

Reforming the EU ETS post 2020

Key principles to shape a growth-enabling framework

Position Paper

Glass Alliance Europe welcomed the European Council's October 2014 conclusions¹ that confirmed "*existing measures will continue after 2020 to prevent risk of carbon leakage due to climate policy, as long as no comparable efforts are undertaken in other major economies, with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness*".

Predictability and stability must be at the core of the much awaited reform of the ETS system if it is to deliver the expected levels of GHG emission reductions while securing investments from sectors that are characterised by their long investment cycles. Europe's glass industries are all exposed to the risk of carbon leakage, and as long as there is no global agreement, without sustained protection, there is inevitably less prospect of continued investment in the innovative processes and products that contribute to the EU objectives of a low-carbon, energy-efficient and circular economy.

Carbon leakage protection measures are essential until a global agreement is in place obliging competitors outside the EU to meet the same conditions and requirements as GAE members face. To fulfil the Council's asks, the reform of the ETS post 2020 must ensure that free allowances are allocated on the basis of recent production levels, that benchmarks are regularly reviewed at levels that provide incentives but yet are ambitious and achievable, and that any criteria artificially reducing free allocations are abandoned. The post 2020 EU ETS must reflect the EU objective of reindustrialisation by introducing a new flexibility mechanism to better take account of industrial growth.

The improvements in the directive must respond to the following factors:

Provide stability and predictability

- 1) **The quantitative and qualitative carbon leakage risk assessment criteria, thresholds and assumptions, as defined in 2008, have been effective in identifying the sectors at risk of carbon leakage and must remain unchanged.** However, since energy intensive industries, such as the glass industries, are characterised by long investment cycles, the system needs predictability and stability. So the assessment of industries at risk of carbon leakage must be undertaken once and remain valid for the entire trading period; and guarantees must be given that no additional reform is undertaken during an ETS phase.

Align to real production

- 2) As recommended by the October Council's Conclusions², future allocations should "*ensure better alignment with changing production levels in different sectors*". The principle of a rolling year for the production baseline would help better align free allowances to recent production levels and thus avoid an imbalance between the allowances market and the level of GHG emitted by manufacturing industries. GAE believes **the rolling year (Y-2) can be implemented without undue administrative burdens and confidentiality concerns.**

Reflect technological developments

^{1,2} European Council (23 and 24 October 2014) Conclusions on 2030 Climate and Energy Policy Framework, SN 79/14

- 3) Installations in sectors at risk of carbon leakage must receive free allocation at the level of the benchmark (in case of a product benchmark). **Product benchmarks must be set once for the entire trading period and based on the average of the 10% most efficient installations in the EU.** The alignment of the periodic revision of benchmarks with the ETS phases will ensure that free allowances are gradually reduced at levels that reflect the technology developments and deployment in each sector, and thus the ability of each industrial sector to improve its performance in terms of GHG emissions. The allocation of free allowances supports innovation and strengthens the ability of Europe's glass industry to invest in the efficiency of its plants and maintain investment capacities. It therefore drives innovation and emissions reduction while ensuring its competitiveness. Levels of free allocation to industries exposed to risks of carbon leakage should be connected to industry needs and should not be reduced by way of applying additional holistic corrective factors – notably any cross sectoral correction factor (e.g. CSCF).

Link free allocation with the GHG reduction potential of each sector

- 4) As recommended by the October Council's Conclusions³, in order to maintain international competitiveness, the most efficient installations in sectors at risk of carbon leakage should not face undue carbon costs leading to carbon leakage. **The application of the CSCF should be abandoned, *de facto* it entails a gradual reduction of protection against carbon leakage regardless of effective risks faced by individual sectors and the technical options to reduce CO2 emissions, and is at odds with the Council recommendation.** This artificial correction factor deprives all glass manufacturing sites, including the best performers, of some of their free allowances. Subsequently, they would be required to purchase allowances or reduce production⁴. The failure to link CO2 reduction targets with the reduction potential of each sector will inevitably generate extra costs for industries with only a limited GHG reduction potential and will increase the risk of relocation outside the EU borders.

Boost industrial growth

- 5) To boost industry's weight in the EU's GDP from its current 16% back up to 20% depends on stimulating investment and improving the business environment, as the European Commission has underlined in its comments on achieving this EU objective. The revised EU ETS post 2020 must take account of this and avoid hindering growth in EU-based energy intensive manufacturing industries. At present, the European based glass industry faces additional costs when it increases production because the ETS system relies on historical production figures and forces a reduction of free GHG allowances to sectors at risk of carbon leakage.

As long as no level playing field with competitors not subjected to equivalent environmental legislation is ensured, the introduction of additional flexibility mechanisms should be considered to cover increases in production by granting additional free allowances. **Part of the market stability reserve (such as unused and unallocated allowances) should be earmarked to allow industry to grow during an upturn in the economy while respecting the total EU cap on greenhouse gases.** This would make it possible for industry to cope with the highs and lows⁵ in demand while at the same time meeting the overall environmental objective of the ETS.

³ European Council (23 and 24 October 2014) Conclusions on 2030 Climate and Energy Policy Framework, SN 79/14

⁴ Between 2013 and 2020, all glass manufacturing sites will see their free allocations cut by 12% on average. The situation will continue deteriorating in the following years.

⁵ This would ensure, as recommended by the October Council conclusions, that the best players within a sector receive enough allowances to fully cover their production needs.



Promote innovation

- 6) The extension of **innovation support for industrial projects** is welcome. Innovation funding under the EU ETS should be allocated to energy intensive sectors listed in Annex 1 of the Directive and should be available in an appropriate form that promotes decarbonisation projects in these industries. The funding for innovation should, however, not come from cutting or limiting free allocation since that would be detrimental to protecting against carbon leakage. Revenue from auctions should be reinvested to support energy efficiency or low carbon technology, as foreseen in the ETS Directive. And it should be used by Member States to stimulate economic growth and relevant R&D investment.

In GAE's view, it is crucial that these principles guide the EU ETS reform to reconcile the climate and Europe's reindustrialisation objectives. Any future European Commission proposal will be analysed in light of these principles, to judge its capacity to create a workable and efficient mechanism.

About Glass Alliance Europe

Europe is the world leader in glass making. The glass industry comprises more than 500 plants providing 500,000 direct and indirect jobs. Glass is a unique and inert material made from abundant natural resources and fully recyclable. It is a key contributor to the EU objectives of a low-carbon, energy efficient and circular economy, and a key enabling material for essential supply chains, such as the pharmaceutical and health sector, the food and drink industry, buildings and construction, automotive, luxury goods and perfumes, electronics, etc.

For more information <http://www.glassallianceeurope.eu/>

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