Position Paper

March 2016

EUROCHAMBRES position on the Commission's EU ETS post-2020 reform proposal

EUROCHAMBRES recognises the important role that the EU plays as a pacemaker in global climate and energy policy and supports the cost-efficient reduction of greenhouse gas emissions with the aim to lead Europe towards a low-carbon future. As a key tool, the EU Emission Trading System (ETS) was designed to contribute significantly to the achievement of this long-term vision and has, ever since, ensured that emission cuts can be achieved at least costs (Article 1 of the EU ETS Directive 2003/87/EC).

Chambers recognize the need to reform the ETS in order to make it fit for the next decade. In this regard, EUROCHAMBRES supports the European Council Conclusions of 24 October 2014, according to which existing measures to prevent the risk of carbon leakage should continue after 2020 and the most efficient installations in sectors threatened should not face undue carbon costs. Unfortunately, the Commission's proposal, published in July 2015, largely failed to transpose the European Council's key principles into draft legislation. Therefore, Chambers request the following amendments to the reform proposal.

100% free allocation for best performing installations

As long as the international imbalance of CO_2 costs remains, it is of utmost importance that the best performing installations at risk of Carbon Leakage receive 100% of their required certificates for free, without subsequent reductions. In order to make this possible, the harmful effects of the Cross-Sectional Correction Factor (CSCF), that burdens even state-of-the-art businesses, reducing their free allowances faster than their actual emission reduction potential, must be mitigated. In addition, the fixed share of 57% of auctioned allowances will lead to substantial shortfall of certificates for many emission-intensive businesses. EUROCHAMBRES demands that the Council Conclusions are met which require a fair share of the ETS cap is freely allocated to industry. This, in turn, would minimise the probability of the correction factor to be applied. Moreover, it should be evaluated if unused certificates could serve to tackle potential shortfalls of freely allocated emission allowances.

A further major weakness of the ETS is the use of outdated historic production levels as data for the allocation of allowances. This "undynamic" allocation creates the unfortunate situation that a decrease of production is rewarded, while growth is punished- and therefore dis-incentivised. EUROCHAMBRES, therefore, urges the adoption of an approach which favours "a dynamic allocation" enabling distribution of free allowances based on the use of more recent output data (e.g. n-1, n-2) in order to incentivise growth, in line with the EU's re-industrialisation target.

ASSOCIATION OF EUROPEAN CHAMBERS OF COMMERCE AND INDUSTRY
Chamber House, Avenue des Arts, 19 A/D B - 1000 Brussels • Belgium
• Tel. +32 2 282 08 50 • Fax +32 2 230 00 38 • eurochambres@eurochambres.eu • www.eurochambres.eu

As free allocation is carried out on the basis of ambitious benchmarks, the above-mentioned reforms would not discourage businesses to fully exploit their low-carbon potentials and the incentive to innovate would be fully preserved.

Reality-oriented benchmarking

EUROCHAMBRES regards benchmarks as most important incentives to reduce CO_2 emissions. However, technological progress does not occur in a linear manner, as suggested by the proposed arbitrary benchmark factor. The speed of the process depends on many factors (e.g. investment climate, regulatory framework) and cannot be triggered by the ETS alone. In some sectors further efficiency increases are not possible due to unavoidable process emissions. Unfortunately, the new proposal no longer ensures that the 10% most efficient installations of a sector receive all of their needed certificates for free, as benchmarks get tightened by at least 0.5% annually, regardless of whether further efficiency improvements have been or can be achieved.

Benchmarks must reflect actual technological cycles in specific sectors and remain technically feasible and economically achievable. Thus, Chambers suggest to base the benchmark on the actual emissions of the 10-15% best performers and to update it at the beginning of each trading period. Any revision must be transparent and based on actual verified performance over a sufficient period. With regard to the proposed benchmark reviews, it will be crucial to avoid excessive administrative burden in data collection and verification.

Robust and long-term protection against Carbon Leakage

The very ambitious CO_2 emissions reduction target of 40% is a strong signal that the EU is willing to lead the fight against climate change. However, Chambers call on the EU to send an equally strong signal to the business community, guaranteeing to preserve Europe as attractive business location for energy intensive industries.

EUROCHAMBRES welcomes the proposed carbon leakage criteria and is highly skeptical about any form of tiered free allocation, defining different risk levels. Yet, the classification as sector “at risk” will mostly remain unclear until 2019. As important guidelines are missing, businesses will, in many cases, postpone investment decisions or invest in other regions. This would neither benefit growth and jobs in Europe, nor the global climate.

Moreover, energy intensive businesses should be provided with offsetting for the pass-through of CO_2 costs in electricity prices by either financial compensation or free allocation. The current patchwork of compensation mechanisms in Europe causes competitive distortions. Thus, the Commission should encourage all Member States to apply national compensation mechanisms based on the current EU-guidelines. The principle of equal treatment in shielding businesses from direct and indirect carbon costs should be applied in all Member States.

Compensatory mechanisms for power sector

As outlined by the European Council, Member States with a GDP per capita below 60% of the EU average shall be eligible to derogate from full auctioning for power generation to limit electricity price increases and to finance the energy transition. EUROCHAMBRES supports the idea to use emission revenues for the purpose of transforming the energy sector cost efficiently. However, whether a cost-efficient modernisation can be achieved by means of an open bidding processes for larger investments is questionable. In any case, it has to be ensured that the compensatory mechanism does not lead to a distortion of competition within the EU.

Reinvest revenues to the benefit of businesses

EUROCHAMBRES has repeatedly requested to dedicate a higher share of the post-2020 allowance budget to general research, development and innovation (R&D&I) support. Therefore, Chambers welcome the Commission’s intention to extend the scope of NER 300 and to look beyond CCS at other low carbon technologies, without favouring certain technologies. However, the 400 million allowances must not be limited to significant production increases (>50%) only and the eligibility criteria should be extended to research and development activities.

Furthermore, also according to the new rules, only a relatively small share of auctioning revenues will be spent on developing low-carbon technologies. For the most part, revenues will continue to be absorbed by public budgets. Thus, EUROCHAMBRES demands that 100% of auction revenues should be reinvested to the benefit of businesses in all Member States. This should be a legally binding requirement for every single member state.

Conclusion

The upcoming decisions will be an important building block to create the framework conditions for an efficient, low-carbon and prosperous business environment. Europe's generally very cautious economic forecasts prove that the investment climate will only slowly gain momentum in the coming years. The ETS should, therefore, avoid to create further stumbling blocs to economic recovery. Thus, EUROCHAMBRES urges the co-legislators to ensure a balance between environmental and economic aspects when discussing and amending the Commission's proposals in the coming months.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 43 countries and a European network of 1700 regional and local Chambers.

Further information: Mr. Michael Steurer, Tel. +32 2 282 08 77, steurer@eurochambres.eu
Press contact: Ms. Simona Obreja, Tel. +32 2 282 08 81, sampaio@eurochambres.eu