that risks making invalid up to 3 billion auctioned allowances.

If there is no 5% conditional shift and if the different funds are not solely funded with auctioned allowances, then it will be impossible for the European business community to accept the higher ambition coming from the MSR mechanism.

We urge you to give carbon and investment leakage (both direct and indirect) the real attention it deserves in your final deliberations at the next Coreper meeting. EU industry is committed to invest in low-carbon technologies and to create jobs in Europe, but will only be able to do so with the right framework conditions.

Yours sincerely,

Markus J. Beyrer