

0. Registration

0.1. What is your profile?*

Business

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

DMK Deutsches Milchkontor GmbH

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

0.5. If relevant, please state what sector your represent:*

Other

Please specify:

DMK is an energy intensive industrial enterprise. It is a producer of milk and milk products. It entertains several heat-generating facilities and spray towers. The heat which is produced in there is used for the processing of the milk.

In a first step the milk products are all processed the same way: the fresh milk is briefly heated up to 100°C for 15-30 seconds and cooled down immediately afterwards. In this process the main part of the produced energy is used up. The following steps are also energy-intensive. For the production of cheese for example, the casein is cleaned and pressed with the use of energy. Whey powder is produced by drying the liquid whey under extreme heat. The processing of butter requires a huge amount of energy for the separation of the milk fat from the other milk components in a centrifuge and for the churning, detaching and kneading of the butter in the butter-making machine.

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

yes

Please state which given information is sensitive and cannot be disclosed:

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

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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?

With regard to the revision of benchmarks we deem it essential to consider the particular situation of the sector concerned. The efforts made on the reduction of emissions in the past significantly differ across the incumbent industrial sectors.

Furthermore we think the benchmarks should cover indirect emissions as well as direct emissions. In our opinion, the application of an exchangeability factor with regard to electricity consumption is neither necessary nor adequate. An allocation for indirect emissions does not amount to an allocation for electricity production, but just for the electricity consumption within the system boundaries of a benchmarked product. The costs for indirect emissions in fact occur, as electricity generators pass on carbon costs.

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 "incentives 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?

In our view, the current allocation methodology based on historical activity levels has turned out to be inadequate to provide an accurate incentive to invest in carbon-efficient technology as well as to prevent Carbon Leakage. It effectuates shortage positions without any correlation with the carbon-efficiency of the concerning installation. On the other hand it causes over-allocation for installations with high activity levels in the past which consequently contributes to a high cross sectoral correction factor, which affects both installations which are carbon-efficient and exposed to the risk of carbon leakage as well as those which are not. The current methodology distorts the incentives of the EU-ETS in times of economic recession. In times of economic growth it puts additional burdens on the industry – irrespective of their exposure to the risk of Carbon Leakage. It is therefore not suited to avoid the risk of Carbon Leakage. In our opinion, shortage positions should only occur, where installation do not operate at benchmark level. We therefore in principle support the concept of a dynamic allocation, provided that the annual adjustment of the allocation is not only based on the activity level of one single previous year. Otherwise a longer plant shutdown could cause – in the meantime until the next annual adjustment – significant costs for pre-financing the temporary coverage gap in the year following the shutdown. The adaption should therefore be aligned to the average activity rate of the previous three years, so as to achieve an evening out.

In order to provide a dynamic allocation for the purposes of economic growth, an allocation supply reserve should be established. This reserve could be filled with allowances taken from the ETS cap. In case a market stability reserve should be put in place, it could be linked with such an allocation supply reserve.

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?

Windfall profits can not occur as long as the compensation is linked to process benchmarks and up-to-date production figures.

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?

Companies should be enabled to demonstrate their carbon leakage risk not only sector-specific but also company-specific.

At the moment only such sectors are being recognized as carbon leakage endangered where comprehensive data exists for the whole sector. This favors sectors which are dominated by few big companies. It disadvantages sectors which are characterized by medium-sized companies with many small and medium enterprises (SME). In these sectors often no comprehensive data exists from which a general risk of carbon leakage can be derived. One example is the milk- and cheese-production sector which is mostly characterized by small enterprises such as cheese dairies.

Companies in these sectors should not be disadvantaged because of a general incomprehensive European data base in such a sector. They should thus be able to demonstrate independently and company-based their carbon leakage risk, the CO₂-cost and the foreign commerce intensity. There is room for a two-way CL-system. Firstly companies shall be furthermore able to demonstrate their CL-risk with a sector-specific CL-list in cases where Europe-wide sector data bases exist. Secondly there should be the opportunity for singular case examination through the Commission with requirements as demanding as for the admission into the list.

2. Innovation fund

2.1 Do you see reasons to modify the existing modalities applied in the first two calls of the NER300? Are there any modalities governing the NER 300 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.

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?

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?

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?

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

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

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)?

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

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

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

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?

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)?

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.)

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

yes

no

If so, which of the following areas, if any, currently supported through investments for modernisation of electricity generation up to 2020 should be prioritised for support up to 2030 and why?

Interconnectors

Smart Grids

Super-critical coal

Gas

Renewable energy

Energy storage

Energy efficiency

Other (please elaborate)

Please explain in detail:

4.6 How can improved transparency be ensured with regard to the selection and implementation of investments related to free allocation for modernisation 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?

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.

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 harmonised at EU level?

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?

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

5.5 Under the current EU ETS Directive, at least 50% of the revenues 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 to plan to use 87 % on average to support domestic investments in climate and energy. Do you consider the current provisions regarding the use of the revenues adequate for financing climate action? If not, please explain why?

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?

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?

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?

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

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?

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