# Glass Alliance Europe input to the Public Consultation on the Draft Commission proposal amending Regulation 1031/2010 in particular to determine the volumes of GHG emission allowances to be auctioned in 2013 - 2020

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**CPIV (a registered organisation) has changed name on 1st of January 2012 and has become Glass Alliance Europe.**

**Register ID: 74505036439-88.**

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## Executive summary

The proposal from the Commission to modify the ETS directive is highly questionable on the legal side as it conflicts with some existing provisions of this directive.

Independently of this aspect, any proposal to modify the ETS directive (and which could have far-reaching consequences on the recovery of the EU economy and its citizens) should also be accompanied by a thorough impact assessment at micro- and macro-levels. This impact assessment should look at the possible impacts on a fragile EU economy, taking into account direct impacts but also indirect impacts (electricity prices) and the recent decision to link the Australian and EU trading systems.

Besides, there is no truly justifiable reason to interfere in such a market mechanism. The Emission Trading Scheme (ETS) was designed to achieve an absolute emissions reduction target at the lowest costs, not to deliver a price signal on $CO_2$. The fact the $CO_2$ prices are low in an economic turmoil is the best proof that the market is functioning well. The absolute European cap is not threatened by low $CO_2$ prices.

Trying to manipulate the ETS to artificially raise the $CO_2$ price would be very detrimental to glass industries which are already facing an economic crisis and competing against imports which do not face any extra costs for carbon emissions.



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**Glass Alliance Europe opposes any set-aside (also called back loading) of allowances for the following reasons:**

## 1. The legal feasibility of setting-aside allowances as proposed by the Commission is highly questionable

The Commission proposal is to slightly amend the ETS directive by introducing a sentence in Article 10(4) of directive 2003/87/EC (ETS directive) which reads "*the Commission shall, where appropriate, adapt the timetable for each period so as to ensure an orderly functioning of the market*".

The sentence, as proposed by the Commission, is not only supplementing the directive by introducing "non-essential requirements", but it changes dramatically the spirit of the directive and goes beyond the mandate given to it by the Parliament and the Council.

This mandate was to design auctioning rules which are "transparent, harmonised and non-discriminatory". Trying to influence the CO2 price was clearly not in the mandate !

The sentence also conflicts with:

- Art 9 which says that the yearly amount of allowances for the period 2013-2020 has to be set at the mid-point of the period 2008-2012 and decrease every year by the same amount (-1.74%)[1]. It also says that Member States MUST auction all allowances not given for free. There is therefore no latitude for the Commission to intervene in this scenario.
- Art 10(4) which states that the timing should be predictable, in particular as regards the timing and sequencing of auctions and the estimated volumes of allowances to be made available. Changing the rules just before the start of the period would conflict with this need of predictability. The wording of the Directive also explicitly highlights the aspect of predictability, especially with regard to the timing and the sequencing of auctions and the estimated volumes of allowances. There is no explicit clause in the Directive that allows the COM to set up auctioning provisions that aim to influence the price building processes at the carbon market by limiting auctioning volumes.

**It is therefore obvious that the amendment proposed by the Commission to be inserted in the text of the ETS directive conflicts with other provisions of the directive, introducing an unacceptable conflict in it.**

[1] On 9 July and 22 October 2010, the COM issued two Decisions on the Community-wide quantity of allowances to be issued under the EU ETS for 2013. Under these Decisions, for 2013, the total absolute Union-wide quantity of EUAs amounts to 2,039,152,882. That number is to annually decrease by a linear factor of 1.74 % (amounting to 37,435,387), as explained by recital (14) of the Decision of 22 October 2010

## 2. A full impact assessment is needed before taking any decision

The modification of the auctioning timetable is not only legally questionable, but it can also have dramatic effects, especially in period of a financial crisis.

Firstly, the potential impact on the manufacturing industry covered by the ETS directive is totally unknown. Secondly, the impact on the electricity prices for the fragile European economies (and on citizens) is also undefined. In this context, it has to be stressed that, although almost meeting the criteria imposed by DG Competition for eligibility due to higher electricity prices, the glass industry has not been recognised as eligible for compensation and will therefore bear the full extra costs of indirect emissions.

Those impacts can have devastating effects on a recovering economy. It would be irresponsible to implement such measures without at least having a sound impact assessment, at micro- and macro level.

The recent announcement by the European Commission to link the EU ETS and the Australian ETS needs also to be analysed and included in this impact assessment, especially as this link will be asymmetrical: from 2015 to 2018, Australian companies will indeed be able to buy EU allowances, while EU companies will not have access to the Australian system. Although GAE welcomes any linkage of trading systems in order to move towards a genuinely global system, it is quite sceptical about this asymmetrical linkage, moreover with a country with whom EU has very little trade activities.

## 3. Emission trading is a market instrument to achieve a global environmental cap at the lowest cost – it is not a tax

The unique goal of the ETS directive is to achieve an absolute emissions reduction target in the most cost-efficient way. It is not the purpose of such market mechanisms to provide a specified price signal on carbon emissions – a tax would have been better adapted for this purpose. This is largely acknowledged in the recitals of the directive, e.g. in Recital 5[2] of the ETS.

Whatever the $CO_2$ price in the third period, it is absolutely certain that the overall EU cap will be achieved because the number of $CO_2$ allowances is fixed by the directive and that the linear reduction factor (-1.74%) applies every year.

The ETS will therefore deliver its objective independently of the carbon price and in the most cost-efficient way (market mechanism) .

The market-based nature of the mechanism, which is there to ensure that the cap on industrial emissions is reached in the most economically efficient way, should not be altered by artificial interventions meant to

[2] "The Community and its Member States have agreed to fulfil their commitments to reduce anthropogenic greenhouse gas emissions under the Kyoto Protocol jointly, in accordance with Decision 2002/358/EC. This Directive aims to contribute to fulfilling the commitments of the European Community and its Member States more effectively, through an efficient European market in greenhouse gas emission allowances, with the least possible diminution of economic development and employment"

increase $CO_2$ prices. The fact that, in an economic downturn, the $CO_2$ price is low is precisely an indication that the market is functioning well. There is therefore no need to intervene. One should keep in mind that some of the most vocal stakeholders calling for an increase of $CO_2$ prices are not impacted by the ETS (meaning that they are not included in Annex I of the ETS) and are motivated by maximizing their profits coming from trading operations.

Besides, trying to influence a well-functioning market is a very dangerous operation:

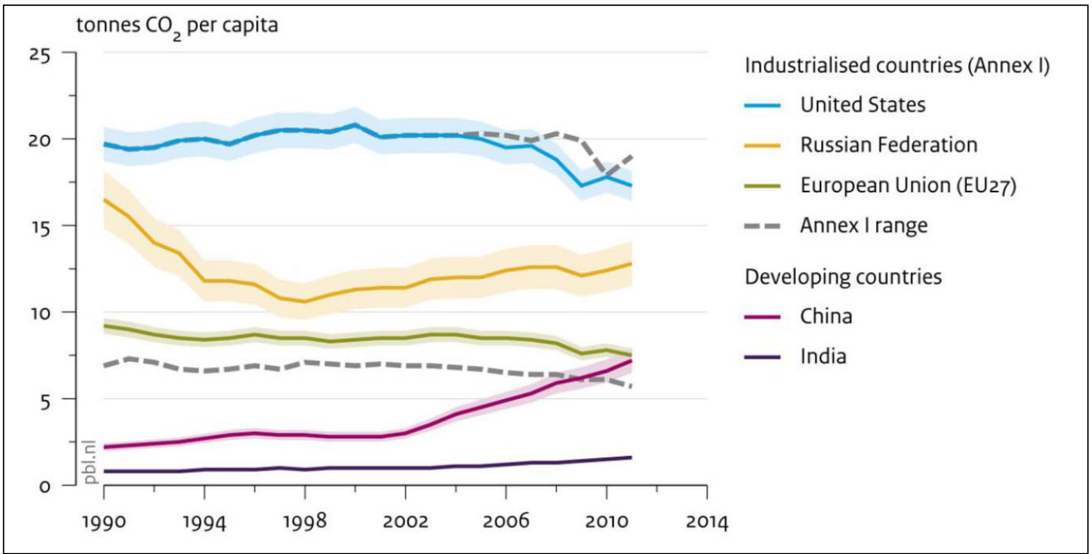
- If there is again economic growth in the third period, all the measures taken to limit the number of allowances risk to be extremely painful for industry
- Market players risk to lose confidence in a market which is manipulated
- Other countries outside the EU will also believe that the market is not functioning if we need to fix it by ad-hoc measures. This will seriously undermine the development of the desired global market.

## 4. Europe should stop unilaterally burdening its industry and look at the rest of the world

The European Commission has recently published its 2012 report 'Trends in global $CO_2$ emissions' (18th July 2012) where it can be seen that the per capita Chinese $CO_2$ emissions have reached the European level (see graph below).

Moreover, Europe represents today, at most, 15% of the world $CO_2$ emissions and this figure decreases every year.

In this context, it becomes extremely difficult to understand the persistence of DG Climate in continuing with unilateral measures which put EU industry at risk but have no real impact on global warming. Rather, greater political co-operation is required !




Source :
http://ec.europa.eu/dgs/jrc/downloads/jrc_20120618_newsrelease_trends_in_global_co2_emissions.pdf

## 5. European industry needs long-term predictability

Europe's future lies in its industrial base, but this base needs stability to be able to operate sustainably. Further legislative uncertainty and financial cost should not be added to today's difficult and unpredictable economic situation where there is already complex and wide-ranging legislative and administrative control of industrial emissions.

Industry has generally long-investment cycles (e.g. in the glass industry, a furnace is built to last between 12 and 18 years). Changing the rules of the third trading period so close to its start sends a very negative signal towards investors, giving them no confidence for the future in the EU.

Therefore, Europe should stick to its -20% commitment reduction target as long as no agreement is reached at global level, or all main competitors are not subject to the same reduction target.

## 6. Glass Alliance Europe

Glass Alliance Europe brings together the sector and national associations representing the glass industries in Europe.

The different glass industries manufacture products needed for Europe to achieve energy savings and a low-carbon society, such as highly insulating windows, photovoltaic glass or light weight reinforcement glass fibres for use in buildings, wind turbines and transport. Being massively recycled, container glass also contributes to improve resource-efficiency and to reduce CO2 emissions.

The different glass associations (Glass Alliance Europe, FEVE for the container glass industry, Glass for Europe for the flat glass industry and Glass Fibres Europe for the continuous filament glass fibres) produce about 30 million tonnes of glass per year and employ about 150.000 people.

However, since 2009, the glass industry production has dropped dramatically in some sectors (up to -40%).

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