POSITION PAPER

Response to the Commission report on the state of the ETS

25 February 2013

Transparency register: 6025320863-10

Introduction

With its report on '**The state of the European carbon market in 2012**'[1], the European Commission opens the debate on the future of the ETS. The European Rubber and Tyre Manufacturers' Association (ETRMA) welcomes the Commission's initiative in looking at the ETS, as well as structural problems that may have arisen over its first two phases.

As industry committed to growth and sustainable development in Europe, we are also concerned by the fate of the ETS and its future credibility. We welcome this call for stakeholder input. However, we do not agree with the Commission's assessment that actions should be taken during the ETS' third phase, which has just started. Instead, **the Commission should focus on making bold proposals in view of the ETS' fourth phase. This would avoid uncertainty regarding the next seven years of carbon trading, and make it easier for companies to plan their low carbon and energy efficiency investments for the 2030 horizon.**

We also find that the Commission may be acting counterproductively with its current backloading proposal. Proposing to temporarily remove allowances, while at the same time issuing a report stating clearly that this approach is insufficient (see below under proposed option 2) does not increase certainty in the future of the ETS. On the contrary, it raises additional questions about its future, not only up to 2020, but afterwards.

1. Increasing the EU CO_2 reduction target to 30% in 2020

ETRMA understands why this option would be appealing for the European Commission, since DG CLIMA officials and Commissioner Hedegaard have been suggesting such a move since May 2010. However, it is clear that the criteria laid out in the 2008 Directive for increasing the carbon reduction target to 30 % have currently not been met. COP negotiations are at a standstill, and even though a number of countries have started exploring cap and trade systems, we are far from the global agreement that was the precondition for increasing the EU's carbon reduction commitment.

The EU is on track to go beyond its 20% carbon reduction target, and even though some of this reduction stems from a drop in output linked to the current economic climate, this is not the right time to explore increasing the cost base of Europe's manufacturing sector over the next seven years.

[1] http://ec.europa.eu/clima/policies/ets/reform/docs/com_2012_652_en.pdf

ETRMA Aisbl
European Tyre and Rubber Manufacturers' Association
VAT number: BE0881 606 175
EC Register : ID 6025320863-10

2/12 Avenue des Arts
1210 Brussels Belgium
www.etrma.org
Tel +32 2 218 49 40 - Fax +32 2 218 61 62

2. Retiring a number of allowances in phase 3

This would have the same effect as the scenario above. Presenting this as a scenario is also discrediting the current legislative discussions related to the backloading proposal, since this option proposes to suppress the allowances which backloading would bring back into the system in 2018.

Investments have already been made with phase 3 allowances in mind. Having the Commission intervene in the ETS to withdraw allowances would not increase the confidence in this market mechanism, or in its missions of capping carbon allowances and creating incentives for further investment in low carbon technologies and innovation.

3. Early revision of the annual linear reduction factor

The arguments raised in response to scenarios 1 and 2 are also valid for this scenario, but changing the linear reduction factor would, in addition, have a knock on effect on phase 4 allowances before any legislative discussions on the future of the ETS have even taken place. The linear reduction factor is only due to be revised in 2025, a decision to change it now would skew the midterm perspective it currently provides. Additionally, changes in the linear reduction factor will have an impact on ETS sectors which, according to the European Commission report (COM-2012_652 final), have already reduced emissions by more than 11% compared the 4% reduction showed by non-ETS sectors, such an additional burden on the ETS sector would not be only unnecessary, but also unfair.

4. Extension of scope of the EU ETS to other sectors

We are in complete agreement with the Commission statement that extending the ETS to new sectors would require an in depth analysis on who would be responsible for reporting into the ETS, and on how this would coexist with current sector specific legislation.

ETRMA finds this option is worth considering, and a potentially a path towards a credible ETS in the longer run. However, such an extension should carefully avoid increasing the burden on those sectors that are already both directly or indirectly targeted by the ETS directive. ,. In particular, as it was underlined to the European Commission in 2010[2], in the tyre sector 63% of the ETS costs are indirect costs which are distributed among all EU tyre plants. This means that even those plants of the tyre and rubber sector which are currently out of the scope of ETS (due to the presence of combustion installations with a rated thermal input not exceeding 20 MW) are already paying the price of carbon allowances in their electricity and steam consumption.

ETRMA's support for this scenario should be nuanced by the fact that such a decision should only be taken after a full consultation with stakeholders, and after having been thoroughly discussed during co-decision legislative debates, ensuring a fair identification of sectors which so far, have not been targeted either directly or indirectly by the ETS Directive.

5. Limit access to international credits

[2] European Commission bilateral meeting with tyre manufacturers, 23 April 2010

ETRMA Aisbl
European Tyre and Rubber Manufacturers' Association
VAT number: BE0881 606 175
EC Register : ID 6025320863-10
2/12 Avenue des Arts
1210 Brussels Belgium
www.etrma.org
Tel +32 2 218 49 40 - Fax +32 2 218 61 62

Given the lack of progress during COP negotiations and the sluggish demand for carbon credits, ETRMA understands the Commission has identified CDM credits as an area of concern. However, since both the European Commission and ETRMA are supporters of a future global market for carbon emissions, we must be cautious on the way forward.

We therefore welcome the Commission's emphasis that this issue should be addressed in the way '*phase 4 could be crafted*', meaning international credits would not be targeted during phase 3. We are eager to discuss the best ways to address the over allocation of international allowances with the Commission in the run up to the legislative proposal regarding the ETS' future after 2020.

6. Price management mechanisms

The ETS is a market based mechanisms which has to be driven by supply and demand of carbon allowances, and not be subject to interventions to increase or reduce the price of allowances through a carbon floor price or a reserve mechanism. The ETS aims to reduce GHG gases and not to sustain a certain level of price: the right indicator is the attainment of the reduction target. The ETS would lose its meaning if market actors started believing the price of carbon allowances is set politically.

Conclusions

ETRMA is committed to effective EU environmental policy. Those of our members which are subject to the ETS have made investments to implement and comply with the scheme, as well as to adapt production to the requirements linked to an increased carbon price. Additionally, considering that more than 60% of ETS costs are indirect costs associated withelectricity and steam consumption, **it is a fact that the entire tyre and rubber sector (not only ETS plants) is currently sharing in industry effort to comply with the ETS Directive**.

Opening a debate on the ETS' phase 3, after it has already started, discredits the existing allocation of allowances. This will not be an incentive to investment, but a source of increased legal uncertainty.

The proposals put forward by the European Commission in its report are appropriate reflection points for the ETS after 2020. Any reform of the ETS must come after an **impact assessment**, a full and extensive dialogue with stakeholders and should be addressed through the full ordinary legislative procedure, which is the only way to treat this debate with the full transparency and expertise it deserves.

The Commission sharing its thoughts with stakeholders is a promising start to this process, and ETRMA looks forward to being involved in this dialogue.

For further information contact ETRMA:

- Mr. Lorenzo Zullo, Coordinator. Email: technical@etrma.org