HELLENIC REPUBLIC
THE PRIME MINISTER

Athens, 30 November 2022

Dear President von der Leyen,
Dear Prime Minister Fiala,

As you know the ETS Directive is in the trilogue stage of negotiations with the European Parliament, and one of the more sensitive and important outstanding issues remains the lack of a solution for exports following the accelerated reduction of free ETS allowances upon implementation of the CBAM regulation.

When the Council's General Approach was adopted in June, Greece and other Member States argued that termination of the free allowances for our exports, especially in energy intensive industrial sectors and sectors with high built-in process emissions, would have catastrophic effects and accelerate both carbon leakage and the further deindustrialization of the EU.

In recent months, the dangers of that policy have become clearer. First, because of the energy war being waged against the EU by Russia, European manufacturers are exposed to significantly higher natural gas and electricity prices than their competitors in North America and Asia. This puts Europe at a structural disadvantage even before carbon costs are taken into account.

H.E. Ms Ursula von der Leyen
President of the European Commission

H.E. Mr. Petr Fiala
Prime Minister of the Czech Republic

Cc: Heads of State and Government of the Member States of the European Union

Second, the Inflation Reduction Act will offer U.S. industry immense subsidies in the energy and automotive sectors, and because of its domestic content provisions, it will likely trigger reshoring across the supply chain. European manufacturers exporting to the United States will thus be exposed to a triple disadvantage: subsidies offered only to manufacturers in the United States, higher energy prices in Europe, and higher carbon costs. After years of seeing our industries undercut by Chinese industrial practices, we now risk a new wave of European de-industrialization.

Third, a core tenet of removing free ETS allowances – that we want to accelerate the energy transition – is no longer jeopardized through free allowances for exports. European industry is confronted with much higher energy costs, and the incentive to shift to low-carbon energy sources is crystal clear. Every manufacturer understands the competitive need to shift to low-carbon energy, even before carbon costs are taken into account. As such, we see little risk that this allowance would slow down the EU's Green Deal agenda.

In our opinion, it would not be against WTO rules to maintain free allowances for exports, when competing in markets of countries that do not place an ETS burden on industrial products (whether domestic or imported). On the contrary, if we do not retain ETS allowances for exports for the necessary transition period to allow EU industry to decarbonize, we will be creating an uneven playing field for our own industries and undermining the very process of decarbonisation.

The solutions put forward so far do not address the risk of export market loss and carbon leakage. The proposed impact assessment will come into play too late, while the Innovation Fund, however important for the long-term development of green solutions for Europe, will have no short-term impact in stemming the imminent and irreversible loss of exports and plant closures.

At this point, I would like to highlight that EU exports in energy intensive sectors are already declining due to carbon leakage, even with the current policy of free allowances, as non-EU countries are increasing their exports and export capacity, taking advantage of the extra burden that we have imposed on our own exporters.

We need to provide a safety net to our industries, in order to give them a chance to survive and preserve EU's strategic autonomy. This is a position we must defend bilaterally and at the WTO. In particular we are advocating that:

1. The ongoing trilogue negotiation process should focus on finding the best feasible solution for exports and implement it before the starting year of the CBAM (2026), in order to make it an effective mechanism.

2. If the attempt to find better alternatives fails, the existing relevant proposal by the European Parliament on exports should be accepted in the trilogue negotiations as the only viable solution, i.e. launch of CBAM and at the same time maintaining allowances for production destined for export to third countries that do not have equivalent to the EU ETS systems.

We have created many promising tools to help our industries with the twin transition, such as the IPCEI on hydrogen. It is a very promising initiative, but it needs time to produce scalable results. This is precisely the gap addressed by my proposal.

As a concrete example, let me underline that Greece is one of the last Member States to retain an exporting domestic cement production industry which is heavily dependent on exports and heavily exposed to carbon leakage. Already, cement exports from Greece have dropped by 30% in the last 5 years, shifting to producers outside the EU. If we go ahead with the proposed timeline for termination of free allowances for exports, within two years our companies will be obliged to close their factories or relocate outside the EU.

I look forward to your leadership on this issue as well as to a discussion on developing our wider strategy to combat the energy crisis and other threats to European industry at the upcoming European Council.

I am copying this letter to my counterparts in other Member States.

Yours sincerely,

K. M

Kyriakos Mitsotakis