



30 September 2008

Commission President José Manuel Barroso

Competition Commissioner Neelie Kroes

Dear Commissioner,

As civil society groups active on European climate change issues, we wish to register our concern over the competition and market distorting impacts of proposals for the free allocation of emissions allowances to energy intensive industries within the EU.

Europe has set a goal of limiting global temperature rise to below 2°C. This goal will require Europe to reduce its domestic GHG emissions by 80–95% by 2050. Such a radical transformation to a zero carbon economy will require high levels of innovation, and maximum creation of opportunities for new market entrants to emerge providing lower carbon products, services and materials.

Giving free emission allowances to EU industries such as steel, concrete and aluminium will undermine innovation and competition in low carbon products. Allocation of free permits will either remove carbon cost pass through or give high carbon companies additional financial resources. This will raise barriers to entry for lower carbon alternatives to these products in the construction industry, notably: timber laminates, recycled materials, low carbon concrete and advanced high strength steel products. It will also disadvantage architects, engineers and designers who are producing new designs for buildings and other infrastructure which have reduced overall material use, and thus lower embodied carbon emissions.

Without such innovation, it is unlikely that the EU will reach its internal CO₂ targets, or be able to develop models for decarbonisation which can be used by other countries and form a basis for European competitiveness in the future.

We do not consider the rationale for granting free permits to have any credible economic basis as most of these industries are not at immediate risk from international competition. In particular, the cement industry is highly closed to competition within Europe, as evidenced by the high variation of cement prices across the continent. Recent increases in shipping costs have placed a *de*



facto €50 per tonne carbon tax on imports of cement and steel into the EU from Asia, further reducing competitive pressures. A similar situation of closed national markets with significant barriers to new entry seems to exist in the construction industry.

We urge DG Competition to ensure that market distorting and anti-competitive subsidies are not given to these industries in the form of free allowances. We would also welcome an investigation into market barriers to competition and new entry in the European construction industry, which we believe may be slowing the introduction of new low carbon alternatives. Europe will need to construct an open, competitive and dynamic market in low carbon construction services if it is to deliver its climate change goals.

Yours sincerely,

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Director Global Energy Policy, WWF

Cc:

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