

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)	
IFIEC Europe	
0.3. Please enter your contact details (address, telephone, email): -open reply-(compulsory)	
Sven Marschalek VIK e.V. Berlin Office Friedrichstraße 187 10117 Berlin Germany s.marschalek@vik.de, Phone: 0049- (0)30 212492-15	
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)	
The ability of EU industry to further reduce GHG emissions is dependent on a new political environment that takes industry policy seriously and allows investments into innovation and efficiency improvements. Industry needs a stable and predictable cost level playing field. The high costs that will result from the proposed EU targets for 2030 - combined with the uncertainty regarding the future carbon leakage provisions - build an obstacle for such investments and will most likely limit efficient investments and the ability of EU industry to	

export efficient technologies. That's why the EU reduction targets are only acceptable with parallel provisions which allow fulfilling the EU target for a growing industry share. Furthermore, industry needs a clear political commitment, that EU climate policy - including targets - will be reviewed if by 2020 no global level playing field is achieved.

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?

b) no

-single choice reply-(compulsory)

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

-open reply-(optional)

Emission trading on a global scale is an effective and efficient market based instrument providing climate protection at lowest costs by introducing a carbon factor in decision making on investment and efficiency improvements. However, as long as there is no global system, a robust carbon leakage protection is needed. This purpose would be served best by a dynamic ETS system (for details see Q4). Otherwise, the additional costs due to the EU ETS – actual and expected - harm competitiveness and the willingness to invest in the EU, reducing in that way the progress in energy efficiency that could have been reached in a prosperous investment climate. Furthermore, the unilateral and absolute cap on emissions is limiting industrial growth potentials. Despite these influences, EU industry is already very carbon efficient and the ETS targets have been achieved through a number of measures taken by the installations involved.

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-

a) yes

(compulsory)

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

-open reply-(optional)

As long as the ambitious EU climate policy is not mirrored by comparable international efforts with comparable burden for the major competitors, the EU needs to provide for measures that minimize the unilateral cost burden for EU industry. These measures must be predictable and stable. The proposed approach for such measures is a dynamic ET system, including an allocation supply reserve. (see Q4). The secure protection from carbon leakage is important both from an economic and from an environmental point of view, because the EU emission reduction targets should not be achieved through carbon or investment leakage, which would have a damaging effect for the global climate balance and contradict the EU's industry renaissance strategy. Both cannot be in the interest of EU policy. On the medium to long run we need a clear commitment that without comparable global climate action and burden the EU climate policy approach including the ETS cap must be reviewed.

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)

Enhanced free allocation would be an adequate instrument to address the risk of carbon leakage. Good performers must be rewarded while bad performers must directly feel positive consequences of improvement measures. To that aim, free allocation post-2020 must be based on a dynamic system, which has the following main components: (1) realistic benchmark levels including direct and indirect emissions (2) the actual production level (3) no correction factors. (4) an allocation supply reserve. With such reforms, enhanced free allocation can minimise carbon leakage also at higher CO2-prices. Furthermore, we need a clear political commitment for a review of the

EU climate policy if the EU remains isolated with its ambitious climate policy and the associated high burden after 2020. In the medium- to long-term, an isolated ambitious climate policy with an absolute cap and effective protection against carbon leakage are incompatible.

Question 5: In your view, how does free allocation impact the incentives to innovate for reducing emissions? -single choice reply-
(compulsory)

a) it absolutely keeps the incentive

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

-open reply-(optional)

With free allocation based on benchmarks industry can remain competitive, while the incentives to improve carbon efficiency are fully preserved. Such incentive, however, is distorted in the current design of free allocation based on historical instead of actual production data. With free allocation based on actual production data as proposed in Q4, carbon costs are not fully reflected in product prices. –This is a tradeoff, which must be accepted, because full reflection of carbon cost in product prices is incompatible with the avoidance of carbon leakage. Furthermore, free allocation in principle does not impact the overall supply / demand balance of allowances and has no influence on the carbon price. Therefore, it has no impact on the drive to innovate.

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)

b) quite proportionate

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

-open reply-(optional)

Administrative burden currently is high, however, acceptable in view of the objective reached thereby. And it must be stated that it could be significantly reduced, when implementing a dynamic system (see Q 4), when the complex rules for new entrants, production cessations etc. would be obsolete. Hence, the current complexity of the system and the thick rule book for allocation result mainly from rules to account for any changes between the historical base period and now. Here is massive red tape and administrative burden. Establishing benchmarks has been a complex exercise both for politicians and the sectors in question. Establishing new benchmarks again should therefore be avoided.

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)

The share of allowances dedicated to free allocation should be sufficient to avoid carbon leakage. That does not mean “a free ride for industry”, but sufficient allowances for efficient producers, i.e. producers who produce at realistic benchmark level. These should receive allowances in an amount that no further costs apply. Only if this is safeguarded, an efficient EU producer has no cost disadvantage from the EU ETS compared to even less efficient competitors worldwide. This approach helps to stimulate efficient production in the EU and the efficient EU re-industrialisation as well as the carbon reduction integrity of EU ETS.

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,

e) I don't know

representing ca. 2% of total phase 3 allowances, are dedicated for this purpose. What share of the post-2020 allowance budget should be dedicated to such innovation support? -single choice reply-(compulsory)

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

Research and development in various technologies is crucial for the EU decarbonisation path towards 2050 (picking thereby the most promising approached in terms of cost-efficiency). Support and funding for these technologies should not depend on the auctioning income which varies with the carbon price. For other technologies, there is no need for additional funds, i.e. for renewable energies which are supported by separate national schemes.

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)

Technologies in industry to meet the 2050 reduction targets are not yet available or even invented. It is therefore crucial that R&D is strengthened. All ETS auctioning revenues should be used more cost-effectively and efficiently to assist the decarbonisation of European industry without impairing its international competitiveness. The ETS directive states that half of auctioning revenues should be spent on decarbonisation measures. This has not been the case so far: a missed opportunity to pursue an active industry policy (i.e. through a large breakthrough technology programme for innovation in energy intensive industry). However, such support must not cannibalize the free allocation volumes and carbon leakage provisions. Furthermore, policy-makers should refrain from raising the costs of decarbonisation policies in order to increase revenues that would otherwise be needed to addressing those costs.

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)

a) It should be funded under a system similar to NER300 with extended scope to cover greenhouse gases reduction technologies in the industry

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

Auction revenues should be earmarked and ring-fenced for innovation purposes rather than going into national budgets. The funding support from the NER300 program should be allocated to the most cost efficient technology developments. The question is, if CCS fits in this frame or whether other options such as CCU, electricity storage and others would be more cost efficient. On the other hand, auction revenues should go back to the industry, ensuring that enough means are available for investments in production capacity and innovation. Therefore, innovation support should not counteract carbon leakage protection measures. Innovation centers are closely linked with production and therefore we both need measures to keep production cluster in Europe and to promote research and development.

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)

The following measures are needed: • A reform of the EU ETS providing more effective carbon leakage measures (see Q4). If an allocation supply reserve is not acceptable, international credits should be allowed to supplement the missing part. • An adequate compensation of the full CO2 costs in electricity prices. • Taking account of all relevant costs induced by the climate policy package (such as RES-support). • Politicians must commit to review the EU climate change policy including the absolute industry target if a global level playing field is not be achieved by 2020. • The effort sharing between ETS and non-ETS sectors should be in line with the findings of the impact assessment for the Energy Efficiency Directive: the remaining economic potential is much larger in other sectors (building, power, transport) than in industry. • A more consistent overall energy and climate policy on EU and MS levels with the objective to bring energy prices in line with those in competing regions

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)

a) the present two groups should remain

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

-open reply-(optional)

We see no reason why the carbon leakage list – established on a thorough investigation of the statistical material - should change: there is no sign of a reduced need for protection, especially taking into consideration the increasing level of globalization, the increasing gap in energy prices and the shrinking cap (which will lead to an increase of the carbon price and the danger of carbon leakage). To avoid value chain effects the level of protection rather needs to be increased. In general, the notion underlying the debate on those sectors exposed to carbon leakage should be based on the precautionary principle and should have the aim: how to give more confidence and predictability to globally competing industries and how to attract more investments into Europe. It is important to look into possible solutions of the key disadvantage of the present two groups: the sharp consequences for individual sectors of changing the list.

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)

The criteria should be strengthened by complementing the following: • a comprehensive carbon cost comparison: the ETS costs in EU should be compared with those in other major industrial world regions (including an analysis of the allocation rules for direct and indirect emissions) • a clear definition of "a decisive share of global production" (with the same carbon costs) • The full power price effects of climate change policies must be taken into account for the risk evaluation. • the impact of value chain effects: Sub-sectors that are not directly impacted but are inherently linked with exposed sectors are not necessarily on the list. It is therefore important that qualitative assessments are done where relevant to add the necessary value chain aspect (including upstream costs, impact of CL position of upstream sectors on downstream sectors i.e. the respective end products, (im)possibility of cost pass-through). • the impact of product tradability • a forward looking carbon price

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

a) the present threshold (30% for the stand-alone criteria and lower values for the combination of several criteria) should be maintained

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

-open reply-(**optional**)

For further detail we refer to our answer to Q 15.

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**)

Qualitative criteria are needed in addition to quantitative criteria e.g. as the latter are solely based on historic data. Historic data does not in all cases reveal the current situation for competing products at the world market. The following parameters are proposed for a forward looking qualitative assessment: • All costs related to climate change policy along the value chain should be taken into account, in particular upstream costs. • The value chain analysis should also consider the implication for downstream sectors if an upstream sector is deleted from the carbon leakage list. • The inability to pass through locally imposed costs to sectors whose product prices are determined internationally ("price takers") should be taken into account.

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 carbon leakage status is a fundamental parameter for investment decisions of companies. Any change here has sharp consequences: the sector can get 100% free allocation in one year and 0% the next year. To avoid negative consequences for decisions to invest in maintaining or expanding manufacturing capacity in Europe, uncertainty about the carbon leakage status should be avoided. Therefore, we need a rather long stable validity of the CL status of the involved players. Once per trading period could be an acceptable compromise, however, much shorter than support and planning horizons realized for investors into RES according to the most MSs' RES-E support schemes.

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**)

Currently allocation is based on the stringent average of the top 10% performers, meaning that only about 5 out of 100 installations receive 100 % free allocation. All others incur costs. Furthermore, these stringent benchmarks are significantly reduced through the cross-sectoral correction factor and the linear reduction factor (both 1.74% points per year). This adds costs even for the most efficient

producers and thereby discourages efficient investments and growth. This approach is not sustainable and does not protect against carbon leakage. Therefore, IFIEC believes that the approach should be rather less stringent and proposes the use of realistic benchmarks. Realistic benchmark levels should reflect the penetration of a given efficiency technology within EU industry sector and be comparable to benchmarks in other schemes globally. Realistic Benchmarks should provide long-term certainty and predictability.

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

a) yes (please specify how often)

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(**optional**)

An update of the benchmark should reflect the technical development. To ensure that the benchmark level is technically and economically achievable, benchmarks must be defined bottom-up, starting from real performance levels. The benchmark level should not reflect the technological state of the art. In addition, an update of the benchmark must also reflect the carbon leakage risk, i.e. it must be ensured that the carbon leakage protection is not compromised. An update of the benchmark levels should only take place between trading periods and not within a trading period. This is important to limit the impact on the effectiveness of the EU ETS: if efficiency improvements lead to a more stringent benchmark, this could provide an incentive to delay investments if a company has several plants which would then have to bear the more stringent benchmark. Furthermore, an update of the benchmark could undermine the planning of investment decisions.

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**)

The free allocation should be based on the most actual data to better reflect the need for free allocation of the companies and to allow for industrial growth. This way significant faults and undesired developments of the current system, (e.g. over- and under-allocation to the most efficient producers, incentives to reduce EU production and sell the freed allowances) would also be avoided. Basing allocation to industry on actual production, furthermore, puts carbon efficiency improvements into the focus, because any improvements then bring a direct and logic financial benefit.

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**)

b) yes, there should be deviations with higher allowances for installations facing specific hardships

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(**optional**)

Harmonized treatment should be the principle rule. However, the complexity and diversity of installations' cases is immense and there should be an exceptional option to deviate.

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**)

c) yes, in the form of additional free allocation

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(**optional**)

Direct and indirect emissions must be treated equally since they are equally harmful. A solid and predictable alternative for the diverse,

unstable and incomplete system of compensation on MS level currently in place could be: indirect allocation on European level without unrealistic reduction factors.

II. Options for post-2020

C. Innovation support

To implement a small-scale prototype -single choice reply-(compulsory)	Less important
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At the conception stage -single choice reply-(compulsory)	Important
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To implement a large-scale pilot -single choice reply-(compulsory)	Most important
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At the commercialisation stage -single choice reply-(compulsory)	Least important
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If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The development of new technologies follows a pre-defined path (from development to deployment and commercialisation) where different types and levels of support are needed in the different stages. It is important to adequately define the appropriateness of each type of aid. Support is principally necessary at each stage in order to overcome the market barriers and failures specific to each stage. We see a particular lack of support for large scale pilots in industries and would wish to have the EU more active here.

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

-open reply-(optional)

Free allocation has to protect against carbon leakage adequately. Therefore, the free allocation should not be used for innovation support. There should be no competition between carbon leakage protection and innovation support. The revenues from auctioning should be reinvested for low carbon technology support, as foreseen in the ETS Directive.

Section II:

D. Other issues

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

The multiple choice response options often do not provide an option that exactly meets our answer. Therefore, we strongly advise not to make a simple statistical analysis of the multiple choice answers to understand the consultation properly. Only the additional motivations can provide a real picture of the responses given and received. Resulting policy initiatives should allow for industrial growth and the climate change policy of the future should fit with the EU's industrial renaissance strategy. The results of COP 21 and in general the commitment of the major world regions to climate change policies are a precondition that EU climate policies will have a future in the manner we see it today. Whether avoidance of carbon leakage is really feasible with the high carbon reduction targets foreseen depends on a number of breakthrough technologies. Whether these breakthroughs will come is the crucial question. The EU can help such developments with focused support of innovation and R&D.