

Comments on Liese's report

Positive proposals regarding carbon leakage

Free allocation phase out and CBAM

- Improve carbon leakage protection by making free allocation phase-out dependent on CBAM effectiveness:
 - Support the reserve and review mechanism and
 - the evaluation on an annual basis before end February
- **Hydro proposal:** Allowances to be transferred back to installations account annually by Mid-April

Reducing CSCF risk by adding additional EUA, using volume from;

- EUA due to faster integration of maritime sector
- Accelerate aviation free-allocation phase-out by one year to 2026
- Bringing in volume from the MSR that otherwise would be invalidated
- **Hydro additional proposal:** Increasing the 3% flexibility share between auction share and free allocation

Indirect costs compensation to be maintained until 2030.

Proposals for increasing the Innovation Fund

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Positive proposals

CCS, CCU, BECCS and DAC credits eligibility in the EU ETS.

- In addition to the existing exemption for CCS and the proposed exemption for CCU where CO₂ is permanently chemically bound in a product based on an overall life-cycle assessment of the process and product.
- + installations to receive allowances of GHG that are permanently removed from the atmosphere as a result of bio-energy with carbon capture and storage (BECCS) or of GHG captured through DAC with CCS or CCU.
- Installations to sell or use those allowances to reduce the **extent** of their remaining surrender obligations
- **Hydro propose:**
- *Ensure that CCS and CCU include capturing process emissions*
- *Date for EU ETS eligibility should be set to no later than 2031*
- *Take out extent and let it be “their remaining surrender obligation”*
 - Particularly an important option for Brown Fields
 - *Important to quickly define:*
 - *how the LCA assessment would be conducted*
 - *“permanently chemically bound in a product” re. CC(U)S*

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Negative proposals or lack of proposals

Benchmark update

- Fallback benchmarks groups, heat and fuel, under one benchmark value with an annual update factor of 2.5%
 - Regardless of the differences in resource availability, plant size and technologies that can be used in sectors covered.
- Give inaccurate values as it is not enough sustainable biomass available across Europe and further it cannot be used in certain sectors due to the chemical reactions intricacies. In addition, hydrogen is not an option for all plants due to size issues.
- *Hydro's proposal;*
 - Setting a separate benchmark for some subsectors as aluminium recyclers - a subsectors vital for the circular economy.

Dynamic allocation (DA)

- Free allocation should at any time reward all production growth at benchmark levels and avoid unneeded overallocation.
- +/- 15% DA is too high as share of free allocations is limited
- *Hydro Proposal: Reduce DA to 3% or use the previous year's production level*

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The Price Containment Mechanism: Article 29a

- To be triggered: for more than 6 consecutive months, the EUA price needs to be 3x the **average** of the EUA during the two proceeding years
 - Do not reflect new 2030 target, today's higher EUA prices and that uneven carbon constraint world risk has increased
- *Hydro's proposal: To change the thresholds and the trigger to be as follows: for 3 consecutive months, the EUA price to be twice the average of the EUA during the 2 proceeding years and a proper governance system should also be established*

No changes are proposed to the key elements LRF, Rebasing as well as the MSR rules

- Tightening the Phase 4 carbon budget, give higher prices and a price spike
- *Hydro's proposal: By only using the LRF and avoiding the rebasing proposed by the Commission, we would reach the same 61% target with a higher carbon budget and not unnecessary reducing the budget by 750mill EUAs with rebasing*

The bonus-malus system for determining the share of free allocation

- *Free allocation to vary according to the implementation of a duly established climate-neutrality plan and benchmark performance.*
- *Hydro's proposal: support the requirement of implementing climate neutrality plan but not linking additional free allocation to it as even best performer will not be stimulated to invest in new technology and sectors have quite homogeneous performance*