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Setting the scene right: basic criteria for promoting competitive, low-carbon industry in Europe

Addendum to CEPI response to public consultation launched by the European Commission on ETS post-2020 carbon leakage provisions.

When the EU ETS was designed and then reviewed in 2008, there were certain expectations on the timing of a global agreement on climate change, EU economic growth, development of energy prices in Europe and in the rest of the world.

Today, Europe is witnessing a different world: the EU economic crisis, the differences in prices of energy between Europe and the rest of the world, the huge cost increase to support renewables, the lack of global international agreement and the unmatched climate-related costs on industry in other jurisdictions.

All this gives a different perspective on EU competitiveness and its ability to "lead by example". If the goal is to couple domestic carbon reductions with economic growth, **the approach to the risk of carbon leakage has to be thoroughly reassessed**.

In 2008, the risk of carbon leakage was seen as a "temporary patch", to be soon removed in view of the upcoming international agreement on climate change. Today, the slow progresses (if any) at UNFCCC level and the fragmentation of climate polices suggest that asymmetries in climate policies will persist in the foreseeable future.

To mitigate climate change the EU should **focus on promoting recovery and growth of industrial production in Europe, which is good for the environment and the climate**. Beside the high environmental standards set worldwide by European industries, the average CO2-emissions caused by electricity production in Europe are also low in global comparison. Hence, the more industry produces in Europe, the lower the global CO2-emissions.

For these reasons, **protection against the risk of carbon leakage and promotion of low-carbon investments in Europe should be the default option in designing future EU carbon policies**. If and when a new international agreement will be found, leading to a cost convergence for industry, the EU should reassess the modalities for phasing out support measures without jeopardising EU investment attractiveness.

The post-2020 carbon leakage provisions should therefore be designed based on the following three criteria:

1. **Protection of industrial competitiveness: a condition sine qua non**. There is no long-term perspective for industry if competitiveness is not secured already in the short-term.

   This would require:

   - Remove the Cross correctional correction factor / the automatic link between the industry reduction trajectory and the overall reduction trajectory. The risk of carbon leakage due to EU energy-climate policies has to be prevented by allocating to industry additional credits available in the system. The problem is that the current directive automatically and arbitrarily prescribes the reduction trajectory for industry to be equal to the trajectory. It is the result of a political choice that can and must be revised. And so is the presence of a CSCF.

   - Compensation for direct costs: 100% free allowances to be truly allocated to sectors on the Carbon Leakage list, up to the benchmarks, throughout the whole period of validity of the list.

   - Compensation for indirect costs: EU-wide harmonised measures to address both the rising of electricity costs due to energy-climate related policies (ETS + Renewables) and rising of wood raw material costs.

   - Free allocation to electricity produce in industrial CHP, as it is considered a BAT for energy efficiency in industry.

2. **Stability & Predictability: improving ETS without jeopardizing the regulatory framework**. There is an urgent need for a more stable and consistent ETS policy, that would reward investments in low-carbon technologies and processes.

   As a way forward the following improvements would be needed:

   - No changes to Carbon Leakage criteria. However, the "carbon costs" criteria should be expanded to include the cost of rising wood raw material cost due to ETS.

   - Validity of the Carbon Leakage list to be extended, to reflect typical investment cycles (10 to 15 years) and should remain unchanged until global climate agreement (which would guarantee equal competition conditions).

   - No benchmarks revision: revising benchmarks will penalise early movers and new investment made.

   - Allow industry to grow: access to free credits from the New Entrants Reserve should be allowed also for production increase not entailing additional capacity.

   - Improve MRV rules across Europe. There is a great potential in reducing administrative burden by sharing experiences among Member States. The Commission should set up a structural dialogue industry-governments to address these issues.

3. **Long-term: need for innovation in breakthrough technologies/industrial processes**. The ETS is not meant to promote breakthrough innovation. However, such breakthroughs will be needed to deliver deep carbon reductions. This requires high capital and high risk investments to radically rethink industrial processes.

   Resources taken away from industry should return to industry, in the form of:

   - Revenues from auctioning to be reinvested into low-carbon technologies in industrial sectors covered by the ETS.

   - Earmarking of ETS allowances to finance industry, as long as:

     - It is additional, meaning coming on top of free allocation for industry, and

     - Directly finances industry for large-scale demo and pilot projects and at the commercialisation stage.

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Note

CEPI aisbl - The Confederation of European Paper Industries
The Confederation of European Paper Industries (CEPI) is a Brussels-based non-profit organisation regrouping the European pulp and paper industry and championing industry's achievements and the benefits of its products. Through its 18 member countries (17 European Union members plus Norway) CEPI represents some 515 pulp, paper and board producing companies across Europe, ranging from small and medium sized companies to multi-nationals, and 780 paper mills. Together they represent 23% of world production.

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