



Some views on improving allocation of the EU pulp and paper industry

ECCP3 presentation

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Views on improving allocation



- Also for a sector's preference, there are still big “ifs”: post 2012 agreement, decision on EU or national caps; global sectoral agreements. These “ifs” determine the best allocation tools and preferences.
- The key issues in improving the ETS for our sector are the effects on the global competition/linking to a global scheme, in our case the effects on the electricity prices *and* raw material prices.
- The selection of allocation tools is important but will not solve all issues for exposed sectors. A mix of options will most likely bring us forward. The way of allocation to electricity is crucial.



The EU PPI in the ETS



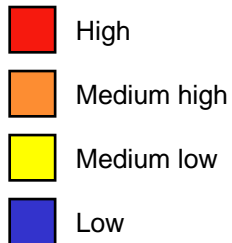
1. Appointed sector: all installations producing more than 20 tonnes of pulp/paper per day, leaving out about 260 installations.
2. Making for +/- 900 installations in the EU ETS, with a total allocation phase 1 of +/- 40 Mton (2% of total).
3. About half (!) of the installations emitting less than 25 ktonnes per year – e.g. small installations (specialties, bio-based, outsourced utilities).
4. About 50% of all energy biomass based (!) Further mainly based on natural gas. Great differences between regions and countries.
5. Global competition, limited pass through; Key effect in the electricity prices. Long investment cycle.



Our sector has a variety of products, functions and CO2 profiles

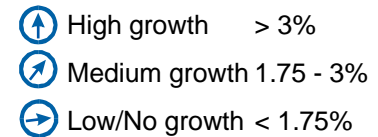


Degree of fossil CO₂ emitted during production

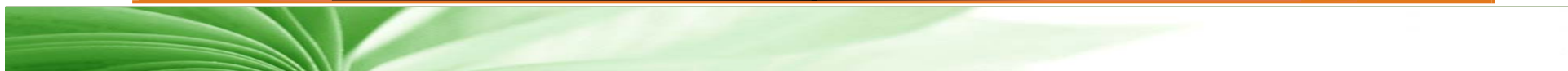
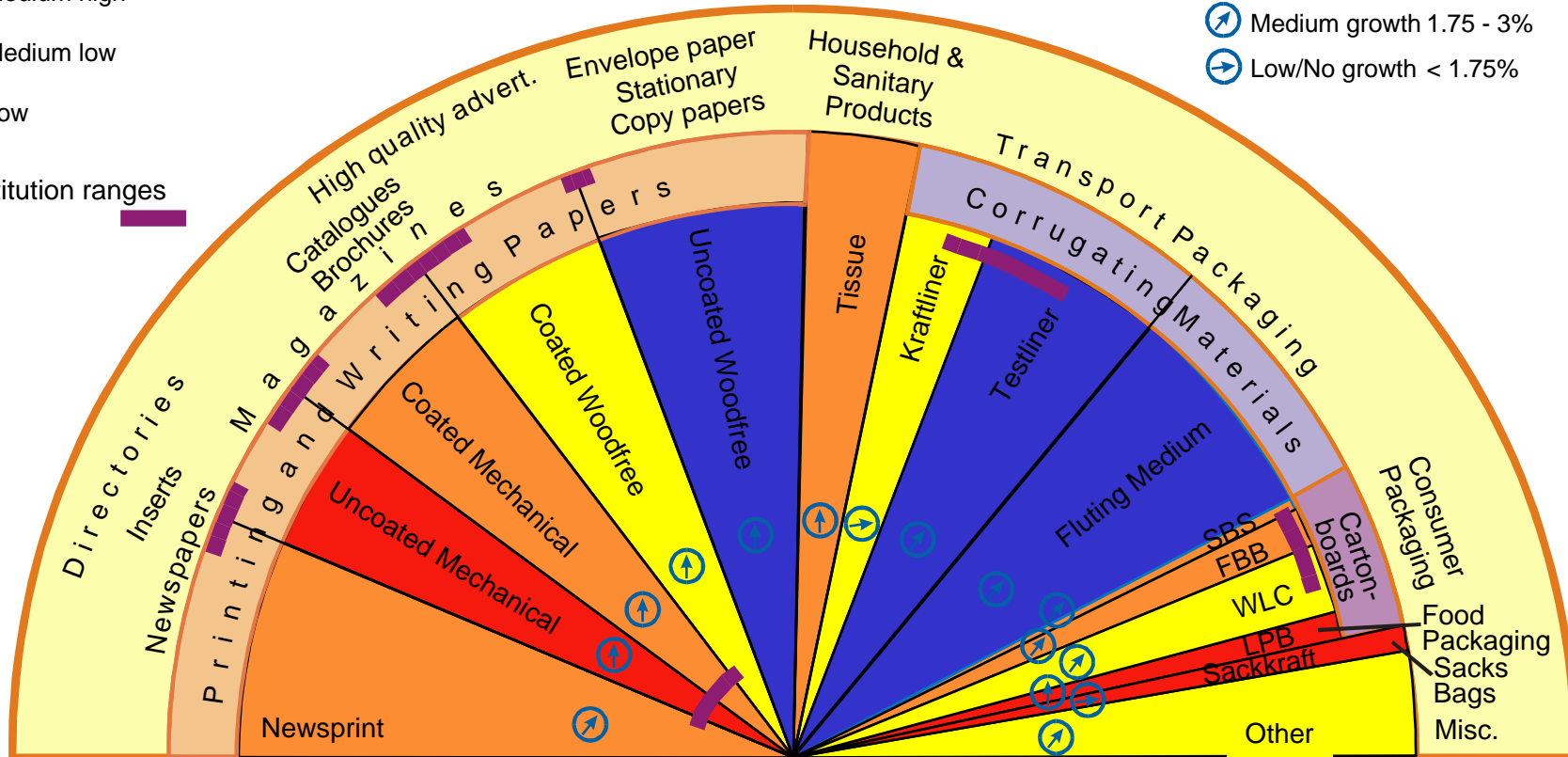


(Without differences in raw materials)

End products - Substitution



Substitution ranges



On allocation - Benchmarking



- The large number of installations, large variety between installations and large number of smaller installations make for a **challenge to implement** benchmarks in this sector.
- **Data collection is crucial.** We have developed global definitions and guidelines with IEA for data collection. A level needs to be found between detail and justice.
- **Further (huge) preparations would be needed** to have independent, transparent and accepted benchmarks for the entire EU PPI. We need to find a balance between costs and benefits.
- Current benchmarks in member states (NL, BE, AU, Germany) are not fit yet to be brought directly to an EU level yet.



Sector specifics if benchmarking



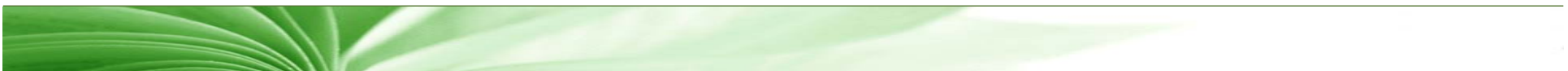
- **Benchmarking is a balance between pre-selection and correction afterwards.** This means we need the right benchmarks for the right groups of products, *meaning something and being fair.*
- **Specifically for the EU PPI:**
 - Large fuel mix differences
 - Differences in grades and raw material and the energy profile.
 - Site-Integration differences
 - Multiple products on site and in time.
 - Mill products highly specialised, based on client demands.
 - Treatment of CHP (widely implemented)



On Allocation - Grandfathering



- Allocation debates now seem a choice between Benchmarking or auctioning. The nature of competitiveness impacts is widely differentiated though, across sectors and within sectors.
- No allocation option will be without flaws; **A best fit for purpose allocation for our sector might be a mix between the different options for allocation; benchmarks and grandfathering.**
- **There could be benchmarking for some sectors and MS allocation for others that is NOT auctioning!** Because of the fuel mix differences, long term investment cycles and stable production behavior, grandfathering still is an option for the EU PPI.
- For 2013, the possibility still exists to base allocations on at least 5 years of verified emissions and production forecasts can be made.



The use of auction revenues?



- CEPI has just studied with PWC the possibilities for the EU PPI for return of revenues, within state aid and taxation legislation.
- We have looked at 3 different auctioning possibilities, direct and indirect taxes, technology subsidies, direct returns.
- First conclusion is that the **possibilities of recycling revenues are limited and directly depend on the structure of the ETS and state aid legislation**. Recycling revenues most likely never meets the level of detail needed to indeed recycle to the ETS sectors. The ability to return revenues at the EU itself is a key challenge, because there is no direct financial link.
- If there is no return of revenues, auctioning of credits takes away the funds needed to make technical progress and directly influences the global competitiveness. Our example: 100% auctioning would take out 800 million euro per year (40 Mt á 20 euro), needed for investments in technological solutions.
- As the possibilities for recycling are small, we oppose auctioning as an allocation tool.

