Questions for stakeholder consultation on Emission Trading System (ETS) post-2020 carbon leakage provisions

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0. Registration

0.1 What is your profil? -single choice reply-(compulsory)	b) Trade association representing businesses

0.2 Please enter the name of your business/organisation/association etc. (maximum 500 characters): -open reply-(compulsory)

EUROALLIAGES is the European association representing ferro-alloys and silicon producers (23 companies, operating 50 plants in 14 countries, representing 95% of the sector in Europe). Its members supply the most efficient and economical way of introducing alloying elements into iron and steel melts in order to produce the required steel grades. It also provides the electronic, chemical and solar industries with essential base materials for their products. All processes are energy-intensive.

0.3. Please enter your contact details (address, telephone, email): -open reply-(compulsory)

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0.4 If relevant, please state if the sector/industry you represent falls under the scope of EU ETS: -single choice reply-(compulsory)	a) yes
0.5 The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication? -single choice reply-(compulsory)	1) yes

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

Question 1: Do you think that EU industry is able to further reduce greenhouse gas emissions towards 2020 and beyond, without reducing industrial production in the EU? -single choice reply-(compulsory)	b) no

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

In the ferro-alloys and silicon sector, the abatement potential is very limited. The production process goes along with incompressible

emissions. The European ferro-alloys and silicon industry has been an early mover and the thermodynamic limits for CO2 emissions have almost been reached. Beyond these limits, process emissions cannot be further reduced with the state-of-the-art technologies. EUROALLIAGES provided DG CLIMA with calculations on stoichiometry in April 2010 and is available to present scientific evidence again. Besides, the last digits are the most expensive to reach and the global competitiveness of the European ferro-alloys and silicon sector will be even more under pressure. Innovation is most certainly a key to further abatement and the industry needs support in this direction, especially with the high cost that goes along with it. However, for the design of EU policy, EUROALLIAGES does not see as realistic an approach relying on potential breakthrough technologies.

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? -single choice reply-(compulsory)	a) yes

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

EUROALLIAGES supports the EU ETS, however the system needs improvements. To contribute to industry's competitiveness, the economic incentive for carbon efficiency must not increase the unilateral cost burden and the risk of carbon leakage. Today, the incentive is distorted by the ex-ante allocation. The current ETS design does not adequately protect against carbon leakage because reduction factors reduce free allocation, the carbon leakage status of industry is uncertain and the ex-ante principle undermines growth and efficiency. Energy efficiency is a natural path for an energy-intensive sector like ours and it is being exploited where economically viable. It however requires big investments which are partly hindered by the EU ETS: in the case of heat recovery, the potential free emission allowances attached to the heat are transferred to the utilities which purchase the recovered energy while the financial effort lies in the industrial plants.

Question 3: Do you think the EU needs to provide special (transitional) measures to support EU industry covered by the EU ETS, in order to address potential competitiveness disadvantages vis-à-vis third countries with less ambitious climate policy? -single choice reply-(compulsory)	a) yes

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

As long as the ambitious European climate policy is not mirrored by equivalent international efforts, creating a real level playing field, the EU needs to ensure that the unilateral cost burden on EU industry is minimised. This is important not only from an economic viewpoint but also with an environmental consideration: the EU emission reduction targets should not be achieved through production relocation. The international efforts must not only be comparable; the cost for the industry must be the same in the main competing regions. Although ETS-like systems are emerging elsewhere, they are far from the EU ambitions and they generally offer a higher level of protection of industrial competitiveness. Until a real level playing field is reached, European industry needs not only transitional provisions, but also a stable framework which allows investments.

Question 4: In your view, how adequate a policy instrument is free allocation and, in particular, increased free allocation for certain industrial sectors to address the risk of carbon leakage? -single choice reply-(compulsory)	b) quite adequate

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

The tool is adequate but implementation flaws reduce its effectiveness. The principle should be that free allocation allows positive stimulation for good performers and enables bad performers to improve. Today, the allocation calculated based on best performers is

decreased through correction factors. The decrease of 1.74%/year is higher than the usual rate of carbon efficiency improvements which makes the allocation not adapted to the reality of best available technologies. Besides, the compensation for indirect emissions is restricted and uncertain. Moreover, the allocation rules must be revised to also prevent carbon leakage at higher CO2-prices. The system especially needs fundamental revision if the EU remains isolated with its ambitious climate policy. In the medium- to long-term, an ambitious climate policy and the necessary effective protection against carbon leakage cannot rely only on a transitional measure such as free allocation.

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

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

The incentive to reduce emissions is provided by the carbon price and the best performers principle. The benchmark principle gives carbon-efficient producers an economic advantage compared to less carbon-efficient ones. In other words, the incentive to make efficiency improvement investments is only strengthened by the cost difference achievable through an investment. However, this incentive is distorted in the current EU ETS design through the use of historical production data. Free allocation should be based on actual production instead. It must also be remembered that producers in the sectors exposed to a high risk of carbon leakage cannot pass through their carbon costs into product prices.

Question 6: In your view, is the administrative burden for companies to ensure the free allocation via the implementation of the benchmarking provisions proportionate to the objectives? -single choice reply-(compulsory)	c) quite exaggerated

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

The red tape could be avoided by the introduction of an alternative free allocation mechanism, based on actual production (instead of historical). It would not only reduce the administrative burden, but also help avoid investment leakage.

II. Options for post-2020

A. Strategic choices

Question 7: What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes? -single choice reply-(compulsory)	d) there should be no limit to overall free allocation to industry

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

Free allocation to industry should exist as long as necessary and at a sufficient level to avoid carbon leakage. The calculation should be based on realistic performances taking into account available technologies. A good European performer should have no disadvantage compared to its competitors in other parts of the world. It must not be forgotten that global competitiveness and carbon leakage are intrinsically linked.

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	e) I don't know

allowances, are dedicated for this purpose. What share of the post-2020 allowance budget should be dedicated to such innovation support? -single choice reply-(compulsory)	
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
Renewable energies are already supported by separate national schemes, so the ETS funds should not play a role in this area anymore. CCS can be a useful tool to decarbonise the power sector and also the industry. In addition, CCU is also a concept which deserves attention. R&D in these technologies is necessary, but it should be independent from the auctioning incomes. It is impossible to answer on the level of support: the NER support volume cannot be fixed upfront since it is related to the carbon price.	
Question 9: At the moment, EU ETS rules do not contain a specific support scheme for industrial innovation and deployment of new low-carbon technologies (apart from support for CCS and renewables under the NER300). Do you think there should be such a financial support scheme? -single choice reply-(compulsory)	a) yes
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
There is an inconsistency between the EU emission reduction targets and the abatement potential of the ferro-alloys and silicon sector. The technologies which would be required to achieve the EU targets are not available today. Therefore the R&D and innovation must be further supported. However, the balance must be carefully drawn and this support should not be made at the expense of competitiveness; it should come on top of free allocation with regard to carbon leakage. A possibility for a support scheme is also to allocate additional free allowances.	
Question 10: If innovative low carbon technologies in the industry are to be further supported, which could be possible sources of funding? -single choice reply-(compulsory)	c) other types of funding (please specify)
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
A fund for industrial innovation is clearly needed. It should be set up at EU level, because going to national level only means scaling down and fragmenting innovation. Earmarking part of the auctioning revenues does not seem to be a good solution. It means collecting money from the companies and then giving some back to part of them (usually the best lobbyists). The funds should be left in the companies to be invested in innovation. It should not be forgotten that in the vast majority of cases innovation takes place in the private sector. However additional support is still needed from EU level.	
Question 11: In your view, is there a need for additional measures beyond free allocation and EU-level innovation support to address the risk of carbon leakage for energy intensive sectors covered by the EU ETS, post-2020? -single choice reply-(compulsory)	a) yes
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
Compensation for indirect emissions must also be covered at EU level through additional free allocation. For the ferro-alloys and silicon sector, which is energy-intensive, this is of crucial importance. Carbon leakage is very much due to energy costs; therefore there should be action to alleviate the rise in energy prices and the costs for industry. The cap for industry under the EU ETS must not be absolute but	

take into account the (realistic) abatement potential. It must also be subject to equivalent commitments at global level. With regard to free allocation, the principle should be to base it on actual production and not on historical data, which would improve the system (please see above).

II. Options for post-2020

B. Allocation modalities

Question 12: Currently there are two categories for sectors in terms of exposure to the risk of carbon leakage: sectors are either deemed to be exposed to such risk (the sectors on the carbon leakage list) or not (sectors not on the carbon leakage list). Should the system continue with two carbon leakage exposure groups or is some further differentiation needed? -single choice reply-(compulsory)	a) the present two groups should remain

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

Ferro-alloys and silicon are globally priced and are price takers; hence the European producers are faced with competitors who do not abide by the same rules. As long as there is no operational global binding climate agreement with equal commitments, the carbon leakage risk will subsist for European industry. Therefore the list and the measures must be kept. In principle, all energy-intensive industries should be on the list. Value chains need to stay in Europe and no sector should be replaced by imports. Once an industry has left Europe, it does not come back. Investment leakage, which is currently undeniably occurring, should be better reflected in the list and the measures. It represents the first step to carbon leakage. The carbon leakage list should also cover indirect emissions, which represent an important cost for European industry and a crucial one for energy-intensive industries.

Question 13: Under the current system, exposure of sectors to the risk of carbon leakage is primarily measured by the share of 'carbon costs' in their gross value added (GVA) and by the intensity of trade with third countries. What carbon leakage criteria should be defined for the post-2020 period? -single choice reply-(compulsory)	e) additional criteria should be defined (please specify which current criteria should be maintained and which additional criteria should be defined)

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

Both current criteria should remain into place since they both clearly reflect the risk of carbon leakage, but they need to be strengthened with essential new elements: - a carbon costs comparison Europe vs. other major industrial regions (CO2, RES, grid and back-up costs); - the use of the marginal power plants for the indirect carbon cost; - an auctioning factor that is not too sharp; - the impact of value chain effects; - a forward-looking carbon price.

Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage? -single choice reply-(compulsory)	a) the present threshold (30% for the stand-alone criteria and lower values for the combination of several criteria) should be maintained

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

The current criteria and the thresholds are well designed to reflect the risk of carbon leakage.

Question 15: In the current system, there is a possibility to assess the exposure of sectors to	a) yes, it is important to maintain a certain level of discretion in the system for justified cases

the risk of carbon leakage also based on qualitative criteria (abatement potential, market characteristics and profit margins). Do you think that similar qualitative criteria should be maintained to complement the quantitative criteria? -single choice reply-(compulsory)	
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
The following parameters are proposed for a forward-looking qualitative assessment: - All costs related to climate change policy along the value chain, in particular upstream costs, should be taken into account; - The value chain analysis should also consider the implication for downstream sectors if an upstream sector is removed from the carbon leakage list; - The inability to pass through locally imposed costs for sectors whose product prices are determined globally should be taken into account.	
Question 16: Currently, the list of sectors exposed to the risk of carbon leakage is valid for five years. What should be the validity of the list for the post-2020? -single choice reply-(compulsory)	b) longer (please specify)
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
Investment decisions require a longer planning period that what is currently offered within the EU ETS. Uncertainty and lack of predictability are elements that drive investments out of Europe. Planning stability should be ensured as long as there is no functional binding global climate agreement with equivalent commitments. Predictability with regard to carbon leakage should be ensured at least for the duration of EU ETS Phase 4.	
Question 17: Currently benchmarks are set to the average greenhouse gas emission performance of the 10% best performing installations in the EU for a given product. What adaptations of benchmarks for 2021 onwards should be considered, if any? -single choice reply-(compulsory)	c) the approach should be less stringent (please specify)
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
The stringency of the benchmarks should be related to comparisons at global level. The level of the benchmarks should be designed to provide an effective resistance to carbon leakage at forward-looking higher carbon prices in the longer term future. Benchmarks should be set at weighted average with a realistic annual carbon efficiency improvement rate. This has been the approach of other ETS-like systems emerging around the globe, which have certainly learned from the mistakes of the first ETS adopted by the EU. As far as the ferro-alloys and silicon sectors are concerned, they are covered by fall-back approaches. A global comparison would allow the elaboration of a benchmark which will help take into account essential characteristics of this industry instead of making it subject to discretionary calculations.	
Question 18: Should the benchmarks be revised to reflect the technological state of the art? -single choice reply-(compulsory)	b) no
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
A revision of the benchmarks would harm the predictability necessary to investments (see answer to question 16). Only the commercialisation of a breakthrough technology changing the face of a sector would justify such a revision in the coming years. Until a binding global climate agreement with equivalent commitments is made functional, changing this parameter of protection against carbon leakage would be counter-productive. The ferro-alloys and silicon sectors, which are subject to fall-back approaches, are looking forward	

to the adoption of a global climate agreement at the abovementioned conditions, which would allow the elaboration of a benchmark and help take into account essential characteristics of this industry.

Question 19: Currently, historical production data are used to determine the allocation due to each installation. Operators had the possibility to choose between 2005-2008 or 2009-2010 as basis years. Should the production data used to calculate allocations in Phase 4 (post 2020) be updated? -single choice reply-(compulsory)	c) other (please specify)

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

Actual production data should be used to determine the allocation (see answers to questions 5 and 6). Free allocation should reflect economic reality of the plant.

Question 20: Is there a case for any deviations from general harmonised allocation rules, and what would be the risks involved? -single choice reply-(compulsory)	a) no, there should be no deviations

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

Question 21: Should there be a harmonised EU-wide compensation scheme for indirect costs, i.e. for increases in electricity costs resulting from the ETS? -single choice reply-(compulsory)	c) yes, in the form of additional free allocation

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

Direct and indirect emissions must be treated in parallel since they both harm installations covered by the EU ETS. Indirect emissions are a perverse effect of a policy element not designed to impact European industry. Power producers are price-makers and European industry does not have any power to alleviate this effect. Today, the treatment of indirect emissions is based on an intrinsically unstable system for financial compensation (depending on available budget, political decisions, decided on a yearly basis). It should derive from a more solid and predictable system, at EU level, through additional free allocation and without undue reduction factors. Only at these conditions will European industry be effectively protected against carbon leakage.

II. Options for post-2020

C. Innovation support

To implement a small-scale prototype -single choice reply-(compulsory)	Less important
At the conception stage -single choice reply-(compulsory)	Most important
To implement a large-scale pilot -single choice reply-(compulsory)	Important
At the commercialisation stage -single choice reply-(compulsory)	Least important

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

-open reply-(optional)

Question 23: Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation? -single choice reply-(compulsory)	a) from the Member States' auction budgets

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

Section II:

D. Other issues

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

The entry into function of a binding global climate agreement which entails equal commitments from all parties is of major importance for the European system of protection against carbon leakage. As long as there is no joint action, unilateral increases of European emission reduction targets will harm more and more European industry. Therefore the protection against carbon leakage granted at European level must be in line with the European level of ambition.