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)	e) Non-governmental organisation

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

Carbon Market Watch / Nature Code

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

Carbon Market Watch Nature Code - Centre of Development & Environment Rue d'Albanie 117 B-1060 Brussels, Belgium Tel =32 2 335 36 66 email: info@carbonmarketwatch.org

0.4 If relevant, please state if the sector/industry you represent falls under the scope of EU ETS: -single choice reply-(compulsory)	c) not relevant

Please explain, why it is not relevant to you. -open reply-(compulsory)

Carbon Market Watch is an environmental NGO

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)	a) yes

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

At this moment, EU's energy intensive industries are operating under economically unfavorable circumstances in which the growing markets are situated in upcoming economies like China and India and resources prices are increasingly volatile. In this situation, European industries benefit from becoming more efficient and innovative than the rest of the world because it helps them to gain a competitive advantage. Policies that promote energy efficiency and low-carbon innovations will also reduce greenhouse gas emissions in industry. Reducing greenhouse gas emissions and maintaining European industrial production are therefore two sides of the same coin.

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)	b) no

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

At this moment, the EU ETS fails to help EU industry to become more energy efficient. Weak targets and an overgenerous use of offsets have led to a large surplus and a low carbon price. This means that European industry does not receive a sufficient price signal to produce more efficiently. European industry is therefore at risk of falling behind in deploying low-carbon and state-of-the-art technologies compared to their competitors abroad. For example, the most efficient cement production currently occurs in Asia, particularly in India and China. Also in the steel sector, the European installations often perform worse than the global average.

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)	b) no

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

In a world where an increasing number of countries are implementing climate policies that put a price on carbon there is little need for special measures to support EU industry to address non-existing competitiveness disadvantages. It would be better for the EU to provide support for the frontrunners that want to invest in low-carbon innovations in Europe, instead of subsidizing the least efficient industries to continue polluting.

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)	d) very inadequate

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

Free allocation has failed as a policy instrument to address the risk of carbon leakage as carbon-intensive industries have still passed through the opportunity cost of the CO2 allowances to their consumers even when receiving these allowances for free (CE Delft, 2010). In order to keep and stimulate investment in Europe, it might be better to shift from production to investment support (e.g. from free allocation to an innovation fund).

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

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

-open reply-(optional)

Free allocation has significantly reduced the incentives to innovate in order to reduce emissions. By receiving an overgenerous amount of free allocation, often much more than needed to cover the industry's emissions, there is very little incentive to become more efficient or innovative. European industry is therefore at risk of falling behind in deploying low-carbon and state-of-the-art technologies compared to their competitors abroad. Currently, the most efficient cement production occurs in Asia for example, particularly in India and China. In the steel sector, the European installations often perform worse than the global average.

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)	e) I don't know

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

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)	e) there should be no free allocation post-2020

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

Full auctioning reflects the polluter-pays-principle, is the most transparent allocation method and rewards efficiency and climate-friendly investments.

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? -single choice reply-(compulsory)	a) a substantially higher share than in Phase 3

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

In order to leverage investments in efficient, clean and pioneering industrial and renewable technologies in the EU, companies should be entitled to receive financial support for innovation, R&D and deployment of safe and sustainable low-carbon technologies. The current NER300 programme only provided specific support for the energy sector, while post-2020 there should also be support for breakthrough technologies for the industrial sectors. More of this type of innovation support is necessary in the transition to a low-carbon society.

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	a) yes

CCS and renewables under the NER300). Do you think there should be such a financial support scheme? -single choice reply-(compulsory)	

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

To maintain competitive advantage, investments in innovation and policies driving innovation are needed. In order to leverage innovation investments in industrial sectors, a portion of the ETS auctioning revenues should replenish an industrial innovation fund dedicated to energy savings and renewable production processes (e.g. magnesium-based cement production, coke-free steel production). Complementary regulations, such as CO2 standards and phase-out pathways for high-carbon production must be introduced, to ensure finance is followed by performance.

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)	b) It should be funded through a new dedicated scheme financed by the revenues from auctioning (e.g. x% of the auctioning revenues);

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

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)	b) no

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

The Carbon Leakage Evidence Projected, commissioned by DG CLIMA, found that during 2005-2012 there were no occurrences of carbon leakage. Even so, during part of this time industrial sectors received more free pollution permits than the amount of CO2 they emitted, as highlighted in the Commission's Impact Assessment accompanying the Backloading proposal. Ex-post evidence hence shows that there is no need for additional measures to address the risk of carbon leakage, in contrast, the current provisions should be significantly reduced.

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)	d) there is no need for a carbon leakage list, all industrial installations should be treated as not exposed

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

Full auctioning is the most cost-efficient, simplest, fairest, and most transparent way to allocation allowances, fully reflecting the

polluter-pays-principle. After 2020, full auctioning should be obligatory for all ETS sectors. In order to prevent carbon leakage for a limited number of sectors genuinely at risk of carbon leakage, these sectors should be entitled to receive financial support for innovation, R&D and deployment of low-carbon technologies. This also helps keeping investments within Europe.

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)	f) both the current criteria should be replaced and other criteria should be used instead (please specify)

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

The methodology to identify sectors being prone to a risk of carbon leakage is deeply flawed. The current methodology is based unrealistic parameters like the 30 euro carbon price assumption while comparable efforts undertaken by global players are completely ignored. The criteria for the post-2020 period, to identify sectors that will receive innovation support, should only look at the combination of the share of carbon costs and trade intensity. The carbon costs should use a realistic carbon price, for example the average carbon price of the three years before, and take into account ex-post evidence on the amount of carbon costs that were passed on through to consumers (e.g. carbon costs should be taken into account to the extent that they can't be recuperated in product prices). Also, trade intensity should exclude trade with countries that have taken comparable climate efforts, including countries participating in the 2015 global climate deal.

Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage? -single choice reply-(compulsory)	b) other thresholds should be defined. Please specify below

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

Only the combination of several criteria (e.g. carbon costs and the trade intensity) should be maintained to identify sectors that are deemed to be exposed to carbon leakage risk and entitled to receive innovation support. However, the current threshold should be made more strict, e.g. sectors should only be identified to be exposed to a carbon leakage risk in case both the trade intensity and the carbon costs in their GVA are above 40% as a minimum.

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? -single choice reply-(compulsory)	b) no, all criteria should be based on simple metrics and linked to clearly defined thresholds

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

The assessment of the exposure of sectors to the risk of carbon leakage should be made in the most transparent, democratic and objective way possible. In case the quantitative criteria are deemed to be insufficient, these criteria should be reviewed and revised in a co-decision procedure.

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)	c) shorter (please specify)

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

The sectors deemed to be exposed to a risk of carbon leakage should be identified using the most up-to-date information. The criteria and data used should be regularly reviewed and updated taking into account a realistic (historic) carbon price parameter and exclude third countries that have taken or will take in the near future comparable climate efforts. The validity of the post-2020 carbon leakage list should therefore be limited to two years or less.

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)	b) the approach should be more stringent (please specify)

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

Currently, European industry is at risk of falling behind in deploying low-carbon technologies compared to their competitors abroad. To address this risk, the product specific benchmarks should be defined on the basis of the most efficient installations worldwide, not only those in Europe, post-2020. From 2021 onwards, the benchmarks should hence be set at the level of the best available (in terms of greenhouse gas emission performance) product on the (global) market, similar to the top-runner approach in Japan.

Question 18: Should the benchmarks be revised to reflect the technological state of the art? -single choice reply-(compulsory)	a) yes (please specify how often)

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

The benchmark should be regularly reviewed and updated to reflect the technological state of the art and be revised at least every two years.

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)	b) yes, production levels in 2016-2018 should be the basis for post 2020 (Phase 4) allocation

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

The allocation for the post-2020 phase should be based on the most recent data available. Production levels in 2016-2018 (or 2016-2019) could hence be the basis for post-2020 allocation.

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)	c) yes, there should be deviations with lower allowances for installations enjoying very favourable circumstances

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

Up to now, industrial sectors often received more free pollution permits than the amount of CO2 they emitted. During 2008-2011, the steel sector was able to build up a surplus of more than 300 million CO2 allowances, while the cement sector received 200 million allowances more than needed (according to the EC's impact assessment accompanying the Backloading proposal). In order to avoid

overcompensation of industry at the expense of taxpayers, installations enjoying very favorable circumstances, should be allocated less allowances. The ex-post data on the surplus accumulated in the sector could be used to lower the future allocation of free allowances with an equivalent amount.

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)	b) no, and there is no need for financial compensation by Member States, either

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

In order to keep the incentive for industry to switch to low-carbon energy sources, they should not be compensated for indirect costs. Innovation support could be directed to enable certain industrial sectors with relative high indirect costs to become more efficient.

II. Options for post-2020

C. Innovation support

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

Free allocation shields industrial sectors for any carbon price and therefore reduces their incentive to invest in innovative, low-carbon technologies. At the same time, free allocation does not properly address investment leakage. In contrast, using auctioning revenues will better help investments in low-carbon solutions within Europe and helps to address both production and investment leakage.

Section II:

D. Other issues

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

The Commission should regularly assess the amount of windfall profits of industry, as well as the monetary value of their surplus allowances, and make this information publicly available, so that European citizens are aware of the size of the transfer of money from taxpayers to industry.