

IndustriAll Europe outlines key demands for ETS reform

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As part of its “Summer Energy Package”, published on 15 July 2015, the European Commission has put forward proposals to remodel the EU electricity market and review the currently outdated energy efficiency labels and align them with the latest standards. Also part of the package is a proposal for a Directive (COM 2015/337 final) revising the EU Emissions Trading System (ETS). IndustriAll Europe has previously called for a review of the ETS and regards this step as necessary in order to fix shortcomings in the current system and to make it a more efficient tool towards the achievement of the EU climate targets.ⁱ For industriAll Europe it is essential that any new legislation strikes a balance between environmental and climate policy targets that have to be met and the need to maintain industrial competitiveness and safeguard employment. The international dimension of European energy and climate policy, especially in view of the UNFCCC and the upcoming COP21 meeting in Paris, must be taken into account, as these problems are only solvable on the global level. With regard to these developments, industriAll Europe calls for incorporating the following nine items into any new ETS legislation:

1. Existing and new installations belonging to the most efficient 10% of their respective sectors when it comes to emission production should be **allocated 100% of their certificates for free**, in order to set clear market incentives and ensure that the most environmentally sustainable form of production is rewarded and economically viable. The production figures used to calculate free allocation to each installation should be recalculated annually and based on much more recent data than is currently the case. However, the threshold should be set during the revision of the ETS Directive to enable a proper debate about its level, rather than via a delegated act as proposed. We would urge the Commission to take advantage of the new flexibility and set the thresholds used for production slowdowns below the current 50%. Finally, industriAll Europe is very concerned by the Commission’s retention of the cap on free allocation as this will require a significant cross-sectoral correction factor which would prevent plants at risk of carbon leakage from receiving the level of protection they need.
2. Facilities that use **own industrial process wastes or by-products** for energy generation should be subject to exemptions.
3. In light of a tightening linear reduction factor (“industrial cap”), and to **avoid further investment leakage** to continents with less stringent environmental standards, it is crucial that all sectors facing global competition be included in the revised carbon leakage list. The criteria for defining these sectors should be the same in all EU Member States. It is also essential that the list of sectors eligible for free allocation is properly targeted, focusing particularly on the most at-risk industries that score highly on both the carbon-intensity and trade-intensity criteria.
4. Rules of the newly established **Market Stability Reserve (MSR) and its size should be adjustable** (annually) in order to be capable of reacting to market developments on a short-term basis. It is also important that in future any allowances intended for industry but unused because of closures, partial closures or lower than expected levels of new entrants are kept for industry.
5. Companies impacted by the ETS mechanism indirectly through costs that are passed on should be compensated for as long as the ETS is operational, and all European schemes put in place by different EU Member States should be compatible in order to **guarantee a level playing field at the global level**.

In this respect industriAll Europe rejects the idea of setting a cap on the compensation governments can provide.

6. In the context of the Energy Union, the impacts of the proposed reforms on the **energy sectors must be monitored closely**, in particular regarding the availability of sufficient certificates and regarding economic and social consequences. Europe's industry requires a reliable, predictable and affordable supply of energy in order to remain competitive.
7. **Sustainable jobs must be protected and created** in established as well as newly emerging industries. A **Just Transition** must indeed ensure that pathways are created for workers in shrinking industries to find jobs in expanding sectors. Trade unions, through Social Dialogue and Collective Bargaining, will protect workers' salaries, working conditions and union rights. The provision of adequate social measures such as training and re-skilling programmes that facilitate this development are crucial in this context. The various transition phases must definitely be accompanied by a 'social plan' with real economic impact, whereby continuous employment and good working conditions in the industrial sector, as well as the economic and social development of the affected regions, can be maintained. The employability of employees must be ensured to enable redeployment - the provision of continuing training throughout employees' careers being one way of achieving this.
8. **Technological limitations need to be taken into account**; certain industrial sectors have or will soon reach a technical peak that will not allow for further emission reduction without technological breakthroughs. Benchmarks agreed under the ETS reform therefore need to be fine-tuned and to take into account technological realities such as process emissions and account for them, should they not be avoidable with state-of-the-art technology. Benchmarks for each sector should be set on the basis of a proper evidence-based approach and not on the basis of generalised assumptions. Requiring the use of standardised life cycle analysis, as the Commission promotes, will ensure efficient climate policy, as well as transparent and verifiable results. This should make certain that benchmarks accurately capture the mitigation capacity of each sector and avoid becoming another arbitrary correction factor. Decisions, such as the proposal on fall-back emissions, need to be debated fully and be included in the revision of the Directive, and should not be left to secondary legislation. Furthermore, we believe the recalculated benchmarks should be retained over the whole phase.
9. **The set-up of a Modernisation and Innovation Fund is appreciated**. Efforts to support industry in the search for breakthrough technologies, and assistance to Member States whose GSP is below the EU's average, are important components for strengthening Europe's industrial fabric, a course of action long called for by industriAll Europe. However, if allowances are to continue being removed and used to support innovation, it is only fair that access to this support is extended to industry, as the Commission proposes. We also appreciate the changes the Commission has suggested to the Fund rules for trying to ensure it works for industry; we will be assessing these more fully in the coming months.

ⁱ www.industrialall-europe.eu/Bodies/excmt/2013/Adopted%20Doc%20EC%20June%2013%20ETS%20EN.docx