

CPIV 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).

April 2010

1	<i>Presentation of CPIV</i>	2
2	<i>CPIV input to public consultation on Article 10b of the Emissions Trading Scheme (ETS) Directive</i>	3
2.1	Important introductory remark	3
2.2	Answer to question 1.....	4
2.3	Answer to question 2.....	4
2.4	Answer to question 3.....	5
2.5	Answer to question 4.....	6

1 Presentation of CPIV

CPIV is the umbrella association for national and the following sectoral glass federations:

- FEVE, the European Container Glass Federation
- GLASS FOR EUROPE, the European Flat Glass Federation
- APFE, the European Continuous Filament Glass Fibres Association
- ESGA, the European Special Glass Association
- EDG, the European Domestic Glass Association

The EU glass industry represents ca. 1,200 companies (this figure includes glass processors who are not covered by the ETS) and about 215,000 workers. The size of the glass companies range from small furnaces (SME) to big multinationals present in several countries.

The European glass industry is very diverse and covers a variety of very different types of products and technologies, including bottles & jars, flat glass, continuous filament glass fibres (CFGF) (not to be confused with mineral glass wool), flaconnage, tableware, mineral wool, optical fibres and special glass (cathode ray tube, glass for televisions and monitors, lighting glass, optical glass, laboratory and technical glassware, borosilicate and glass ceramic (cookware), etc).

In 2008, total EU-27 glass production reached a volume of 36.4 million tonnes, making the EU-27 the largest glass producer in the world. The production value amounted to ca. € 39 billion.

2 CPIV input to public consultation on Article 10b of the Emissions Trading Scheme (ETS) Directive

2.1 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 explains 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 invoked to review the list of sectors exposed to carbon leakage or to lower the amount of free allocation to sectors exposed to carbon leakage in the EU ! Rather the intention of this article is to provide a level playing field between EU and non-EU sectors. Therefore these changes would go against the legal intention and text of the ETS directive.

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.*

2.2 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?

CPIV input: 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 those 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 assessing the carbon leakage potential in 2013 and beyond.

2.3 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?

CPIV input: The Copenhagen Summit was unfortunately not successful in convincing other regions to take comparable measures as the ones in Europe.

Europe is still today the only region in the world imposing a legally binding obligation on its industry to reduce CO₂ (-21% between 1990 and 2020) in the form of a cap-and-trade system. This is a unilateral burden which may be assimilated to some extent to a planned economy. The resulting loss of competitiveness of the EU glass industry and the attractiveness of the EU as a region is already palpable e.g. looking

at the location of new investments: not one is foreseen in Europe, but a lot of projects are emerging in the EU's surrounding regions (Egypt, Ukraine,...)

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.

2.4 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?

CPIV input: See answer to question 2: If the majority of our international competitors are facing the same impact of carbon on their profitability margins, a level playing field can be said to have been achieved and that the list of EU based 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 is carried out: evolution of imports / exports; investments – won and lost; facilities – opened and closed; increases in raw material prices including electricity... It is also important to take any corrective measures such as e.g. providing a higher proportion of free allowances or inclusion of importers when this is justified and possible.

² This means: participation of countries representing a critical mass (85%) of production in sectors covered by the EU ETS, comparable CO₂ prices, similar cap-and-trade system, equivalent absolute GHG reductions, same monitoring, reporting and verification provisions, ...

2.5 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?

CPIV input: 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 the ones at the bottom of the scale are not necessarily “worse” than the ones at the top end. As the Commission wanted to keep benchmark criteria simple, other factors can explain the difference because they are not taken into account in the benchmark (such as fuel mix, product quality, capacity to incorporate recycled glass into new products, availability of recycled glass, size and 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. This **reduces their capacity to invest in new low-carbon technologies and in R&D.**

CO₂ intensities in the glass industry depend on energy efficiency and this property depends on the size of the furnace, its age,... Today, the lifetime of furnaces exceed periods of 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, CPIV 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 (a proposal could be to introduce the average efficiency of a sector in 2013, then reducing it to the benchmark in 2020). **This will not jeopardize the overall cap of -21% in 2020 while ensuring the best level of 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.

OoO