European Commission
Directorate-General Climate Action
Unit B.1 – Implementation of ETS
Avenue de Beaulieu, 24
B-1049 Bruxelles
Belgium

By e-mail:
clima-ets-structural-measures@ec.europa.eu

FROM	essenscia asbl
ID NUMBER	8111597333-73
DATE	28 February 2013
CONCERNING	**Response to the Consultation on the Carbon Market Report**

The Belgian chemical and life sciences industry is willing to take its responsibilities and provide a fair contribution to the reduction of greenhouse gas emissions as long as the effort does not undermine its international competitiveness and potential for development. In this framework, essenscia, the Belgian Federation for Chemistry and Life Sciences Industries, has some fundamental comments on the options and measures for structural changes of the EU ETS.

A structural reform of ETS should support the competitiveness of European industry while incentivising emission reductions. To that extent, the reformed ETS should meet a number of key-requirements:

(i) It should fit into a stable, predictable legislative framework ensuring a long term perspective for investors to produce goods under economic conditions in a globalised market environment. In order to secure Europe's competitiveness, essenscia advises to keep the carbon leakage status stable without a reassessment every five years. Moreover, the current assessment method should be complemented by including differential costs for carbon emissions and energy in the competing economies.

(ii) The current purely European absolute target, that does not reflect the economic cycle, combined with the ex-ante allocation, based on historic production, does not create an appropriate and workable framework, nor does it give a correct incentive for investment in production in EU. The ETS should go together with measures to enhance attractiveness for industry sectors and to support carbon-abatement innovations. Allocation rules should be performance-based and take into account the actual production volumes. It should be a dynamic system allowing for sustainable growth.

(iii) Electricity consumption is not included in the benchmarks and no allocations are provided. However, the power industry does pass on carbon costs to the consumer. Moreover the uncertainty of the financial compensation hampers the competitiveness of power-intensive sectors such as the chemical industry. Essenscia recommends applying

essenscia
Diamant Building
Boulevard Auguste Reyerslaan 80
B-1030 Brussel/Bruxelles
T +32 2 238 97 11
F +32 2 231 13 01
www.essenscia.be
info@essenscia.be

Belgische federatie van de chemische industrie en van life sciences VZW
Fédération belge des industries chimiques et des sciences de la vie ASBL
BTW BE 0406 478 993

Responsible Care® OUR COMMITMENT TO SUSTAINABILITY

essenscia
where chemistry meets life sciences

one policy approach for direct and indirect allocation for respectively direct emissions and electricity consumption.

(iv) Structural changes should take into account the total burden arising from the EU climate package on the European economy. A reform should aim at improved coordination avoiding a multitude of overlapping and incoherent EU obligations and a contribution from all societal groups on direct and indirect emissions to the European climate ambitions.

essenscia considers that implementation of the proposed measures for the EU ETS included in the "Carbon market report" will not provide structural and long-term improvement. To ensure industrial competitiveness, there is a need to improve the current policy framework characterised by an uncertain, non-attractive environment for investment towards an incentivising environment allowing sustainable growth for innovative industry. Innovation is the key to provide a solution to tackle emissions globally. The EC proposals solely aim at an intervention on the price of CO_2, without corresponding propositions on structural guarantees for the crucial protection of the competitiveness of the European industry. This needs free allocation reflecting actual climate burden on industry in other regions. Indeed, the options included in the Report are focused on a guaranteed income for the government, and do not address the incoherent structure of the EU 2020 climate and energy package as a whole, and the structural shortcomings of the ETS in particular.

Comments on the proposed options:

Option a: Increasing the EU reduction target to 30% in 2020
essenscia is opposed to a unilateral increase of the EU reduction target as long as no global climate agreement with equal cost burden has been concluded. The international competitiveness should be safeguarded.

Option b: Retiring a number of allowances in phase 3
essenscia cannot support this politically motivated temporary intervention in the ETS market, aimed at increasing the current market price of CO_2 allowances by reducing the supply, while the goal of ETS is aimed at reducing emissions at the lowest cost. Such intervention will not create additional environmental benefits, but will only increase the cost on companies and create a shock effect on the economy in the transition to a more stringent system with high ambitions for emission reduction in Europe. Moreover it affects the current ETS-framework, stipulated in the ETS directive since 2008, thereby undermining the credibility and predictability of the scheme. A sustainable measure must not simply address the symptom, but also the cause of the problem.

Option c: Early revision of the annual linear reduction factor
Again, essenscia rejects this option. Tightening of the ETS cap reduction trajectory would create an extra burden that will undermine confidence of industry in the instrument and affect international competitiveness. Moreover, it would decrease allocation for new entrants competing on international level further below the benchmark which would create an even more negative investment signal. In addition, at this moment, there is no impact assessment whatsoever that the proposed reduction factor and the resulting targets would be technically and economically feasible in the current international context.

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

In principle, essenscia supports the broadening of the EU ETS to other sectors (such as transport and housing) as a larger scheme would provide a more robust carbon market and more opportunities for low-cost abatements for compliant sectors, if the cap is adjusted accordingly. However, against this background, it should be evaluated whether the inclusion of new sectors in the EU ETS could be implemented without an extensive administrative burden.

Option e: Limit access to international credits

essenscia is against restricting or even abolishing the access to international credits. International credits are the only recognition of the global nature of climate change. Unilateral restrictions on their use undermine the request to have a global climate agreement.

Moreover, these credits introduce the needed flexibility in the scheme allowing European industries to comply also through lower cost abatement options in non-EU countries. Limited access to these credits will lead to increased compliance cost for EU companies. 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

The EU ETS has been designed as a market based instrument to achieve emission reductions in a cost effective way. Intervening in a market based instrument solely to regulate the CO_2 price hampers European competitiveness. There should be a clear choice for a market without political interventions or a regulated framework. For industry it is key that both systems protect competitiveness by free allocation for direct and indirect CO_2 emissions.