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'Vereniging van de Nederlandse Chemische Industrie' Comments on the Consultation on structural options to strengthen the EU ETS

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VNCI appreciates that DG Climate is consulting stakeholders on their suggestions for structural options to strengthen the EU Emissions Trading System. The suggestions made in the Report though appear to concentrate upon short term actions regarding the price of EUA's and don't address the underlying issues.

Therefore we like to stress the suggestion also made by our Secretary of State, Mrs. W.Mansveld, of the Ministry of Environment in the Netherlands to also take into account the method of allocation of EUA's under the ETS.
We believe that many of the complex exemptions needed under the current ETS and discussion on efforts pushing the price of EUA's originate from allocation on historical data and lack of allocation of indirect emissions.
Furthermore we see that the use of multiple targets (Renewable energy, Energy Efficiency and greenhouse gas reduction) also contributes to a surplus of EUA's and to cost inefficiency.

Therefore we strongly suggest to also take the following structural improvements into account for the ETS post 2020, in short these envisage:

1. Global participation adjustments on the CAP, i.e. the stringency of the cap can be adapted in case of more or less global participation;
2. Benchmarks with actual or recent production data to avoid over and under allocation.
3. Harmonized and adequate compensation (in terms of scope and level) financial compensation for indirect compensation should be changed to a long term predictable indirect allocation, to complement the present allocation for direct emissions;
4. The NER must be replenished if depleted, a possible surplus must not be auctioned (up to 2013: NER 300 + surplus NERs of Member States: about 385 Mton EUA's)
5. The stringent "top 10%"benchmarks should be the target for after 2020, not immediately as from 2013
6. The Lineair Reduction Factor (LRF) for new entrants and for heat users, receiveing heat from electricity generators and the Cross-sectoral correction factor (CSF) should be abandoned
7. All industry sectors should be categorised as 'exposed to the risk of carbon leakage', the Carbon Leakage Exposure Factor (CLEF) should be abandoned.

We are at all times available and willing to further elaborate on these improvement suggestions but will focus for this paper further on your 6 proposed measures.

Overall VNCI considers that hasty implementation of any of your proposed options would not provide trust in the EU ETS but would hamper long-term growth and investment in Europe and contribute to Carbon Leakage with negative effects to environment and jobs. The market mechanism should determine the price and should not be manipulated via regulations and interventions.

With the aim of supporting the competitiveness of European industry and incentivise emission reductions, VNCI would like to stress the following:

- A stable, predictable legislative framework is indispensible for business' investments. VNCI supports the EU ETS as a tool to assist business in making cost-effective emissions reductions.
- Strengthening the competitiveness of the chemical industry while promoting their sustainability is crucial. Costs deriving from new or existing policy measures, which drive investments away from the EU or potentially leading to carbon leakage, must be avoided as they represent policy failures.
- Forward-looking industrial policy must give priority to boosting research, innovation and technological development. This can best be achieved by improving the research and innovation legal framework and providing adequate financing to EU programmes. In this context, the role of Horizon 2020 is essential to ensure a sustainable recovery and strengthen the European economy.

Comments on the proposed options

Option a: Increasing the EU reduction target to 30% in 2020
VNCI supports the conditional position taken by the European Council whereby a decision to increase the 20% EU reduction target will be taken in case other industrialised countries commit to comparable emission reductions and emerging countries put in place appropriate measures to fight climate change in line with their respective capacities.
At the COP 18 in Doha, Parties agreed to a second commitment period of the Kyoto Protocol from 2013 to 2020. However, only the EU, Australia, Norway, Switzerland and few other countries (accounting in total for about 15% of global emissions) agreed to binding emission reduction targets under the Protocol.
These pledges are important but largely insufficient to secure global climate action which would provide a level playing field for business across the world.
Missing such conditions, VNCI cannot support a unilateral increase of the EU reduction target to 30% in 2020.

Option b: Retiring a number of allowances in phase 3 and
Option c: Early revision of the annual linear reduction factor
These options illustrate two concrete ways to achieve the higher reduction target by 2020 put forward by option a).
These measures would set a more ambitious 2020 emission reduction trajectory while business in many regions of Europe are being affected by the economic downturn. They would also change the framework for ETS compliant industries and carbon market participants shortly after the entry into force of the new rules for the EU ETS phase III thereby undermining the credibility and predictability of the scheme. Since these options will not help strengthening the competitiveness of the Chemical industry we do not support these.
Moreover, option c) would have consequences for the ETS after 2020 which must be carefully assessed against a future global climate agreement. In particular, companies' increased exposure to the risk of carbon leakage would need to be properly reviewed before any decision is taken to avoid damaging the competitiveness of the chemical industry.

Option d: Extension of the scope of the EU ETS to other sectors

In principle, VNCI supports the broadening of the EU ETS to other sectors and regions of the world as a larger scheme should provide a more robust carbon market and more opportunities for low-cost abatements for compliant industries.

VNCI also considers that the good progress achieved by many businesses covered by the EU ETS in reducing emissions must be matched by all sectors, including agriculture, transport and building.

In this respect the Effort sharing Decision and other legislation already provide a European regulatory framework for realizing sector-specific emission reductions. Moreover, technology development through EU research and innovation programmes has proved to be an effective way of achieving environmental goals and creating growth.

Against this background, it should be evaluated whether the inclusion of sectors under the EU ETS may be a more cost efficient alternative to the existing framework and can be implemented without burdensome regulatory overlaps.

An additional advantage is that ‘boundary’ effects of the ETS system can be eliminated in this way, for example two chemical plants with the same product can be in or out of the ETS depending on a.o. their size. If both plants will be part of the ETS system, this will improve the level playing field.

Option e: Limit access to international credits

Access to international credits is an important element of the EU ETS and must be preserved in the future. International credits introduce the needed flexibility in the scheme allowing European industries to comply also through lower cost abatement options in non-EU countries. Offsets also play a positive role supporting technology transfer and partnerships between stakeholders from different countries and connecting emerging carbon markets across the world.

The EU has already decided to restrict the use of some international credits: CERs produced by new projects will not be accepted from 2013 unless they come from Least Developed Countries (LDC).

Unilateral restrictions on the use of international credits by the EU will increase the compliance costs for EU companies and must therefore be avoided. Moreover, reducing the EU demand for offsets will further decrease the value of CERs and slow down the creation of a truly global carbon market.

Option f: Discretionary price management mechanisms

Introducing price management mechanisms such as a carbon floor price and a carbon price reserve would fundamentally modify the functioning of the EU ETS. In this respect, this option is the only real structural measure proposed in the Carbon Market report as it addresses fundamental features of the scheme.

The EU ETS has been designed as a market based instrument to achieve emission reductions in a cost effective way. VNCI favours a market based instrument over a regulatory approach.

VNCI believes that the EU should keep encouraging emission reductions following the most cost efficient path, like currently aimed by the EU ETS, and not attempt to reach multiple goals with the same tool. Different policies tools, like the Framework Programme 7 and Horizon 2020, should complement the EU ETS and provide support for developing low carbon technologies.