Response of IFIEC Europe

Consultation on revision of the EU Emission Trading System (EU ETS) Directive

Introduction

On 24 October 2014, the European Council agreed on the 2030 framework for climate and energy, including a binding domestic target for reducing greenhouse gas (GHG) emissions of at least 40% in 2030 as compared to 1990. To meet this target, the European Council agreed that the emissions in the EU Emission Trading System should be reduced, compared to 2005, by 43%. A reformed EU ETS remains the main instrument to achieve the emission reduction target. The cap will decline based on an annual linear reduction factor of 2.2% (instead of the current 1.74%) from 2021 onwards, to achieve the necessary emission reductions in the EU ETS. The European Council furthermore gave strategic guidance on several issues regarding the implementation of the emission reduction target, namely free allocation to industry, the establishment of a modernisation and an innovation fund, optional free allocation of allowances to modernise electricity generation in some Member States.

The strategic guidance given by European leaders on these elements will be translated into a legislative proposal to revise the EU ETS for the period post-2020. This constitutes an important part of the work on the achievement of a resilient Energy Union with a forward looking climate change policy, which has been identified as a key policy area in President Juncker's political guidelines for the new Commission.

The purpose of the present stakeholder consultation is to gather stakeholders' views on these elements. This consultation focuses on issues not yet addressed in the consultations recently conducted for the 2030 Impact Assessment, the Impact Assessment for the carbon leakage list for 2015-2019 and the consultation conducted on post-2020 carbon leakage provisions.

In order to take stock of the EU ETS (established by Directive 2003/87/EC) as a policy measure, this consultation also contains questions concerning the general evaluation of this policy measure. The questionnaire consists of 7 chapters. You are invited to answer questions on the chapters which are relevant to you.

1. Free allocation and addressing the risk of carbon leakage

The European Council has concluded that free allocation to prevent the risk of carbon leakage should not expire as foreseen in the current legislation, but should continue also after 2020 as long as there are no comparable efforts to reduce emissions in other major economies.

Extensive stakeholder consultation was already carried out on the post-2020 carbon leakage provisions, as well as on aspects related to innovation support. The process included three full-day stakeholder meetings (June, July and September 2014) and a written consultation conducted for 12 weeks (8 May – 31 July, 2014). The written consultation covered 23

multiple choice questions with space for motivations, and a question allowing respondents to bring up any other issue they felt was important or insufficiently covered.

The documents and minutes of the meetings, as well as the submissions and the analysis thereof in the case of the written consultation, are available on the Commission website.

Information from the stakeholder meetings:
http://ec.europa.eu/clima/events/articles/0090_en.htm
http://ec.europa.eu/clima/events/articles/0095_en.htm
http://ec.europa.eu/clima/events/articles/0097_en.htm

Replies and summary of the written consultation:
http://ec.europa.eu/clima/consultations/articles/0023_en.htm

The results of the above mentioned public consultation are being taken into account in the preparation of the legislative proposal. In order to reduce the administrative burden for stakeholders and the Commission, the present consultation focuses on issues not already covered in this recently finalised public consultation. Respondents are nevertheless invited to add to the replies provided in the earlier consultations if deemed necessary in the light of the conclusions of the European Council in this area.

1.1 The European Council called for a periodic revision of benchmarks in line with technological progress. How could this be best achieved in your view and, in particular, which data could be used to this end? How frequently should benchmarks be updated, keeping in mind administrative feasibility?

2589 characters

Currently benchmarks for direct allocation are based on the average of the top 10% performers (Article 10a(2) of the ETS Directive). Benchmarks are a 'break-even point' above which there is a cost penalty for carbon emissions, and below which there is a reward for greater efficiency. Indirect emission benchmarks are set according to "the most efficient technology", (i.e. the best of the best) and not the average of the top 10%. This means that it is practically impossible for an undertaking to achieve a 'break-even' in terms of carbon costs through greater carbon efficiency.

Furthermore, these stringent benchmarks are significantly reduced through the cross-sectoral correction factor, the linear reduction factor (1.74% points per year) and the aid intensity factor for the compensation of indirect emissions. This adds costs even for the most efficient producers that have already reached efficiency and reduction targets by making investments. Still they have to bear additional costs. Such an approach discourages efficient investments and growth as it fails to effectively protect against carbon leakage. It cannot be called a forward-looking climate policy.

Therefore, IFIEC proposes the use of realistic benchmarks. Realistic benchmark levels should reflect the penetration of a given efficiency technology within EU industry sectors and be comparable to benchmarks in other schemes globally. Realistic benchmarks should provide long-term certainty and predictability. To ensure that the benchmark level is technically and economically achievable, benchmarks must be defined bottom-up, starting

from real performance levels. A benchmark level reflecting only the technological state of the art, however, restricts the necessary access to free allocation and is therefore not realistic. It is also necessary to find a non-discriminatory solution for sectors with a unified fallback benchmark.

An update of the benchmark levels should only take place between and not within trading periods. This is important to limit the deteriorating impact on the effectiveness of the EU ETS: if efficiency improvements lead to a more stringent benchmark, this provides an incentive to delay investments, at least, if a company has several plants which would then have to bear the more stringent benchmark. Furthermore, recalling energy intensive industry's long investment horizons that last up to 30 years, an update of the benchmark undermines the predictability of investment decisions. If a revision takes place, the updating procedure must be performed sufficiently in advance of each trading period so that installations can work with reasonable planning horizons. The revision should by all means be carried out in close cooperation with installation operators.

An update of the benchmark should reflect the technical and economic development (as described above) and must recognise the indirect and direct carbon leakage risk, i.e. it must be ensured that the carbon leakage protection is not compromised.

1.2 The European Council has defined guiding principles for the development of post-2020 free allocation rules which provide inter alia that "both direct and indirect costs will be taken into account, in line with the EU state aid rules" and that "the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage" while "incentives for industry to innovate will be fully preserved and administrative complexity will not be increased" and while "ensuring affordable energy prices". Do you have views how these principles should be reflected in the future free allocation rules?

4578 characters

Many energy-intensive industries use mature technologies and have long plant life; opportunities for energy and resource efficiency or emission reductions are therefore both modest and expensive, and investments require a secure regulatory horizon. For EU industry to further reduce GHG emissions a new political environment must emerge that takes industry policy seriously and allows investments into innovation and efficiency improvements. Industry needs a stable and predictable framework. 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 energy- and resource-efficient investments and the ability of EU industry to export technologies and products as well as keeping the complete value chain inside the EU. That’s why the EU reduction targets are only realistic if also the EU target for a growing industry share is guaranteed. Furthermore, industry needs a clear political commitment, that EU will not unilaterally adapt its climate strategy in a more restrictive way if by 2020 no global level playing field with an equal burden on industry is ensured.

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. 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. Neither can be in the interest of EU policy.

Free allocation must be designed in such a way that carbon leakage for direct and indirect emissions can be avoided effectively – independent of whether a sector has defined specific benchmarks or whether it relies on fallback benchmarks. This means sufficient allocation for the most efficient manufacturers – namely those that produce at realistic, challenging benchmark levels. Only if a company does not need to purchase extra EUAs it can be resumed that there are no cost disadvantages compared to competitors worldwide.

Good performers must be rewarded while bad performers must directly experience 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) Inclusion of all endangered sectors into carbon leakage protection measures, including sectors that have fallback benchmarks;
(2) Realistic benchmark levels including direct and indirect emissions;
(3) Free allocation based on actual production data;
(4) Deletion of correction factors, specifically the cross-sectoral correction factor and the linear reduction factor for industry;
(5) Certainty that allowances for free allocation are available, including for new industries and for increases in production levels of the current industry, e.g. by using an allocation supply reserve, the MSR as an industry reserve or recalculation of EUA budgets.

Moreover, compensation for indirect CO2 costs is necessary. Direct and indirect emissions must be treated equally in the carbon leakage context since they are equally harmful for the investment climate. A solid and predictable alternative for the diverse, unstable and incomplete system of compensation on MS level currently in place could be: an EU-wide scheme written into the ETS-directive, for example through allocation based on direct as well as indirect actual production with realistic benchmarks and no reduction factors.

It is worthwhile to note that the wording of the Council Conclusions ("in line with the EU state aid rules") could be read in such a misleading way that compensation for direct AND indirect CO2 costs should be regulated by the European State Aid Guidelines. This must not be the case.

1.3 Should free allocation be given from 2021 to 2030 to compensate those carbon costs which sectors pass through to customers? How could free allocation be best determined in order to avoid windfall profits?

2608 characters

The precautionary principle should be applied, meaning that all sectors are defined as exposed to carbon leakage unless the contrary is proven. The current calculation of exposure does not reflect the real climate policy cost impact on the industry as it does not

take into account all cost components resulting from climate and energy policies. Their impact on industry is much higher than currently judged in the ETS exposure status and will probably further increase with continued political interference and rising carbon prices.

The criteria for being part of the carbon leakage list should adequately reflect the realities of industrial production. The current carbon leakage list is lacking an assessment of value chain effects. Sub-sectors that are not directly impacted but are inherently linked, up- or downstream with exposed sectors are not necessarily on the list. The quantitative assessment of potential carbon leakage is backward looking and narrow.

As a consequence, the current criteria should be supplemented by the following:

- a comprehensive comparison of climate policy costs in Europe and other industrialized regions (including the rules for allocation for direct and indirect emissions);
- a clear definition for a “decisive share of global production”;
- the application of marginal power plants’ costs for the calculation of indirect CO2 costs;
- qualitative assessments to avoid negative effects on product life cycles (sectors that are influenced by but are not directly in danger of carbon leakage are not always on the list; (im)possibility of cost pass-through, product tradability).
- the application of the expected CO2 price.

However, the power sector should not be receiving free allocation. The current EU ETS does not sufficiently take into account the significant differences between the power sector and the industrial sector. The power sector is paying for each ton of greenhouse gas emitted but, at the same time, it can pass these costs through in total on to its customers. The CO2 costs have, however, an important impact on the electricity price, as this is set by the variable cost of the marginal power plant. Free allocation and compensation for these indirect CO2 costs should therefore only be given to sectors facing carbon leakage as they cannot pass on costs to consumers. This also includes free allocation for heat produced in combined heat and power installations.

It must be considered, meanwhile, which instruments can lead to a less carbon intensive power sector at the lowest cost. Here, additional steps must be taken to balance the effort sharing between ETS and non-ETS sectors and to design a more coherent and consistent EU energy and climate policy.

1.4 Are there any complementary aspects you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

1498 characters

Industry needs 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 ambitious unilateral climate policy with an absolute cap and effective protection against carbon leakage are incompatible.

Decision-makers at European level should also continue to examine how climate protection targets can be reached at least costs (i.e. how affordable energy prices can be ensured). Introducing dynamic free allocation for the EU ETS is only one important step in this context. Additional steps must be taken to reduce the cost for the decarbonisation of the power sector, to balance the effort sharing between ETS and non-ETS sectors and to design a more coherent and consistent EU energy and climate policy. Related to this, is the problem of policy uncertainty due to continued political interference in climate and energy policies, and the insecure outcome of international climate negotiations. Thus, the expression "incentives for industry to innovate" at any rate needs to be seen in a broader context. Innovation needs investment, and investment needs regulatory certainty and visibility.

Additionally, it should be ensured that the Council Conclusions' referral to better reflect changing production levels in a reformed ETS is not misunderstood as some form of adapted closure and new entrance rules (as this would lead to even more administrative complexity) but as real allocation for direct and indirect emissions based on actual production levels.

This was also recently requested by the European Parliament's Environmental Committee in its vote on the Market Stability Reserve. The Parliament's position clearly asks the Commission to review the ETS Directive to ensure "introducing a more accurate allocation of allowances and incentivising carbon-efficient growth without contributing to the over-supply of allowances. The Commission shall thereby take into account the conclusions of the European Council of 23 and 24 October 2014, in particular with regard to carbon leakage provisions and the continuation of free allocations, better reflecting changing production levels and incentivising the most efficient performance."

2. Innovation fund

The European Council has concluded that 400 million allowances in 2021 to 2030 should be dedicated for setting up an innovation fund to support demonstration projects of innovative renewable energy technologies, carbon capture and storage (CCS) as well as low carbon innovation in industrial sectors. To make this fund operational, a legal basis has to be created in the EU ETS Directive while further implementation modalities can be set out in secondary legislation. The work can build on the experience with the existing "NER300" programme which made available 300 million allowances for CCS and innovative renewable energy technologies.

With regard to establishing a legal basis for the innovation fund as part of the revision of the EU ETS Directive, the Commission seeks feedback on the following questions:

2.1 Do you see reasons to modify the existing modalities applied in the first two calls of the NER300? Are there any modalities governing the NER 300 programme which could be simplified in the design of the innovation fund? If you see the need for changes, please be specific what aspects you would like to see changed and why.

1463 characters

Auction revenues should not go into national budgets but be earmarked and ring-fenced for carbon leakage measures and innovation purposes. The funding support from the NER300 or alternatively a future NER should be allocated to the most cost efficient technology

developments. The question is whether CCS fits in this frame or whether other options such as CCU, electricity storage, resource efficiency improvements, or others would be more cost efficient.

It is also critically important that auction revenues go back to industry, ensuring that 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 need both measures to keep manufacturing clusters in Europe and to promote research and development.

It should be noted that innovation (partly) based on funding dependent on fluctuations in the carbon price has serious flaws with regard to predictability.

To this aim a future NER must be designed more efficiently than the existing program. This concerns project applications which should be designed less bureaucratic; faster granting procedures, or facilitated cross-border projects.

In general, positive investment signals depend on a range of policies not just the EU ETS, and therefore a coherent and coordinated approach will be indispensable to tackle the question of how regulatory certainty can be improved.

2.2 Do you consider that for the extended scope of supporting low-carbon innovation in industrial sectors the modalities should be the same as for CCS and innovative renewable energy technologies or is certain tailoring needed, e.g. pre-defined amounts, specific selection criteria? If possible, please provide specific examples of tailored modalities.

1042 characters

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. It is important to adequately define the appropriateness of each type of aid. Support is necessary at each stage in order to overcome the market barriers and failures specific to each stage. We see a lack of support for large scale pilots in industries and would wish to have the EU more active here.

Up to now, huge amounts of innovation funds have already been delivered to the energy sector in the form of RES-E support schemes in different Member States. These have opened the path to a low carbon power sector, whereas there is no such path prepared for other industrial ETS sectors although the reduction targets are and will be equally tough. Nor can we see an EU initiative that tries to fill this gap, but even hinders private innovation investments in industry by adding significant costs, applying reduction and correction factors and providing an insecure investment climate.

2.3 Are there any complementary aspects regarding innovation funding you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

1142 characters

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.

However, the EU ETS has been primarily designed as a tool to reduce emissions in the most cost-effective way and should not be considered as the innovation driver. The EU ETS should not support selected technologies or innovations, i.e. support schemes for industrial innovation should not be financed from the EU ETS. Instead, the new design of the EU ETS must focus on adequate carbon leakage provisions, i.e. the required volumes for free allocation must not be compromised by other aims.

The revenues from auctioning should be reinvested for low carbon technology support, as foreseen in the ETS Directive, or industrial energy efficiency. All ETS auctioning revenues should be used more cost-effectively and efficiently to assist the decarbonisation of European industry without impairing its international competitiveness; this includes compensation for direct and indirect costs.

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 technology innovation programme in energy intensive industry). However, such support must not cannibalise the free allocation volumes and carbon leakage provisions. Furthermore, policy-makers must refrain from raising the costs of decarbonisation policies in order to increase revenues that would otherwise be needed to address those costs.

3. Modernisation fund

The European Council has concluded that 2% of the total EU ETS allowances in 2021 to 2030 should be dedicated to address the particularly high investment needs for Member States with GDP per capita below 60% of the EU average. The aim is to improve energy efficiency and to modernise the energy systems of the benefitting Member States. The fund should be managed by the beneficiary Member States, with the involvement of the European Investment Bank (EIB) in the selection of projects. To make this fund operational, a legal basis has to be created (in the EU ETS Directive), while further implementation modalities can be set out in secondary legislation.

With regard to establishing a legal basis for the modernisation fund as part of the revision of the EU ETS Directive, the Commission seeks feedback on the following questions:

3.1 Implementation of the modernization fund requires a governance structure: What is the right balance between the responsibilities of eligible Member States, the EIB and other institutions to ensure an effective and transparent management?

0 characters

3.2 Regarding the investments, what types of projects should be financed by the modernisation fund to ensure the attainment of its goals? Should certain types of projects be ineligible for support?

93 characters

It is important that the certificates taken for the modernization fund are not taken from the free allocation for industry. Industry needs free allocation to protect its competitiveness.

For the definition of eligible projects please refer to the remarks made under question 2.2 and 2.3.

3.3 Should there be concrete criteria [e.g. cost-per-unit performance, clean energy produced, energy saved, etc.] guiding the selection of projects?

670 characters

The selection of projects should be made on the basis of cost-efficiency criteria which should be defined under the specificities of a project (e.g. cost-per-unit performance).

One additional point must be made under the circumstances of rapidly increasing shares of volatile renewable electricity: The increased penetration of intermittent renewable electricity generation needs flexible consumers, energy storage and variable generation. But flexibility in plant operations seldom equals efficiency. How will the cost of off-peak power and the increased emissions of variable plants (for both generation and consumption) be handled if not by promoting energy storage?

3.4 How do you see the interaction of the modernisation fund with other sources of funding available for the same type of projects, in particular under the optional free allocation for modernisation of electricity generation (see section 4 below)? Would accumulation rules be appropriate?

1297 characters

This modernization fund must not interact with other types of funding for industry in a way that it would negatively impact available means for industry to innovate. Key in the transition to a global low-carbon and competitive economy will be the investment in innovation, leading to cost-competitive technologies that will drive improvements in energy efficiency and emissions reductions not only in Europe, but also in other regions; and that positively contribute to EU's economy with net added value and a competitive international position.

Industry supports the fight against climate change and will invest in efficiency improvements. Energy is a substantial part of operating costs in energy-intensive industries; efficiency therefore is not only a growth but also a survival strategy as it contributes essentially to business opportunities in a company's future. This is also one of the reasons why European industries are already among the most efficient energy users in the world, as they have been continuously optimizing their energy demand for decades. Technically and economically feasible investments in resource efficiency, including energy efficiency, will therefore stay high on the agenda of European manufacturing industries.

3.5 Do you have views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. national climate programmes, and plans for renewable energy and energy efficiency)?

0 characters

3.6 Should the level of funding be contingent on concrete performance criteria?

136 characters

Yes, the level of funding should be in adequacy with the performance criteria of the project. Focus should be given to cost efficiency.

4. Free allocation to promote investments for modernising the energy sector

The conclusions of the European Council provide for the continuation after 2020 of the mechanism foreseen in Article 10c of the EU ETS Directive, which allows some Member States to opt to hand out free allowances to power plants in order to promote investments for modernising the energy sector. The current Article 10c modalities, including transparency, should be improved to promote investments modernising the energy sector, while avoiding distortions of the internal energy market.

With a view to reviewing and improving the current modalities as part of the revisions to the EU ETS Directive, the Commission seeks feedback on the following questions:

4.1 How can it be ensured that investments have an added value in terms of modernising the energy sector? Should there be common criteria for the selection of projects?

0 characters

Added value is created by innovation. Focus should be given on the stimulation of innovation which leads to more efficient technologies that can be used within and outside the boundaries of Europe.

4.2 How do you see the interaction of the free allocation to energy sector with other sources of funding available for the same type of projects, e.g. EU co-financing that should be made available for the projects of common interest under the 2030 climate and energy framework? Would accumulation rules be appropriate?

199 characters

If free allocation is given to the energy sector, it should be fixed to a certain amount. Focus should be on cost efficiency. There should be no interaction between two different sources of funding.

4.3 Do you have any views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. as regards improving transparency)?

0 characters

4.4 The maximum amount of allowances handed out for free under this option is limited. Do you think eligible Member States should use the allowances for a period of time specified in advance (e.g. per year), or freely distribute them over the 2021-2030 period? (Please explain your motivation.)

266 characters

This has to be spread over years, firstly because weather, economics and other factors affect emissions from one year to the next, and secondly because projects last more than one year.

In any case free allowances for industry must remain and must not be compromised.

4.5 Should there be priorities guiding the Member States in the selection of areas to be supported?

☒ Yes
☐ No

4.6 How can improved transparency be ensured with regard to the selection and implementation of investments related to free allocation for modernisation of energy? In particular regarding the implementation of investments, should allowances be added to auctioning volumes after a certain time period has lapsed in case the investment is not carried out within the agreed timeframe?

239 characters

Yes, allowances should be added to auctioning volumes after a certain time period has lapsed.

5. SMEs / regulatory fees / other

In order to allow taking stock of the EU ETS aspects beyond those examined by the European Council, respondents are also invited to provide feedback on certain other questions.

The Commission ensures that better regulation principles govern all of the policy work, including that the specificities of small and medium sized enterprise (SMEs) are taken into due consideration. Member States can exclude certain small installations from the EU ETS in the current trading period (2013-2020) if taxation or other equivalent measures are in place that will cut their emissions. If such a possibility was to be reviewed, a legal basis would have to be created in the EU ETS Directive.

The accurate accounting of all emission allowances issued is assured by a single Union Registry with strong security measures. The operations were centralised in a single Registry operated by the Commission, following a revision of the ETS Directive in 2009. This has replaced Member States' national Registries. Despite the considerable resources from the EU budget required for maintaining the EU Registry, as does supporting work on auctioning, the Commission does not have the possibility to charge any fees. However, Member States

administrators may still charge Registry fees to account holders administered by them. There are discrepancies in fees across different Member States.

5.1 Are there any EU ETS administrative requirements which you consider can be simplified? Do you see scope to reduce transaction costs, in particular for SMEs? If yes, please explain in detail.

1456 characters

When it comes to administrative complexity, this results primarily from:

- The rules to account for any changes between the historical base period and now (complex rules for new entrants, production cessations etc.).
- Specificities of national implementation (set-up of monitoring plans, annual monitoring, reporting).

Hence, the current complexity of the system from an operator's perspective 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 underlining the need for a model aiming at allocation based on actual production.

The current system's complexity 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.

An ETS consequently based on actual production would therefore not raise the administrative burden on the installation level. Concerning administrative complexities for authorities potential additional burdens can be significantly minimized through a smart and lean design.

In this regard, IFIEC wants to clarify that dynamic allocation does not entail problems concerning "considerable administrative burden, ensuring the quality of data (i.e. production reported) and confidentiality of commercially sensitive information" as was outlined in the Commission's analysis of the last stakeholder consultation on carbon leakage.

Generally, the potential for raising the thresholds in Annex I of the Emissions Trading Directive ("categories of activities to which this directive applies") should be explored in order to remove less relevant sources of emissions from the scope of the directive. Environmental, energy efficiency and other regulations apply also to SMEs. A thorough Impact Assessment should clarify whether their competitiveness can be improved by not subjecting them to the ETS in the future.

5.2 Member States had the possibility to exclude small emitting installations from the EU ETS until 2020. Should this possibility be continued? If so, what should be the modalities for opt-out installations to contribute to emission reductions in a cost-effective and economically efficient manner? Should these be harmonised at EU level?

689 characters

Yes, small emitting installations should continue to be allowed to be excluded in the future. The modalities for this should be based on best practice experiences in Member States and should include a minimum limit for emissions (e.g. 1000 t CO_2 / year). Many industrial companies run, for example, emergency power units that barely emit but are still under the scope of the 20 MW threshold.

Generally, as stated under question 5.1, the potential for raising the thresholds in Annex I of the Emissions Trading Directive ("categories of activities to which this directive applies") should be explored in order to remove less relevant sources of emissions from the scope of the directive. Environmental, energy efficiency and other regulations apply also to SMEs. A thorough Impact Assessment should clarify whether their competitiveness can be improved by not subjecting them to the ETS in the future.

5.3 How do you rate the importance of a high level of security and user-friendliness of the Union Registry? Do you think the costs for providing these services should be covered via Registry fees?

860 characters

The high level of security and user-friendliness of the Union Registry is important, but should not come at further cost increases for the industry. Costs resulting from carbon price and the reporting requirements of the ETS already lead to a significant burden which should not be increased by additional costs.

Concerning user-friendliness it should be explored how monitoring requirements could be simplified for small emitting installation and how the Registry could be freed from administrative requirements. As an example, at the moment it is incomprehensibly complicated to apply for reading rights for several countries as this involves administrative procedures in each individual country where those rights are desired. This could be massively facilitated if a finalised application procedure in one country was accepted in all other Member States.

5.4 Do you consider discrepancies in Registry fees in different Member States justified? Should Registry fees be aligned at EU level?

254 characters

When implementing the most efficient national reporting system as described under 5.1 and the EU-wide Union Registry, discrepancies in Registry fees between Member States are not justified. Therefore the Registry fees should be aligned between countries to the lowest level.

5.5 Under the current EU ETS Directive, at least 50% of the revenues generated from the auctioning of allowances should be used by Member States for climate-related purposes. For the calendar year 2013 Member States have reported to have used or to plan to use 87 % on average to support domestic investments in climate and energy. Do you consider the current provisions regarding the use of the revenues adequate for financing climate action? If not, please explain why?

657 characters

The ETS Directive states that half of auctioning revenues should be spent on decarbonisation measures. As revenues are generated by sectors that are part of the ETS, this is a noteworthy opportunity to pursue an active industry policy (i.e. through a large technology innovation programme in energy intensive industry). However, such support must not cannibalise the free allocation volumes and carbon leakage provisions. Furthermore, policy-makers must refrain from raising the costs of decarbonisation policies in order to increase revenues that would otherwise be needed to address those costs. Any support has to be technology-neutral.

6. General evaluation

6.1 How well do the objectives of the EU ETS Directive correspond to the EU climate policy objectives?
How well is the EU ETS Directive adapted to subsequent technological or scientific changes?

2296 characters

Emission trading on a global scale would be 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 globally equal level of climate costs, a robust carbon leakage protection for direct and indirect emissions is needed. 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 measures taken by the installations involved have contributed to achieving the ETS targets. However, with the implementation of the market stability reserve, Europe is giving the wrong signal to the worldwide community, leading to even slimmer chances to introduce a worldwide ETS. It is clear that this strategy is not offering a solution to the current issues of the system. More should be invested in stimulating innovation and creating a positive investment climate.

To enhance efficiency improvements and investment in the energy-intensive industries, the ETS carbon leakage measures must be revised to better protect competitiveness and at the same time set incentives for efficiency improvements. This purpose would be served by free allocation with no further reduction factors based on actual production volumes and realistic benchmarks, both for direct and indirect emissions. Fallback sectors should be adjusted equally towards a technologically feasible emission reduction path.

Free allocation for direct and indirect emissions should be based on the most actual production data to better reflect dynamic developments in the economy 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.

For further remarks on dynamic allocation please consider our responses in part 1 of this consultation.

6.2 What are the strengths and weaknesses of the EU ETS Directive? To what extent has the EU ETS Directive been successful in achieving its objectives to promote emission reductions in a cost-effective manner compared to alternatives, e.g. regulatory standards, taxation?

2567 characters

The potential of European industries to further reduce their GHG emissions depends heavily on industry policies in Europe and energy and climate policies in rest of the world. In order to improve the investment climate for innovations and efficiency increases, and to achieve the declared target of a 20% industrial share in GDP, the EU needs to return to a more focused industry policy.

EU industries need a stable investment framework and an international level playing field. Only if comprehensive carbon leakage protection measures are established, the ambitious target of 40% GHG reductions until 2030 will be reached without significant relocations of production facilities. Only such measures create the necessary conditions for investments and growth. Moreover, the aforementioned relocation of production will also lead to a relocation of emissions as long as GHG reductions are not regulated within an international framework. At the same time, Europe's economies will be massively weakened. Eventually, a single-minded policy focused solely on climate protection targets will neither be advantageous for the global climate nor for European societies.

In this context, IFIEC welcomes that the European Council has urged to continue measures against carbon leakage after 2020 in its conclusions in October 2014. However, the continuation of the existing system will not be sufficient to prevent large scale relocations of production facilities in the long run as it would entail a stricter linear reduction and cross-sectoral correction factor (CSCF) and, hence, lead to a dramatic shortfall of EU Allowances (EUAs) in energy intensive industries by 2030.

The EU ETS could be cost-effective, technology-neutral and in line with the industrial ambitions of the EU. However, it has been distorted by numerous structural defaults, such as one system for both, the industry and the power sector; carbon leakage issues; and an emissions cap beyond the technologically and economically achievable reality. This problem is aggravated by one-off measures tackling only partial aspects of the system (e.g. MSR, backloading), while not taking steps to prevent carbon leakage simultaneously.

Focus should be given to innovation and growth. Restrictions on production and growth and an unattractive investment framework will hinder the necessary innovation steps to further reduce. EU should aim at improving its climate policy by providing a positive and stable investment climate and through stimulating innovation in order to attract investments in new, more efficient and cleaner installations.

6.3 To what extent are the costs resulting from the implementation of the EU ETS Directive proportionate to the results/benefits that have been achieved, including

secondary impacts on financing/support mechanisms for low carbon technologies, administrative cost, employment impacts etc.? If there are significant differences in costs (or benefits) between Member States, what is causing them?

223 characters

Uncertainty caused by incoherent climate and energy policies has directly affected investments and thereby indirectly employment. When it comes to implementation costs MS should have more options to exchange best practice.

6.4 How well does the EU ETS Directive fit with other relevant EU legislation?

1677 characters

The current EU ETS Directive in combination with other energy and climate policies (Energy Efficiency Directive, Renewable Energy Directive, IED, air quality, waste management, REACH, etc.) is driving costs for industry significantly up. Instead of several energy and climate policies, a single, realistic energy and climate ambition addressing GHG emissions which depends on a global level playing field should be pursued. This approach must be complemented by an equally-ranked target for industrial growth. Instruments, such as energy efficiency and renewable energy policies can support this objective when applied in a smart way that avoids counterproductive effects, e.g. distortions on the electricity market. Experience from the 2020 framework has shown that several different targets can interact in ways that reduce the framework's overall effectiveness. This should by all means be avoided.

To minimise the total costs, politicians should commit to align the EU decarbonisation targets and the EU climate change policy to its industrialisation targets, especially if a global level playing field is not be achieved by 2020 or beyond that.

To achieve further emission reductions cost-efficiently, 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: accordingly, the remaining economic potential is much larger in other sectors (building, power, transport) than in industry.

The EU ETS must also be realized in the framework of a more consistent and aligned overall energy and climate policy on EU and on Member State level with the objective to bring energy prices down and in line with those in competing regions.

6.5 What is the EU value-added of the EU ETS Directive? To what extent could the changes brought by the EU ETS Directive have been achieved by national measures only?

586 characters

Climate change is a global issue. The EU's share in world CO2 emissions is about 10 %. Hence, substantial emission reductions on a global scale are necessary. In this context, addressing climate change at the European level should be understood as the smallest common denominator. Spreading the ETS on a global scale must continually be the ultimate

goal. At the same time, it must be ensured that national policies (such as additionally defined national reduction targets) do not undermine the value-added of an EU-wide or even globally harmonised system.

6.6 Do you have any other comment on the revision of the EU ETS Directive that you would like to share?

4206 characters

Resulting policy initiatives should frame the system in the medium term perspective. Any decisions should encourage efficient industrial growth and the climate change policy of the future should fit with the EU's industrial renaissance strategy. Only this combination will ensure a truly "forward-looking climate policy" as it was declared by President Juncker in his political programme.

Whether avoidance of carbon leakage is really feasible with the high carbon reduction targets foreseen depends first and foremost on the introduction of effective carbon leakage measures, but also 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. Supporting industry for these purposes is a no regret strategy. Companies' funds and their preparedness to use them for investments and innovation is the key for innovation.

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. If COP 21 in Paris will not bring a successful outcome – successful in such a way that it creates a global level playing field with an equal burden on industry – the ETS cap on the emissions of the exposed industry should be annihilated by an allocation reserve supplied with international credits. Contrary to the currently foreseen system, this proposed solution reflects the global character of the climate and greenhouse gas issues.

In principle, the broadening of the EU ETS to other sectors and regions of the world as a larger scheme should provide a more robust carbon market. For all sectors in question it must be evaluated whether the extension of the EU ETS scope is a more cost efficient alternative to the respective existing policy framework and whether it can be implemented without burdensome regulatory overlaps. The inclusion of e.g. transport would require a consistent revision of the current policy instruments, which is highly delicate because currently taxes paid to the state budgets are the chosen option. Such an extension of the scope must not be aimed at increasing only the demand for EUAs without adjusting the supply accordingly.

Moreover, access to international credits is an important element of the EU ETS and must be preserved in the future. It is the only instrument of global nature to achieve CO2 reductions. International credits have many positive impacts:

- They introduce the needed flexibility in the scheme allowing European industries to comply also through lower cost abatement options in non-EU countries.
- They support technology transfer and partnerships between stakeholders from different countries.

- They help connecting emerging carbon markets across the world.
- They have a positive impact on international climate negotiations as the inflow of investments as a result is the most important incentive for developing countries to negotiate a global climate agreement.

European energy and climate policies are an integral prerequisite for achieving the EU's industrialization target. To raise industry's share of GDP to 20% by 2020 and encourage more investment in innovation and efficiency improvements, a predictable and reliable investment climate is absolutely necessary. An essential part of this climate is a sustainable carbon leakage protection framework in a reformed EU ETS. In this context, the European Council Conclusions of October 2014 lay the foundation for an ETS reform towards dynamic allocation. The Commission now needs to take action in this direction.