

The Federation of Finnish Technology Industries

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13.3.2015

## CONSULTATION ON EU ETS DIRECTIVE

0.

Registration

0.1. What is your profile?

Business

A small and medium enterprise

☒ Trade association representing business

SME business organization

Government institution/regulatory authority

Academic/research institution

Non-governmental organization

Citizen

Other

0.2. Please enter the name of your business/organization/association etc.:

The Federation of Finnish Technology Industries

0.3. Please enter your contact details (address, telephone, email):

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0.4. If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS:

☒ yes

☐ no

☐ not relevant

0.5. If relevant, please state what sector you represent:

☒ Energy-intensive industry

☐ Energy sector

☐ Other

0.6. The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication?

☒ yes

☐ no

☐ partially

0.7. Register ID number (if you/your organization is registered in the Transparency register):

39705603497-38

## 1. Free allocation and addressing the risk of carbon leakage

1.1 The European Council called for a periodic revision of benchmarks in line with technological progress. How could this be best achieved in your view and, in particular, which data could be used to this end? How frequently should benchmarks be updated, keeping in mind administrative feasibility?

The benchmarks should be collected from the existing industrial plants and should measure CO<sub>2</sub>-emissions per production unit. Benchmarks should be revised in line with the technological progress regularly. The time line could be five to six years. For the carbon leakage sector, 10 per cent of the best performers should receive 100 % free allocation. This is not reality for the steel sector at the moment. A dynamic allocation based on actual production should be introduced for the carbon leakage sectors and The Cross-Sectoral Correction Factor should be abolished.

1.2 The European Council has defined guiding principles for the development of post-2020 free allocation rules which provide inter alia that “both direct and indirect costs will be taken into account, in line with the EU state aid rules” and that “the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage” while “incentive for industry to innovate will be fully preserved and administrative complexity will not be increased” and while “ensuring affordable energy prices”. Do you have views how these principles should be reflected in the future free allocation rules?

For direct costs, cf. answer 1.1. For indirect costs we propose a new harmonized market design for internal electricity market. In the new design consumers pay CO<sub>2</sub>-costs to national energy authorities as a separate entry in their grid fee. Producers under ETS can apply for compensation from the authorities according to their amount of power production. ENTSO-E collects the production data of power plants under ETS from all TSOs in Europe. ACER calculates the CO<sub>2</sub>-fee and the compensation for the producers according to the market price of CO<sub>2</sub> allowance at the particular time interval and sends the information to all national energy authorities. The CO<sub>2</sub>-fee and the compensation would be the same in all price areas within EU. The new design prevents CO<sub>2</sub>-cost pass through into the market price of electricity and thus affordable energy prices are ensured and windfall-profits eliminated as required by the European Council.

If the new harmonized market design for internal electricity market is not adopted, then the indirect costs should be allocated for example in line with the suggestion of allocation supply reserve ASR. Thus, the indirect costs would be allocated by allowances. There would not be a shortage of allowances as they would return to the markets. As EU ETS is and should be market based system the price of the allowances would be set by the market.

1.3 Should free allocation be given from 2021 to 2030 to compensate those carbon costs which sectors pass through to customers? How could free allocation be best determined in order to avoid windfall profits?

Industries in carbon leakage sectors are operating in global markets and competition. There should be a globally binding and covering rules (i.e. climate agreement). Then there would be a playing field in terms of carbon costs for the industry. As long as global rules are lacking, the energy-intensive export industry can not pass through the carbon costs to customers. For example the price of metals is determined in London stock exchange. Free allocation is thus needed. Power producers do not get free allowances and they can pass through the carbon costs to customers, because they operate in internal electricity market and are not exposed to global competition. To prevent this and avoid windfall profits new market design for European electricity market is needed. When the customers pay the CO<sub>2</sub>-fee to the authorities, power producers under ETS get compensation from the same authorities, CO<sub>2</sub>-costs cannot be passed through into the market price of electricity. Competition between power producers sets the price at the level of variable costs of marginal producer without the cost of CO<sub>2</sub>-allowances.

1.4 Are there any complementary aspects you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

If there is no legally binding international agreement achieved in Paris UNFCCC in December 2015, the EU can't continue unilaterally more stringent climate and energy policy without loss of investment, growth, jobs and welfare. In this case the 2030 framework must be converted indicative and EU should implement the so called no-regret measures: development of smart grids, promoting energy efficiency, electric mobility, district heating and cooling, cogeneration of heat and power, biomass energy, biofuels for heavy transport, fuel cells and other hydrogen technology, solar energy and windpower.

## 2. Innovation fund

2.1 Do you see reasons to modify existing modalities applied in the first two calls of the NER300? Are there any modalities governing the NER programme which could be simplified in the design of the innovation

fund? If you see the need for changes, please be specific what aspects you would like to see changed and why.

2.2 Do you consider that for the extended scope of supporting low-carbon innovation in industrial sectors the modalities should be the same as for CCS and innovative renewable energy technologies or is certain tailoring needed, e.g. pre-defined amounts, specific selection criteria? If possible, please provide specific examples of tailored modalities.

The modalities of supporting low-carbon innovation in industrial sectors should be the as for CCS and innovative renewable energy technologies.

2.3 Are there any complementary aspects regarding innovation funding you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

Mature renewable energy technologies should not be in the scope of innovation funding.

### 3. Modernisation fund

3.1 Implementation of the modernization fund requires a governance structure: What is the right balance between the responsibilities of eligible Member States, the EIB and other institutions to ensure an effective and transparent management?

EIB should make sure that energy systems are modernized and no funding is allocated to the use of fossil fuels, if CCS is not used. Fund should not be used for financing mature conventional technology.

3.2 Regarding the investments, what types of projects should be financed by the modernization fund to ensure the attainment of its goals? Should certain types of projects be ineligible for support?

Projects of no-regret measures should be financed by the modernization fund, cf. answer 1.4. Projects extending the use of fossil fuels should be ineligible, if CCS is not used.

3.3 Should there be concrete criteria [e.g. cost-per-unit performance, clean energy produced, energy saved, etc.] guiding the selection of projects?

There should be criteria guiding the selection, the most important being avoided CO<sub>2</sub>-emissions.

3.4 How do you see the interaction of the modernization fund with other sources of funding available for the same type of projects, in particular under the optional free allocation for modernization of electricity generation (see section 4 below)? Would accumulation rules be appropriate?

There should not be overlapping sources of funding for the modernization of electricity generation. Free allocation to power plants should be abolished and replaced by the modernization fund.

3.5 Do you have views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. national climate programmes, and plans for renewable energy and energy efficiency)?

National climate programmes are focused on non-ETS sectors, plans for renewable energy depend on subsidy schemes in accordance with state-aid-guidelines and energy efficiency is promoted by national regulations and sectoral energy efficiency agreements. All these include several measures, not only public funding. Modernisation fund should concentrate on new technologies covering low carbon technologies, new innovative renewables and energy efficiency like those included in the no-regret measures, cf. answer 1.4.

3.6 Should the level of funding be contingent on concrete performance criteria?

Yes, funding criteria should exceed the level of business-as-usual performance.

4. Free allocation to promote investments for modernizing the energy sector

4.1 How can it be ensured that investments have an added value in terms of modernizing the energy sector? Should there be common criteria for the selection of projects?

Mature technologies and extending the use of fossil fuels, if CCS is not used, should not be promoted by extra funding. Otherwise common criteria are not needed.

4.2 How do you see the interaction of the free allocation to energy sector with other sources of funding available for the same type of projects, e.g. EU co-financing that should be made available for the projects of common interest under the 2030 climate and energy framework? Would accumulation rules be appropriate?

Free allocation to energy sector should be abolished and use instead other sources of funding, like EU co-financing of PCIs and modernization fund.

4.3 Do you have any views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. as regards improving transparency)?

cf. answer 3.5

4.4. The maximum amount of allowances handed out for free under this option is limited. Do you think eligible Member States should use the allowances for a period of time specified in advance (e.g. per year), or freely distribute them over the 2021-2030 period? (Please explain your motivation.)

Free allowances are acceptable only for those industries that are under threat of carbon leakage. Energy sector is not and this is why free allowances should be abolished from all Member States, cf. answer 4.2.

4.5 Should there be priorities guiding the Member States in the selection of areas to be supported?

x yes

no

4.6 How can improved transparency be ensured with regard to the selection and implementation of investments related to free allocation for modernization of energy? In particular regarding the implementation of investments, should allowances be added to auctioning volumes after a certain time period has lapsed in case the investment is not carried out within the agreed timeframe?

Energy sector is operating in internal European market and is not exposed to global competition. This is why free allowances for energy sector are not acceptable, cf answer 4.2. All allowances available after free allocation to carbon leakage sector to compensate for direct costs should be kept within auctioning volumes.

## 5. SMEs / regulatory fees / other

5.1 Are there any EU ETS administrative requirements which you consider can be simplified? Do you see scope to reduce transaction costs, in particular for SMEs? If yes, please explain in detail.

Administrative burden has grown, because EU ETS rules have changed frequently. This has caused uncertainty within industries. Investors need more stable administrative framework and consistent EU ETS. Emission permit application procedure and annual monitoring have become too complicated and resource consuming especially for SMEs. Initially overview of the company and ETS monitoring plan was required, but in the third period of EU ETS companies must prepare also risk management system, control plan, uncertainty assessment, more detailed sampling and analyzing system and ETS quality control documentation. SMEs can't cope with these complicated requirements taking into account their limited resources. For SMEs, it is necessary to abolish the new requirements and return to the original less complicated system.

5.2 Member States had the possibility to exclude small emitting installations from the EU ETS until 2020. Should this possibility be continued? If so, what should be the modalities for opt-out installations to contribute to emission reductions in a cost-effective and economically efficient manner? Should these be harmonized at EU level?

The possibility of excluding small installations should be continued. Full harmonization at EU level is not necessary, but common guidelines could be useful.

5.3 How do you rate the importance of a high level of security and user-friendliness of the Union Registry? Do you think the costs for providing these services should be covered via Registry fees?

User-friendliness should be improved taking into account of SMEs small resources to handle many accounts required. The National Registry fee has been functioning well. The current system does not need changes.

5.4 Do you consider discrepancies in Registry fees in different Member States justified? Should Registry fees be aligned at EU level?

These discrepancies are not important for SMEs. There is no need for fees to be aligned at EU level.

5.5 Under the current EU ETS Directive, at least 50 % of the revenue generated from the auctioning of allowances should be used by Member States for climate-related purposes. For the calendar year 2013 Member States have reported to have used or plan to use 87 % on average to support domestic investments in climate and energy. Do you consider the current provision regarding the use of the revenues adequate for financing climate action? If not, explain why?

The current provision regarding the use of the revenues should be extended to national compensation of indirect costs of EU ETS for industries under threat of carbon leakage. This provision should be maintained until carbon cost pass through is prevented by harmonized new electricity market design is adopted cf. answer 1.2. Auctioning revenues should be used to support sectors within ETS. There should not be financial transfers from the ETS sectors to other sectors.

## 6. General evaluation

6.1 How well do the objectives of the EU ETS Directive correspond to the EU climate policy objectives? How well is the EU ETS Directive adapted to subsequent technological or scientific changes?

The problem of EU ETS is that it is unilateral. While EU climate policy objectives are achieved, CO<sub>2</sub>-emissions are increasing globally and at the same time European industries lose competitiveness and market share leading to loss of investments, growth, jobs and welfare in Europe. EU can't continue more stringent climate and energy policy after 2020, if no global and binding agreement is achieved in UNFCCC in Paris this year, cf. answer 1.4. If climate agreement is achieved, then EU ETS is the main instrument of reducing CO<sub>2</sub>-emissions in EU and there is no reason to believe that technological or scientific changes would undermine its performance.

6.2 What are the strengths and weaknesses of the EU ETS Directive? To what extent has the EU ETS Directive been successful in achieving its objectives to promote emission reductions in a cost-effective manner compared to alternatives, e.g. regulatory standards, taxation?

The strength of the EU ETS is that it is a harmonized instrument for reducing CO<sub>2</sub>-emissions in Europe. According to the ETS rules, 10 % of the most efficient installations facing carbon leakage risk should receive 100 % allowances. This is not reality for all sectors, for example steel sector. The second weakness is that it is unilateral, cf. answer 6.1. EU ETS has functioned as expected. The reason for the present low allowance price is the economic recession. This means that industries are operating at low capacity and thus there is no demand for the expected amount of CO<sub>2</sub> allowances. When the demand is low, the price is low as well but still the objective of reducing emissions in a cost-effective manner is maintained. Attempts to raise the allowance price, like market stability reserve, constitute a market manipulation measure that can't be accepted. All politically motivated market manipulation measures deter investments and lead to less growth and jobs. EU ETS is much more effective than regulatory standards or taxation, if its unilateral implementation is set aside.

6.3 To what extent are the costs resulting from the implementation of the EU ETS Directive proportionate to the results/benefits that have been achieved, including secondary impacts on financing/support mechanisms for low carbon technologies, administrative cost, employment impacts etc.? If there are significant differences in costs (or benefits) between Member States, what is causing them?

The unilateral implementation of the EU ETS in Europe has cost billions of euros to European energy intensive industries and resulted in loss of jobs, because of carbon leakage and investment leakage. In the Commission Communication "For a European Industrial Renaissance" it has been estimated that that since 2008, 3.5 million jobs have been lost in manufacturing. One of the reasons is that EU firms face higher energy prices than most of our leading competitors. Energy prices are high because of the unilateral European climate and energy policy. Inside EU the effectiveness of EU ETS has been weakened by different and overwhelming national subsidy schemes for renewable energies. The subsidies are also the main reason for differences in costs between Member States. Worst examples are the loop currents caused by excessive renewable power from Germany through neighboring countries. In some Member States there are also overcompensation for wood based fuels that have caused lack of raw material in wood processing industries in neighboring Member States.

6.4 How well does the EU ETS Directive fit with other relevant EU legislation?

If we set aside the fact that unilateral EU ETS is causing damage to European industries, it fits well with other legislation provided that targets for renewable energy and energy efficiency remain indicative. If there are more than one legally binding targets post 2020, either at EU level or Member State level, the incentive for emission reduction with EU ETS being the major instrument, is lost.

6.5 What is the EU value-added of the EU ETS Directive? To what extent could the changes brought by the EU ETS Directive have been achieved by national measures only?

One of the strong benefits of EU ETS is that it is a harmonized mechanism to achieve the CO<sub>2</sub> reduction targets. These targets would never have been met by national measures only. If the binding global climate agreement is achieved in Paris, EU ETS is the most important tool in reducing CO<sub>2</sub> emissions in Europe post 2020.

6.6 Do you have any other comment on the revision of the EU ETS Directive that you would like to share?

Market stability reserve is regarded as a political intervention to the rules of EU ETS and this increases the uncertainty amongst industrial investors in Europe. Administrative framework should be kept stable in order to attract investments. Market manipulation like MSR is dangerous, because it raises artificially CO<sub>2</sub>-price and also electricity price in Europe. The present low CO<sub>2</sub> price is in fact showing that EU ETS is functioning as expected. Otherwise the revision of the EU ETS Directive and implementation post 2020 is acceptable, if global climate agreement is achieved. We still need a harmonized mechanism in order to compensate indirect costs of EU ETS to the industries under threat of carbon leakage. One way of doing this is not amending the ETS directive, but amending internal electricity market design, cf. answer 1.2.