



Positions supported by Solvay and Ford Europe

# Florence Forum, 16-17 September 2004

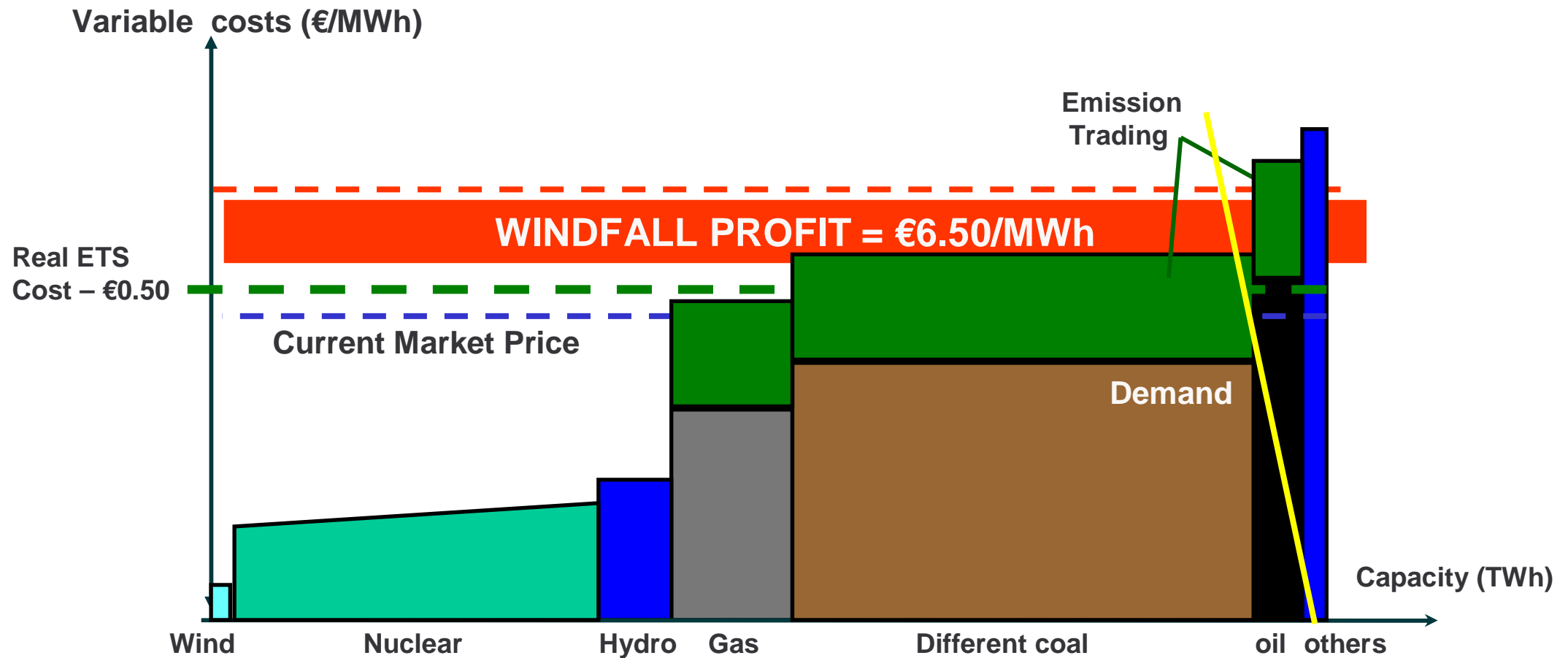
## The Alliance of Power Intensive Industries

*A total turnover of about €295 billion*

*Provide employment to 1.4 million people in Europe*

# Problem: Opportunity cost calculation in power price

With 0.7 tonne per MWh for fossil fuel-based electricity and a price of **€10/tonne of CO<sub>2</sub>**, the impact of the EU-ETS on marginal cost resulting from the opportunity cost effect of **valuing free of charge allowances** is **around €7/MWh**



# Problem: Opportunity cost

Free of charge Allocation

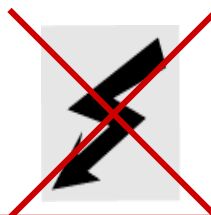
2005



EX ANTE  
ALLOWANCES  
ALLOCATION

2006

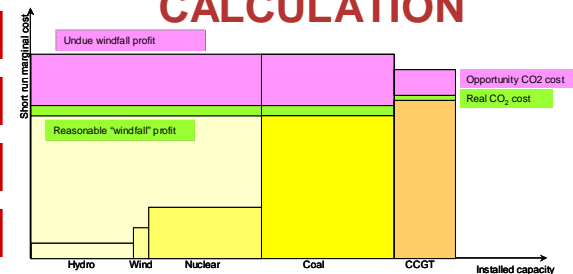
2007



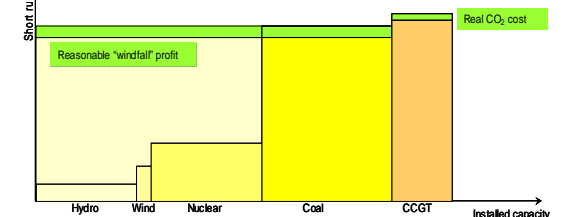
No production – Opportunity  
to sell all allowances  
including free of charge

2008

## OPPORTUNITY COST CALCULATION



## REAL COST CALCULATION

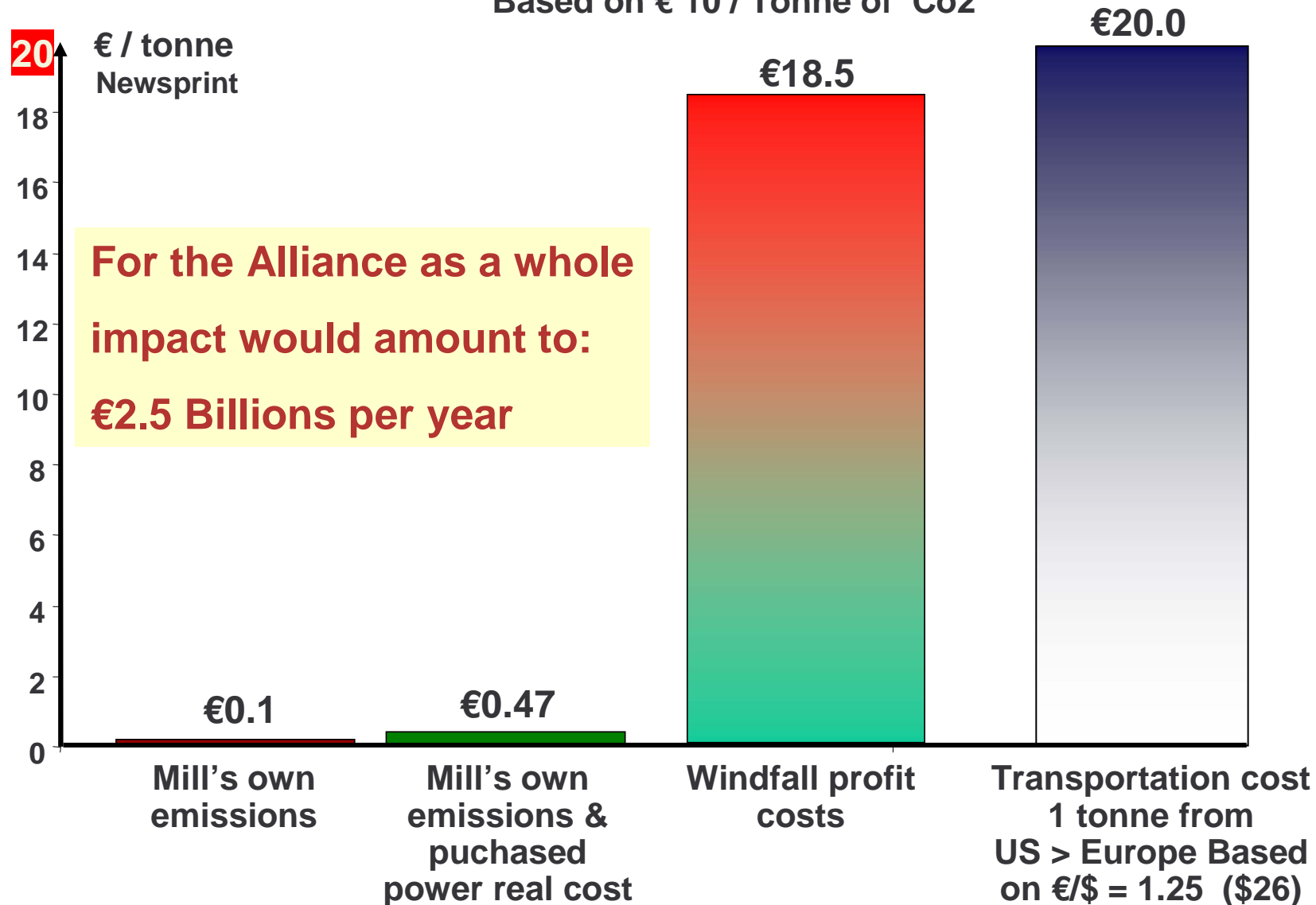


The cost of allowances – either real cost or opportunity cost will become part of the variable costs of electricity, irrespective of the amount of allowances allocated to the power plant

# Example: Impact per ton of produced newsprint paper

Windfall Scenario & competitiveness threat from import

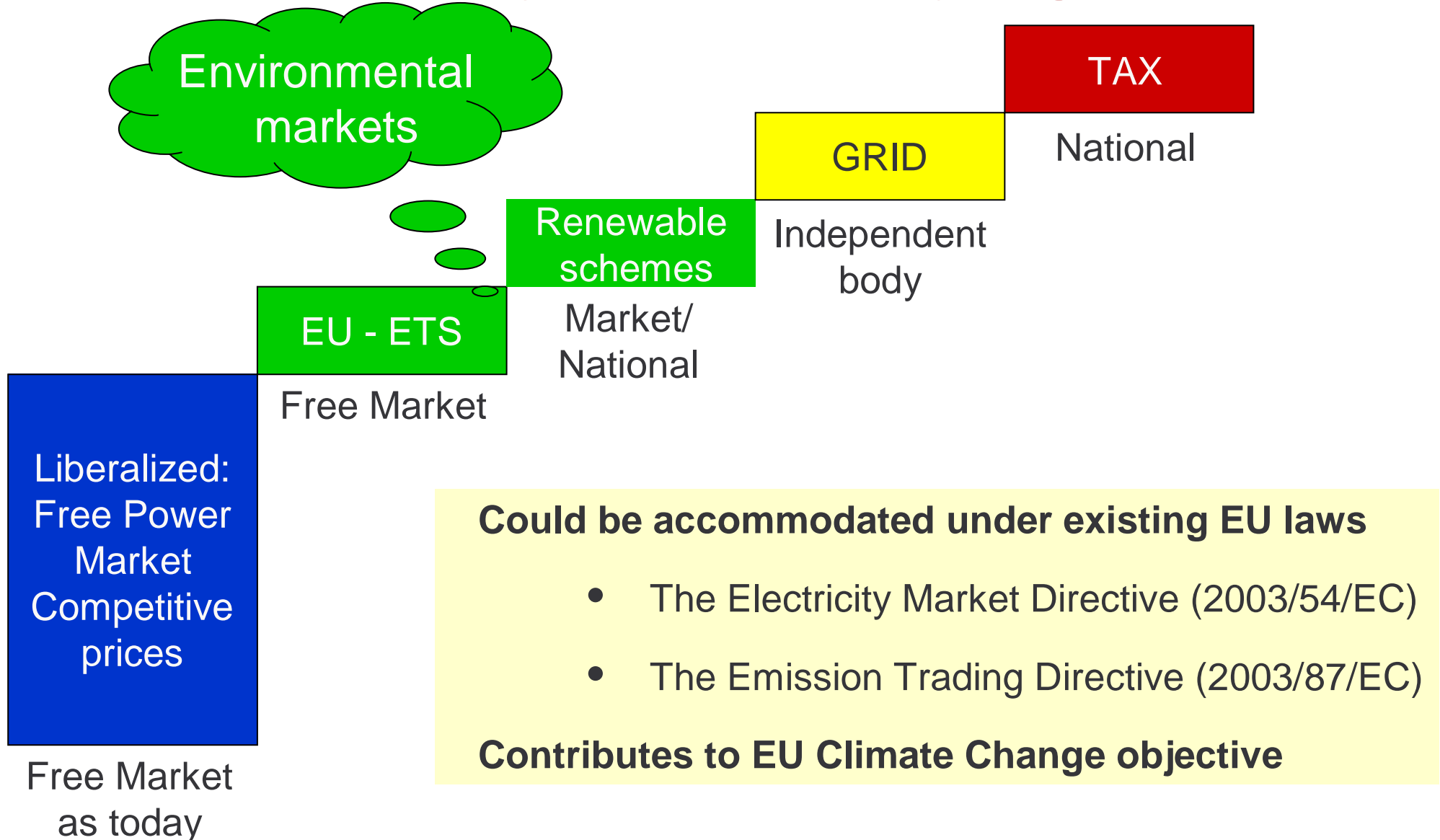
Based on € 10 / Tonne of Co2



## **Status: Problem now broadly recognized**

- **Competitiveness Council March 2004:**  
Called for extended impact assessment
- **EU Commission: Catherine Day, DG ENV, Brussels 11<sup>th</sup> May 04:**  
*“Nevertheless electricity regulators and policy makers within the EU will have to monitor carefully what happens to power prices after 1<sup>st</sup> January 2005 and be careful to understand the factors which are influencing price increases”*
- **EU Member States: regional / national measures**  
Taxation will not be a solution to the problem for endusers
- **Studies now being conducted – *focus power Intensive Industry***  
International Energy Agency (IEA),  
Center for European policy studies (CEPS)

# Concept of Transparent power pricing ....what you see is what you get....



## **Conclusion and reflections.....**

- ✓ **Serious effects for all power consumers**
- ✓ **Power intensive industries especially**
- ✓ **An unjustified transfer of wealth to the power sector**
- ✓ **NO environmental benefits .....on the contrary.....**
- ✓ **Harming seriously European competitiveness**
- ✓ **Monitoring is promised by the European Commission**
- ✓ **When and at what level will monitoring turn to Action?**  
**The problem is urgent and Real..also in the test period**