



## EUROCHAMBRES response to the consultation on the Emission Trading System (ETS) post-2020 carbon leakage provisions

31 July 2014

### I. General: competitiveness, carbon leakage and present free allocation rules

*The questions in this section are an opportunity for stakeholders to express their general and broader view on carbon leakage issues, the present rules on free allocation of allowances and will be useful from a policy evaluation perspective.*

**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?**

- a) yes
- b) no
- c) I don't know

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

As the answer to this question can neither be a clear “yes” nor a clear “no”, the reply options provided above are not adequate.

Generally, there are further potentials to reduce CO<sub>2</sub> emissions of the EU industry via the ETS. However, whether this potential can be realised without reducing the industrial production highly depends on the way the future EU climate policy (and in particular the ETS) will be designed. The 40% emissions reduction target proposed by the EC in January 2014 is extremely ambitious and poses a potential threat to the EU as industrial location.

In order to increase the limited potential for further CO<sub>2</sub> reductions without reducing the industrial production output, the market-based characteristics of the ETS must fully remain in place along with **sufficient, robust and long-term protective measures** against carbon leakage.

Only under these conditions the two equally important objectives of increasing the industrial production while decreasing CO<sub>2</sub> emissions can be 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?**

- a) yes
- b) no
- c) I don't know

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

As stated in the ETS directive 2008/87/EC the scheme's first and foremost aim is to "promote reductions of GHG emissions in a cost-effective and economically efficient manner." Becoming more efficient and consequently, more competitive, can be a positive side effect.

However, the level of competitiveness and success of European products on the global market depends to a large extent on global climate change ambitions. Third countries will only be interested in energy efficient products "made in Europe" if they are required to meet specific GHG emissions targets themselves. As long as climate protection measures are not implemented globally, increased ETS-related costs will undermine the EU's competitiveness.

Therefore, the post 2020 carbon leakage measures must be in line with the adopted level of ambition. Logically, an increased ambition level towards 2030 requires an increased and not a decreased protection against carbon leakage.

**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?**

- a) yes
- b) no
- c) I don't know

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

Globally, the gap between the EU and growth front runner countries is still widening. Against the background of an increasingly tense international business environment, differing degrees of climate protection efforts result in competitive disadvantages for EU businesses.

Many CO<sub>2</sub>- and energy-intensive businesses are facing difficult times on the global market. In comparison to the US, average EU electricity prices for industry are more than 50% higher. For natural gas EU industries have to pay more than three times as much. In both cases, the gap is

widening. The IEA anticipates that by 2035 the EU's share of global exports of energy-intensive goods could decrease by 10 %-points.

Scientific studies show that domestic emissions in the EU decrease, while emissions linked to consumption in EU increase. This can neither be the aim of EU's climate policy nor be accepted as side effect. Thus, protection measures for energy and CO<sub>2</sub>-intensive sectors must be strengthened in the future.

**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?**

- a) very adequate
- b) quite adequate
- c) quite inadequate
- d) very inadequate
- e) I don't know

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

In order not to further weaken the competitiveness of CO<sub>2</sub>-intensive sectors, the basic principles of the current policy instruments (free/increased allocation for sectors on the carbon leakage list) must not be questioned. Free allocation is the best instrument to date to address carbon leakage risk for certain industrial sectors. This is absolutely necessary to ensure the competitiveness of EU industry.

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

- a) it absolutely keeps the incentive
- b) it largely keeps the incentive
- c) it largely compromises the incentive
- d) it absolutely compromises the incentive
- e) I don't know

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

As free allocation is carried out on the basis of ambitious benchmarks, businesses are required to fully exploit their low-carbon potentials. If industry can rely on sufficient free allocation for an adequate period of time, investment decisions will trigger improvements in a long term run.

Moreover, competitiveness aspects will unequivocally continue to remain a strong driver for energy-efficiency and low-carbon investments.

**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?\***

- a) absolutely proportionate
- b) quite proportionate
- c) quite exaggerated
- d) absolutely exaggerated
- e) I don't know

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

The implementation of the benchmarks through national implementation measures requires significant resources from the industry and the competent authorities. However, not having free allocation would have dramatic consequences for the sectors most exposed to CL. The cost impact (for the companies and the society due to the costs deriving from lost market shares and possible plant closures) would in any case be much higher than the admin. burden.

A main reason for admin. burden has been the continuous changes in the ETS-FW and implementing rules which has caused uncertainty among industry. We have to prevent constant changes in monitoring/reporting/verification rules that do not deliver any env. benefits.

In general, benchmarks have to be

- a. feasible (i.e. achievable in a cost-effective way).
- b. The EU should take a practical and pragmatic approach to benchmark-based allocation in collaboration with stakeholders.
- c. The EU should provide incentives to reduce GHG intensity via technology neutrality.

## II. Options for post-2020

### A. Strategic choices

*Beyond 2020 the total number of allowances under the EU ETS issued per year will further decline. This makes the overall allowance budget available for auctioning and free allocation (the cap) each year gradually lower. At the same time, we expect increasing efforts by other major economic players in the context of the UNFCCC negotiations for a post-2020 agreement. Currently some 45% of the total number of allowances (the cap) is provided to industry for free in Phase 3 (2013-20).*

**Question 7: What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes?**

- a) a lower share than in 2013-20
- b) a higher share than in 2013-20
- c) a constant share as in 2013-20
- d) there should be no limit to overall free allocation to industry
- e) there should be no free allocation post-2020
- f) I don't know

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

So far, the EU has clearly played the leading role in global climate action. However, none of the key international players have yet been sufficiently impressed by the European commitments to follow suit. As long as the international imbalance of CO<sub>2</sub> costs remains, a guaranteed 100% allocation for free emissions certificates is needed. Sectors at risk of carbon leakage that produce CO<sub>2</sub> efficiently should receive 100% of their required certificates for free, without subsequent reductions.

Since free allocation is the main instrument to avoid carbon leakage, its share should be sufficient. Post 2020 carbon leakage measures have to be in line with the adopted level of ambition. Logically, an increased ambition level towards 2030 requires increased and not decreased protection against carbon leakage.

An efficient producer in the EU should not have competitiveness disadvantages compared to its competitors in third countries. Therefore, free allocation should not be subject to any reductions.

**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 should be dedicated to such innovation support?**

- a) a substantially higher share than in Phase 3
- b) the same share as in Phase 3
- c) a lower share than in Phase 3
- d) there should be no such innovation support post-2020
- e) I don't know

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

A higher share of the post-2020 allowance budget should be dedicated to general research, development and innovation (R&D&I) support. However, it must be made unequivocally clear that any financial support for R&D&I must be generated from auction revenues and must not replace free allocation.

Auction revenues should be earmarked for the development of various low-carbon production technologies, without favouring certain 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?**

- a) yes
- b) no
- c) I don't know

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

Earmarking auction revenues for industrial innovation should become obligatory for all Member States.

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

- a) It should be funded under a system similar to NER300 with extended scope to cover greenhouse gases reduction technologies in the industry
- b) It should be funded through a new dedicated scheme financed by the revenues from auctioning (e.g. x% of the auctioning revenues);
- c) other types of funding (please specify)
- d) I don't know

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

100% of auction revenues should be reinvested to the benefit of businesses in all Member States (e.g. support industrial low carbon projects). This should be a legally binding requirement for every single member state.

**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?**

- a) yes
- b) no
- c) I don't know

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

In several EU countries, energy and emission-intensive industries contribute significantly to the reduction of greenhouse gas emissions: Not only due to their participation in the EU-ETS but also by paying taxes or surcharges for the development of renewable energies. For as long as other countries do not commit to equally ambitious climate protection regulations, member states should have the possibility to exempt energy intensive industries from such taxes and surcharges in order to secure their competitiveness and reduce the risk of carbon leakage.

Also, energy intensive businesses should be provided with offsetting for the pass-through of CO2 costs in electricity prices by either financial compensation or free allocation.

## B. Allocation modalities

*There is a need for a more focused system of free allocation post-2020 because of the fact that the allowance budget post-2020 gradually shrinks. Providing innovation support would also require some headroom. There might also be a case for improving allocation modalities based on practical experience gained in developing and implementing the existing harmonised carbon leakage and free allocation rules.*

**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?**

- a) the present two groups should remain
- b) more carbon leakage categories should be defined
- c) there is no need for a carbon leakage list, all industrial installations should be treated as exposed
- d) there is no need for a carbon leakage list, all industrial installations should be treated as not exposed
- e) I don't know

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

Sectors which are currently not on the carbon leakage list should, in justified cases, also be treated as exposed.

**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?**

- a) the present criteria should remain
- b) only the share of 'carbon costs' in the GVA should be maintained
- c) the share of 'carbon costs' in the GVA should be maintained, but 'carbon costs' should be taken into account to the extent that they can't be recuperated in product prices
- d) only the intensity of trade with third countries should be maintained
- e) additional criteria should be defined (please specify which current criteria should be maintained and which additional criteria should be defined)



- f) both the current criteria should be replaced and other criteria should be used instead (please specify)
- g) I don't know

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

The two presented criteria should be complemented by:

- Indirect costs (higher energy prices due to CO<sub>2</sub>-costs being passed down to industry)
- Export and import competition
- Profitability of a sector (However, in this context, the entrepreneurial data security has to be kept in mind. The mere technical feasibility of reducing emissions does not mean that these improvements are affordable. The key issue is the potential to cost-effectively reduce emissions. Once this potential has been exploited, profit margins are even more under pressure.)

See also response to question 15

**Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage?**

- a) the present threshold (30% for the stand-alone criteria and lower values for the combination of several criteria) should be maintained
- b) other thresholds should be defined. Please specify below
- c) I don't know

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

**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?**

- a) yes, it is important to maintain a certain level of discretion in the system for justified cases
- b) no, all criteria should be based on simple metrics and linked to clearly defined thresholds
- c) I don't know

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

For some sectors, statistical data does not fully capture the reality of their exposure to leakage. This is often due to boundary issues or linked to the complexity of the sector and its market (e.g. technological limits of the sector). Therefore, the option to have a qualitative assessment should be kept.

**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?**

- a) five years
- b) longer (please specify)
- c) shorter (please specify)
- d) in line with the duration of ETS Phase 4
- e) I don't know

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

In order to guarantee long-term investment security, carbon leakage status must not be reviewed every five years, but instead remain unchanged until other economic areas draw level in terms of CO2 costs for industries.

**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?**

- a) the present approach of average of the 10% most efficient installations should remain
- b) the approach should be more stringent (please specify)
- c) the approach should be less stringent (please specify)
- d) I don't know

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

The benchmark of the 10% best performing installations is used only to calculate the preliminary free allocation, while the final free allocation is affected also by the cross sectoral reduction factor. Rules on free allocation should be adjusted so that the best performing installations get 100% free allocation without any reduction.

**Question 18: Should the benchmarks be revised to reflect the technological state of the art?**

- a) yes (please specify how often)
- b) no
- c) I don't know

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

The benchmarks should reflect the technological state of the art **HOWEVER**, in order not to harm the long-term planning certainty of businesses the technological state of the art should not be updated within a trading period.

**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?**

- a) no, the same baseline period chosen for allocation in Phase 3 should be maintained also for post 2020 (Phase 4) allocation
- b) yes, production levels in 2016-2018 should be the basis for post 2020 (Phase 4) allocation
- c) other (please specify)
- d) I don't know

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

The production data used to determine the allocation should be as up-to-date as possible. EUROCHAMBRES calls on the Commission to apply a dynamic approach based on real production levels or a rolling average of production levels over closer years (e.g. n-1, n-2).

**Question 20: Is there a case for any deviations from general harmonised allocation rules and what would be the risks involved?**

- a) no, there should be no deviations
- b) yes, there should be deviations with higher allowances for installations facing specific hardships
- c) yes, there should be deviations with lower allowances for installations enjoying very favourable circumstances

- d) both b) and c)
- e) I don't know

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

**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?**

- a) no, the present approach should be maintained, i.e. that Member States can provide such compensation based on state aid guidelines
- b) no, and there is no need for financial compensation by Member States, either
- c) yes, in the form of additional free allocation
- d) yes, in the form of financial compensation at EU-level
- e) I don't know

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

## C. Innovation support

*The transition to a low-carbon economy requires continuous innovation activities in many sectors and relatively long time and high level of investments to the final prototypes. The sectoral 2050 roadmaps have revealed some of the key technologies and innovations needed to master this transition. First movers in low-carbon innovation not only have the prospect of earning high returns on successful innovations, but also run the risk of failure. Hence support with public money might be justified, in particular for full scale demonstration projects, to complement other EU (and private) funding possibilities.*

**Question 22: In your view, at which stage of the innovation process is there a particular need to strengthen the EU's innovation support? Please rank the options from the most important to the least important.**

	Most important	Important	Less important	Least important	I don't know
To implement a small-scale prototype	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
At the conception stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
To implement a large-scale pilot	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
At the commercialisation stage	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

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

In general, all stages of the innovation process are important and should be supported. However, especially SMEs need additional support to turn their innovative ideas into a product on the market. Small scale projects can help them access new markets through innovation.

**Question 23: Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation?**

- a) from the Member States' auction budgets
- b) from free allocation
- c) from both
- d) other
- e) I don't know

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

The allowances funding low-carbon innovation support should derive from member states' auction budgets. However, other public and private funding sources should also be considered.

## D. Other issues

**Question 24: Are there any other issues you would like to raise? (max. 1000 characters):**

So far, the ETS has been a relatively well-functioning working instrument, generally showing that CO<sub>2</sub>-reduction can be achieved in a cost-efficient way. However, the EU should focus on a stable long-term perspective for climate action. What our businesses need most is planning certainty, confidence in the EU as business location and a level playing field with global competitors. Though the EU can act as pace-setter, it cannot shoulder climate protection alone, as less than 10% of the GHG emitted worldwide each year come from within the European Union.

Thus, the EU has to put every effort into the conclusion of an intl. agreement by 2015. However, until such a binding agreement including all major emitters will enter into force, our CO<sub>2</sub> & energy intensive businesses must not be subject to any new burdens.

Moreover, the EU must not only concentrate on mitigation but also on adaptation measures, which (unlike mitigation efforts) lead to concrete and economically quantifiable results.

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