

**BVGlas input on the public consultation in
preparation of an analytical report on the
impact of the international climate negotiations
on the situation of energy intensive sectors
(EFCCC – WD 87 -2010).**

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Presenting the Federal Association of the German Glass Industry (Bundesverband Glasindustrie e.V.)

The Federal Association of the German Glass Industry is central organisation for the German glass industry. It represents around 80 percent of German glass manufacturing enterprises. BV Glas' members operate in the sectors of flat glass, container glass, special glass and in the glass processing and finishing sectors and they include both German and international enterprises.

Functions and objectives

The Federal Association of the German Glass Industry is a central point of contact for all issues relating to glass at both national and international level. One of its key functions is to provide important information about the glass market and glass to users and decision makers in the manufacturing sector, the craft and retail trades and also to opinion leaders in science, research and politics, the media and consumers. The Federal Association of the German Glass Industry also represents its members' interests in the public sphere. For example, it assumes a coordinating role by liaising between members when the glass industry is collectively developing national or international standards. The Federal Association of the German Glass Industry also aims to inspire people and to educate them about how inventive, individual and versatile glass is. BV-Glas is also an important national and international representative of the glass manufacturing industry in all economic and socio-political domains.

BVglas input to public consultation on Article 10b

Important introductory remark

The heading of Article 10(b) of the ETS directive reads “*Measures to support certain energy-intensive industries in the event of carbon leakage*”.

Recital 25¹ explicits this further by saying that some energy-intensive industries might receive a higher amount of free allowances.

It is therefore evident that the spirit of Article 10(b) is to help some energy-intensive industries in the event that the measures introduced in Article 10(a) (free allocation based on the average performance of the 10% best performers in a sector) are not enough to prevent carbon leakage.

In no way can Article 10(b) be used to review the list of sectors exposed to carbon leakage or to lower the amount of free allocation to sectors exposed to carbon leakage! This would go against the legal text of the Emission Trading directive.

Answer to question 1

In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

As explained in the introductory remark, Article 10(b) does not contain any provision to review the list of sectors exposed to carbon leakage. On the contrary, it only requests to assess the situation of the energy-intensive industries and, if necessary, to propose additional measures than the one already introduced to limit carbon leakage (namely a free allocation based on the average performance of the 10% best installations).

The current low CO₂ prices due to the financial crisis are meaningless when it comes to assess the carbon leakage potential in 2013 and beyond.

¹ *Energy-intensive industries which are determined to be exposed to a significant risk of carbon leakage could receive a higher amount of free allocation or an effective carbon equalisation system could be introduced with a view to putting installations from the Community which are at significant risk of carbon leakage and those from third countries on a comparable footing.*

Answer to question 2

Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?

Copenhagen was unfortunately not successful at all in convincing other regions to take comparable measures as the ones in Europe. Europe is still today the only region of the world imposing a unilateral burden to its industry (-21% between 1990 and 2020) in the form of a cap-and-trade system which may be assimilated to some extent to a planned economy. The resulting loss of competitiveness of the EU glass industry is already palpable e.g. at looking at the location of new investments: no one is foreseen in Europe, but a lot of projects emerge in the EU surrounding regions (Egypt, Ukraine,...) This shows that the fact of not having a CO₂-regime is a competitive advantage for those countries. Thus the EU-ETS which is supposed to be a model for other countries has to prove that it still allows for a competitive industry production.. In this context it must also be stressed, that any CO₂-regime which does not reward early actions, cannot be a model and furthermore leads to a wait-and-see attitude towards investing in emissions reduction.

As long as our international competitors do not have to face comparable burdens², it is unacceptable to impose new burdens on the EU industry and a review of the list not only provides an uncertainty which further discriminates against new investments, but it is also plainly unfair and inappropriate.

² This means: comparable CO₂ prices, similar binding cap-and-trade system, equivalent absolute GHG reductions, same monitoring, reporting and verification provisions,penalties

Answer to question 3

In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

See answer to question 2: only if non-EU competitors are facing the same impact of carbon on their profitability margin, one can say that a level playing field has been achieved and that the list of sectors exposed to carbon leakage can be reviewed.

On the other hand, nobody can foresee today what will be the impact of the ETS directive in 2015 or 2020 on the competitiveness of energy-intensive industries. It is essential that adequate monitoring of the competitiveness of energy-intensive industries (evolution of imports / exports, missed investments, closing facilities, increases of raw material prices including electricity...) is carried out to take any corrective measures such as e.g. higher proportion of free allowances or inclusion of importers when this is justified and possible. Not only carbon leakage but also job leakage has to be prevented.

Answer to question 4

Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

Free allocation today is based on the average performance of the 10% best performers in a sector.

This means that only 5% of the installations will get what they need, while 95% will have to buy a large portion of their allowances. An important point is that these latter are not necessarily "worse" than the better. Other factors can explain this difference which were not included in the benchmark as the Commission wanted to keep them simple (such as fuel mix, product quality, capacity to put recycled glass in the furnace, availability of recycled glass, age of the furnace,...). But industrial reality is complex and, as a consequence, 95% of the operators will have to buy a huge amount of CO₂ allowances, facing very high extra costs, and therefore reducing their capacity to invest in new technologies and in R&D.

CO₂ intensities in the glass industry depends on the energy efficiency and this property depends on the size of the furnace, its age, and its furnace. Today, lifetimes of furnaces exceed periods 10-15 years and therefore, it cannot be expected that the EU glass industry can convert all glass furnaces within a short period to reach the average CO₂ level of the 10% best performers. Transition to the most energy efficient and CO₂ efficient glass furnaces needs a period of at least 15 years

Therefore, BVGLAS strongly believes that all measures should be put in place to ensure a smooth transition and to give time to operators to adapt to the new trading system, such as:

- 1.Ensure that most of the revenues generated by auctioning will flow back to industrial sectors which pledge to invest in new technologies and R&D.
- 2.Ensure that all free allowances (this means the maximum amount of free allowances allowed by Article 10 a.5) are distributed by allowing the uniform cross-sectoral correction factor to be higher than 1.
- 3.Ensure a smooth transition by not introducing the very ambitious benchmark level in 2013 but in 2020. This will not jeopardize the overall cap of -21% in 2020 while ensuring the best cost-effectiveness which are the two pillars of the ETS directive.
- 4.Ensure that all energy-intensive industries get access to compensation for indirect costs from higher electricity prices.