

Questions for stakeholder consultation on Emission Trading System (ETS) post-2020 carbon leakage provisions

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| 0. Registration | |
| 0.1 What is your profil? -single choice reply- (compulsory) | b) Trade association representing businesses |
| 0.2 Please enter the name of your business/organisation/association etc. (maximum 500 characters): -open reply-(compulsory) | |
| Cerame-Unie | |
| 0.3. Please enter your contact details (address, telephone, email): -open reply-(compulsory) | |
| 17 Rue de la Montagne 1000 Brussels | |
| 0.4 If relevant, please state if the sector/industry you represent falls under the scope of EU ETS: -single choice reply-(compulsory) | a) yes |
| 0.5 The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication? -single choice reply-(compulsory) | 1) yes |
| I. General: competitiveness, carbon leakage and present free allocation rules | |
| Question 1: Do you think that EU industry is able to further reduce greenhouse gas emissions towards 2020 and beyond, without reducing industrial production in the EU? -single choice reply-(compulsory) | a) yes |
| If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional) | |
| In recent decades, the European ceramic industry has invested heavily to reduce emissions wherever it is technologically and economically feasible. Consequently, the remaining abatement opportunities are either incremental or require significant investment in new processes, technologies and equipment. In recent years, emissions have reduced because many businesses have decreased or ceased production. Consequently, continued reduction will become more difficult as the economy recovers and production levels increase. Furthermore, process emissions, which are significant in several ceramic subsectors, are unavoidable and cannot be reduced | |

since they are inherent in the raw materials. The Ceramic Industry Roadmap 2050 provides an analysis of the key technologies which could be applied across the sector. The document shows that breakthrough technologies are essential and that access to low carbon energy sources is constrained by feedstock availability, technical and cost constraints.

Question 2: Do you think that the EU ETS helps the EU industry to become more energy efficient, and thus contributes to increasing the competitiveness of European industry in the long-term?

-single choice reply-(compulsory)

b) no

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The primary objective of the EU ETS is to reduce GHG emissions cost-effectively. A CO2 target and energy efficiency target can be contradicting each other. For instance, pore forming agents used in the clay block industry can contribute to a lower fuel consumption but could raise the CO2 output. The full impact of EU ETS on the competitiveness of industry can only be judged if all elements are considered. In the medium-long term, EU ETS entails a stringent cap, very limited free allocation (if any), a high carbon price and indirect costs on electricity prices. In the absence of an international agreement with comparable burdens on competitors in third countries, such unilateral costs will further jeopardise the competitiveness of EU industry, Ceramic production is energy-intensive. This coupled with high energy prices naturally provides a strong incentive to maximise energy efficiency. Other policy measures and requirements are already in place to further incentivise such improvement

Question 3: Do you think the EU needs to provide special (transitional) measures to support EU industry covered by the EU ETS, in order to address potential competitiveness disadvantages vis-à-vis third countries with less ambitious climate policy?

-single choice reply-(compulsory)

a) yes

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

EU ETS creates costs for European industry and thus creates a risk of relocation to countries with less ambitious (or no) climate policy. The resulting loss of manufacturing not only costs EU jobs but can also give rise to an increase in global energy use and emissions through the use of inferior production processes, more carbon-intensive electricity and greater transportation of goods. In the absence of a legally binding agreement (with truly comparable effort from competing countries) it is essential that mitigation measures for industry covered by the EU ETS is forthcoming. Post 2020 carbon leakage measures should be in line with the adopted level of ambition. Logically, an increased level of ambition towards 2030 should lead to increased (and not decreased) protection against carbon leakage.

Question 4: In your view, how adequate a policy instrument is free allocation and, in particular, increased free allocation for certain industrial sectors to address the risk of carbon leakage?

-single choice reply-(compulsory)

b) quite adequate

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Free allocation is (in principle) an adequate policy instrument to reduce the risk of carbon leakage. However, its effectiveness depends on the technical rules determining free allocation. In future, free allocation must be based on realistic benchmarks and the rules on extended capacity and new entrants should be sufficiently flexible not to deter increased production levels and new investments. Finally, the current system of free allocation does not address the issue of indirect costs that are passed-through in electricity prices.

Question 5: In your view, how does free allocation impact the incentives to innovate for reducing emissions?

-single choice reply-

a) it absolutely keeps the incentive

(compulsory)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The current free allocation system fully preserves the incentive to innovate because it is based on ambitious benchmarks, which are set according to the average from the top 10% most carbon efficient installations in the sector. Taking this and the subsequent application of the cross-sectoral correction factor into account means that virtually all installations will have to purchase allowances. Consequently, this provides an incentive for all installations to reduce emissions. In addition, it must also be noted that measures which increase the cost of carbon emissions actually reduces the capacity of these industries to invest in alternative, low-carbon and energy-efficient technologies. Finally, it should be remembered that free allocation is not aimed at creating incentives for reducing emissions, but at preventing carbon leakage for 'at risk' sectors.

Question 6: In your view, is the administrative burden for companies to ensure the free allocation via the implementation of the benchmarking provisions proportionate to the objectives? -single choice reply-(compulsory)

c) quite exaggerated

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The harmonised allocation rules are extremely complex, error-prone and require extensive guidance. The difficulty comprehending the rules is particularly acute for SMEs, which represent the majority of ceramic installations under EU ETS. The rules for new entrants and capacity extension also make it difficult for installations to calculate the free allocations they are entitled to, thus hindering the predictability of investments. In addition, the existing rules contain a number of design flaws, such as over-allocation in times of recession, under-allocation in the case of growth, incentives to lower production and impediments to increase production. The national equivalent opt-out for small installations has been exercised by very few Member States. The possible future revision of benchmarks would be a complex exercise, as was the case when the existing benchmarks were established in 2010.

II. Options for post-2020

A. Strategic choices

Question 7: What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes? -single choice reply-(compulsory)

d) there should be no limit to overall free allocation to industry

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Since free allocation is the main instrument to avoid carbon leakage, the share of free allowances should be sufficient to meet this objective. Post 2020 carbon leakage measures should be in line with the adopted level of ambition and not subject to an arbitrary ceiling. It naturally follows that an increase in ambition level towards 2030 should lead to an increase in protection against carbon leakage (and not to a decrease). Carbon-efficient producers in the EU should not face any competitive disadvantages compared to their competitors in third countries and therefore, their free allocation should not be subject to any reduction. As a result, the rules on the industry cap and cross-sectoral correction factor should be adjusted accordingly.

Question 8: Currently the European Commission implements the NER300 programme to provide from EU ETS specific support for large-scale demonstration of Carbon Capture Storage (CCS) projects and innovative renewable energy. 300 million allowances, representing ca. 2% of total phase 3 allowances, are dedicated for this purpose. What share of the post-2020 allowance budget

d) there should be no such innovation support post-2020

should be dedicated to such innovation support?

-single choice reply-(**compulsory**)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

EU ETS must curb emissions at the lowest cost for participants. Providing this objective is preserved and measures to improve industrial competitiveness are implemented beforehand, support for a range of low carbon technologies can be envisaged. However, NER 300 is very limited in the scope of technologies supported, does little to help industry decarbonise and is inadequate to finance uncompetitive technologies and research programs. In the first instance, dedicated funds, independent from the price of carbon, should be put in place to promote research and innovation projects (e.g. Horizon 2020). Other tools already exist to support RES in member states. Moreover, sectors' characteristics should be taken into account. For instance, the Ceramic Roadmap shows that CCS will remain prohibitively expensive for some time after it is installed in other industries. Rather than spending more on NER300, there should be one innovation scheme that supports a wider range of technologies

Question 9: At the moment, EU ETS rules do not contain a specific support scheme for industrial innovation and deployment of new low-carbon technologies (apart from support for CCS and renewables under the NER300). Do you think there should be such a financial support scheme? -single choice reply-(**compulsory**)

a) yes

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

As stated above, the EU ETS could be a tool for the development of a wide range of low-carbon technologies (including those identified in the Ceramic Industry Roadmap 2050) provided the goal of emissions reduction at lowest cost is maintained and measures for maintaining industrial competitiveness and increasing industrial activity in Europe have been put in place. If not, higher carbon prices will impose higher costs for the industry and potentially increase the risk of carbon leakage rather than increasing the capacity of manufacturing industry to invest in new technologies. The introduction of a support scheme for industrial innovation should not be done at the expense of free allocations for the industry or by arbitrarily manipulating the carbon price through policy interventions. Furthermore, the interaction with complementary instruments (e.g. Horizon 2020) should be assessed and optimised.

Question 10: If innovative low carbon technologies in the industry are to be further supported, which could be possible sources of funding?

-single choice reply-(**compulsory**)

b) It should be funded through a new dedicated scheme financed by the revenues from auctioning (e.g. x% of the auctioning revenues);

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

The ETS Directive already suggests spending at least 50% of the auctioning revenues for this purpose. This provision should be adjusted so that it can be fully implemented.

Question 11: In your view, is there a need for additional measures beyond free allocation and EU-level innovation support to address the risk of carbon leakage for energy intensive sectors covered by the EU ETS, post-2020? -single choice reply-(**compulsory**)

a) yes

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

As outlined above, the current free allocation system does not address the indirect costs resulting from emissions associated with electricity generation that are passed onto industrial consumers through increased electricity costs. These indirect costs should also be

mitigated for all sectors that are at risk of carbon leakage, including those that are currently not listed on Annex II of the EU ETS State Aid Guidelines. Other policy measures, such as the inclusion of imports into EU ETS should also be explored.

II. Options for post-2020

B. Allocation modalities

Question 12: Currently there are two categories for sectors in terms of exposure to the risk of carbon leakage: sectors are either deemed to be exposed to such risk (the sectors on the carbon leakage list) or not (sectors not on the carbon leakage list). Should the system continue with two carbon leakage exposure groups or is some further differentiation needed? -single choice reply-(**compulsory**)

c) there is no need for a carbon leakage list, all industrial installations should be treated as exposed

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

Post 2020 carbon leakage measures should be in line with the adopted level of ambition. Logically, an increased ambition level towards 2030 should lead to increased and not decreased protection against carbon leakage. Therefore, at least all energy-intensive sectors as defined in the Energy Taxation Directive (i.e. energy costs > 3% of production value), should be considered as exposed to the risk of carbon leakage until a global auctioning system is established. This would limit the list to sectors really exposed and would eliminate the risk of a carbon leakage exposure for these sectors, thereby giving industry regulatory certainty to facilitate long term planning and investments. Furthermore, a very selective carbon leakage list could distort fair competition on the EU internal market between sectors on the list and sectors not on the list (for example between competing construction products), paradoxically favouring the most CO₂ emitting sectors.

Question 13: Under the current system, exposure of sectors to the risk of carbon leakage is primarily measured by the share of 'carbon costs' in their gross value added (GVA) and by the intensity of trade with third countries. What carbon leakage criteria should be defined for the post-2020 period? -single choice reply-(**compulsory**)

e) additional criteria should be defined (please specify which current criteria should be maintained and which additional criteria should be defined)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

As explained above, all energy intensive sectors as defined in the Energy Taxation Directive should be considered as exposed to the carbon leakage risk. As an alternative, trade and carbon intensity criteria should be used considering the following elements. First, GVA is not an appropriate indicator to reflect the impact of CO₂ costs on the competitiveness of the ceramic industry. Indeed, GVA consists of both labour costs and the Gross Operating Surplus (GOS). On average, labour costs represent up to 70% for some ceramic sectors. Therefore, using the GVA is misleading and the real impact of ETS-related costs can be better estimated if it is compared with the GOS. Second, the current criteria enable either to have a trade intensity $\geq 30\%$, or a carbon intensity $\geq 30\%$, or a trade intensity $\geq 10\%$ combined with a carbon intensity $\geq 5\%$. Following this logic, the current thresholds should be maintained and a third set of criteria (i.e. trade intensity $\geq 5\%$ combined with a carbon intensity \geq

Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage? -single choice reply-(**compulsory**)

b) other thresholds should be defined. Please specify below

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

As explained in the reply to question 13, the current criteria enable either to have a trade intensity $\geq 30\%$, or a carbon intensity $\geq 30\%$, or

a trade intensity $\geq 10\%$ combined with a carbon intensity $\geq 5\%$. Following this logic, the current thresholds should be maintained and a third set of thresholds (i.e. trade intensity $\geq 5\%$ combined with a carbon intensity $\geq 10\%$) should be introduced.

Question 15: In the current system, there is a possibility to assess the exposure of sectors to the risk of carbon leakage also based on qualitative criteria (abatement potential, market characteristics and profit margins). Do you think that similar qualitative criteria should be maintained to complement the quantitative criteria? -single choice reply-(compulsory)

a) yes, it is important to maintain a certain level of discretion in the system for justified cases

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The quantitative criteria are too narrow and do not take into account all the factors that can contribute to the risk of carbon leakage. As such, they do not enable a comprehensive picture of the complex market situation for a given sector to be established. For instance, they do not take into account the technological limits of the sector, its ability to pass-through carbon costs or of profit margins which can act as a potential indicator of investment capacity. Furthermore, quantitative assessments are solely backward looking, whereas qualitative analysis can add the necessary forward looking elements. It is important that each sector or subsector is judged on merit and not subject to an artificial limit on the number of qualifying sectors. Therefore, it is vitally important that qualitative risk tests are maintained.

Question 16: Currently, the list of sectors exposed to the risk of carbon leakage is valid for five years. What should be the validity of the list for the post-2020? -single choice reply-(compulsory)

d) in line with the duration of ETS Phase 4

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The ceramic sector is a capital-intensive industry with long-term investment cycles. A ceramic production plant typically has a lifetime of over 40 years. As a result, the sector needs a stable and predictable legal framework in order to underpin continued investment in Europe. Consequently, the validity period for the carbon leakage list should be extended (at least) be for the entire duration of phase 4.

Question 17: Currently benchmarks are set to the average greenhouse gas emission performance of the 10% best performing installations in the EU for a given product. What adaptations of benchmarks for 2021 onwards should be considered, if any? -single choice reply-(compulsory)

c) the approach should be less stringent (please specify)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Benchmarks are set according to the average from the top 10% most carbon efficient installations in the sector and are used to calculate the preliminary free allocation. The final free allocation received by installations is also affected by the cross-sectoral correction factor. As a result of the application of this factor means even the most carbon efficient 'benchmark' installations within the sector face a shortage of free allowances and thus an increased risk of carbon leakage. Consequently, the rules on free allocation should be adjusted so that the cross-sectoral correction factor is not applied.

Question 18: Should the benchmarks be revised to reflect the technological state of the art? -single choice reply-(compulsory)

b) no

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

A revision of the benchmarks is not necessary and would have a limited impact as major breakthrough technologies are not available yet

since the reference period of the first benchmarks. Furthermore, the revision of the benchmark would entail a major administrative burden, in particular for sectors with a high number of installations like ceramics.

Question 19: Currently, historical production data are used to determine the allocation due to each installation. Operators had the possibility to choose between 2005-2008 or 2009-2010 as basis years. Should the production data used to calculate allocations in Phase 4 (post 2020) be updated? -single choice reply-(compulsory)

c) other (please specify)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Allocation should be based on as most current production data available since outdated ex-ante / historic allocation may act as a barrier to industrial growth, particularly during a period of economic recovery. The reference period used to determine free allocation must reflect economic reality. As a result, a dynamic system based on more recent years should be explored. This system would have the advantage of avoiding the complex allocation rules which are needed to cope with differences between historical and the actual production levels. However, the increased bureaucracy for participants and confidentiality concerns associated with throughput disclosure would also need to be addressed.

Question 20: Is there a case for any deviations from general harmonised allocation rules, and what would be the risks involved? -single choice reply-(compulsory)

a) no, there should be no deviations

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Applying harmonised rules would ensure the certainty and predictability of the legal framework.

Question 21: Should there be a harmonised EU-wide compensation scheme for indirect costs, i.e. for increases in electricity costs resulting from the ETS? -single choice reply-(compulsory)

d) yes, in the form of financial compensation at EU-level

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

As outlined above, the current free allocation system does not address the indirect costs of EU ETS to industry. These indirect costs should also be mitigated for all sectors that are at risk of carbon leakage, including those that are currently not listed on Annex II of the EU ETS State Aid Guidelines. There should be a harmonised EU-wide support for the indirect costs in order to avoid distortion of competition within the EU. This should be achieved by implementing an EU-wide financial compensation scheme.

II. Options for post-2020

C. Innovation support

To implement a small-scale prototype -single choice reply-(compulsory)

Most important

At the conception stage -single choice reply-(compulsory)

Important

To implement a large-scale pilot -single choice reply-(compulsory)

Less important

At the commercialisation stage -single choice reply-(compulsory)

Least important

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Question 23: Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation? -single choice reply-(compulsory)

a) from the Member States' auction budgets

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The ETS Directive already suggests spending at least 50% of the auctioning revenues for this purpose. This provision should be adjusted so that it can be fully implemented.

Section II:

D. Other issues

Question 24: Are there any other issues you would like to raise? -open reply-(optional)

It is imperative that investment leakage is also evaluated since this will provide a longer-term, forward looking estimate of carbon leakage. Carbon leakage studies conducted to date have tended to focus on analysing production levels and trade flow patterns retrospectively. However, the impact of the EU ETS on EU competitiveness is much broader since it also impacts on decisions for new investments and capacity increases. Consequently, for investments made today, the impact on production levels and trade flow patterns will not become evident until the future. Hence it is essential that investment leakage is also evaluated.