

Questions for stakeholder consultation on Emission Trading System (ETS) post-2020 carbon leakage provisions

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0. Registration	
0.1 What is your profil? -single choice reply- (compulsory)	b) Trade association representing businesses
0.2 Please enter the name of your business/organisation/association etc. (maximum 500 characters): -open reply-(compulsory)	
The European Copper Institute (ECI) headquartered in Brussels since 1998, represents the copper industry in Europe and is part of the Copper Alliance, a global platform. We represent 28 companies, including EU's top six producers of copper, Europe's leading manufacturers of semi-fabricated copper products, such as tube, wire and sheet, plus downstream companies exploiting copper's benefits in end-use applications and innovative technologies.	
0.3. Please enter your contact details (address, telephone, email): -open reply-(compulsory)	
Dr. Katia Lacasse, REACH & Regulatory Affairs manager (Health, Environment & Sustainable Development), European Copper Institute, Avenue de Tervueren 168 (b-10), B- 1150 Brussels (Belgium), Phone +32 (0)2 777 70 86, E-mail katia.lacasse@copperalliance.eu, www.copperalliance.eu/policy	
0.4 If relevant, please state if the sector/industry you represent falls under the scope of EU ETS: -single choice reply-(compulsory)	a) yes
0.5 The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication? -single choice reply-(compulsory)	1) yes
I. General: competitiveness, carbon leakage and present free allocation rules	
Question 1: Do you think that EU industry is able to further reduce greenhouse gas emissions towards 2020 and beyond, without reducing industrial production in the EU? -single choice reply-(compulsory)	b) no
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	

No, unless: 1. Extra cost due to climate policy is sufficiently compensated. Currently, a key carbon leakage prevention mechanism, compensation for ETS indirect costs, exists only on paper as only few member states established meaningful compensation schemes. 2. We have a stable, predictable and investment friendly legislative environment in Europe. 3. Conditions are put in place to ensure that EU copper industry can remain globally competitive so that it can continue to invest in innovation along its entire value chain. 4. Sector specific reduction potentials and technology availability are properly and realistically assessed, (when designing new policies).

Question 2: Do you think that the EU ETS helps the EU industry to become more energy efficient, and thus contributes to increasing the competitiveness of European industry in the long-term?

b) no

-single choice reply-(compulsory)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Energy intensive industry such as the Copper Industry for example has an innate incentive to become more energy efficient due to high energy cost, independently of the extra cost related to ETS. In these industries, however, the EU ETS may reduce the ability to become more energy efficient. The reason is that additional improvements will require investments, either in upgrading of existing capacity or in new plants. Extra cost due to climate policy, if insufficiently compensated, will reduce the margins of the European industry. And shrinking margins lead intrinsically to reduced energy efficiency investments.

Question 3: Do you think the EU needs to provide special (transitional) measures to support EU industry covered by the EU ETS, in order to address potential competitiveness disadvantages vis-à-vis third countries with less ambitious climate policy?

a) yes

-single choice reply-(compulsory)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

In most energy intensive industries, product prices are set in global markets. This is particularly true for copper which price is fixed globally at LME London Metal Exchange. Until a significantly larger share of global competitors is influenced by similar increases in energy cost, there is a need for such measures. Otherwise such industries will disappear from Europe.

Question 4: In your view, how adequate a policy instrument is free allocation and, in particular, increased free allocation for certain industrial sectors to address the risk of carbon leakage?

a) very adequate

-single choice reply-(compulsory)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Compensation for direct and indirect costs, linked to actual output and realistic benchmarks, would be a very adequate measure to address the risk of carbon leakage (predictability and effectiveness is ensured in the long term for both, direct and indirect costs).

Question 5: In your view, how does free allocation impact the incentives to innovate for reducing emissions?

a) it absolutely keeps the incentive

-single choice reply-(compulsory)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Full compensation for direct and indirect costs is absolutely necessary for the competitive position of Europe as a localisation of energy intensive industries. Compensation should be linked to actual output in order to provide an incentive for growth and to allow production

flexibility through business cycles. Realistic benchmarks are necessary for full compensation to new capacity and for the preservation of the undistorted environmental incentive. Expressed differently, allocation of free allowances will not reduce the environmental incentive for the recipient. On the contrary, full compensation for direct and indirect effects of ETS through allocation or otherwise is a precondition for investment in new capacity in Europe.

Question 6: In your view, is the administrative burden for companies to ensure the free allocation via the implementation of the benchmarking provisions proportionate to the objectives? -single choice reply-(**compulsory**)

b) quite proportionate

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

The administrative burden is not insignificant, but proportionate in the sense that no better solutions to solve the carbon leakage issue have been pro-posed.

II. Options for post-2020

A. Strategic choices

Question 7: What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes? -single choice reply-(**compulsory**)

d) there should be no limit to overall free allocation to industry

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

Carbon leakage undermines the environmental efficiency of EU ETS as well as EU's industrial growth. Certain industries have to be protected for unfair international competition until fair conditions are restored by an international climate agreement. Without a comprehensive international agreement giving the global competitors of European industry a similar cost element related to emissions and electricity consumption, the cost of carbon leakage mitigation will be more or less stable, whereas the number of allowances to cover this cost will gradually diminish. This is a cost that is directly linked to emission trading and should be covered by the ETS system itself before any money is taken out of the system. If in the future, there is an inadequate number of allowances available to cover the need for carbon leakage mitigation, compensation could be provided as a sum of money proportionate to a given number of allowances from another source of finance.

Question 8: Currently the European Commission implements the NER300 programme to provide from EU ETS specific support for large-scale demonstration of Carbon Capture Storage (CCS) projects and innovative renewable energy. 300 million allowances, representing ca. 2% of total phase 3 allowances, are dedicated for this purpose. What share of the post-2020 allowance budget should be dedicated to such innovation support? -single choice reply-(**compulsory**)

c) a lower share than in Phase 3

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(**optional**)

Financing of CCS should not be a priority for the allowance budget. It is illogical to reserve a given share of the budget for this purpose: When the EUA prices are low the need for support is high and vice versa. Furthermore, the lack of stability in the EUA market creates a high project risk and high financing cost. This adds the project cost and the need for support.

Question 9: At the moment, EU ETS rules do

b) no

not contain a specific support scheme for industrial innovation and deployment of new low-carbon technologies (apart from support for CCS and renewables under the NER300). Do you think there should be such a financial support scheme? -single choice reply-(compulsory)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

ETS should be focused on emission trading and mitigating the effects of such trading. Financing is tight, and there is no room for further programs.

Question 10: If innovative low carbon technologies in the industry are to be further supported, which could be possible sources of funding?

-single choice reply-(compulsory)

c) other types of funding (please specify)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

ETS should be focused on emission trading and mitigating the effects of such trading. Auction income should not be diverted to general innovation support.

Question 11: In your view, is there a need for additional measures beyond free allocation and EU-level innovation support to address the risk of carbon leakage for energy intensive sectors covered by the EU ETS, post-2020? -single choice reply-(compulsory)

a) yes

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The use of free allowances will also have to be extended to cover indirect effects through increased electricity prices. With significantly higher EUA prices, the present solution for indirect costs based on State Aid will: be insufficient for long term survival of these industries in Europe, not create the predictability needed for investments, and, as well, create significant disturbances in the internal market for energy intensive products. Effective carbon leakage prevention will also require exemption from extra costs related to other elements of climate policy like support to development of renewable electricity generation and extra grid costs related to transmission and balancing of electricity from renewable sources.

II. Options for post-2020

B. Allocation modalities

Question 12: Currently there are two categories for sectors in terms of exposure to the risk of carbon leakage: sectors are either deemed to be exposed to such risk (the sectors on the carbon leakage list) or not (sectors not on the carbon leakage list). Should the system continue with two carbon leakage exposure groups or is some further differentiation needed? -single choice reply-(compulsory)

b) more carbon leakage categories should be defined

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Electro-intensive industries are particularly exposed to carbon leakage and need full compensation of extra cost until a significant share of competitors is influenced by similar cost increases. EUA costs are passed on into electricity prices through the marginal cost of the marginal sources of electricity, and for these industries, electricity related cost make up a high share of total cost.

Question 13: Under the current system, exposure of sectors to the risk of carbon leakage is primarily measured by the share of 'carbon costs' in their gross value added (GVA) and by the intensity of trade with third countries. What carbon leakage criteria should be defined for the post-2020 period? -single choice reply-

(compulsory)

e) additional criteria should be defined (please specify which current criteria should be maintained and which additional criteria should be defined)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

A single carbon leakage list (with several categories) should be established. The list should be based on the combined effect of direct cost (emission allowances) and indirect costs (increases in electricity costs due to climate policy). The following set of criteria should be established: 1. The exposure to global competition. 2. The exposure to EUA cost 3. The unit is in the most exposed category of the carbon leakage list if both criteria are met being simultaneously at a high threshold. If one or both of the criteria only meets a lower threshold, the unit will be in the less exposed category of the list. The intensity of trade with third countries is a weak proxy to competitive exposure, and should not be used in this context.

Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage? -single choice reply-

(compulsory)

b) other thresholds should be defined. Please specify below

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The levels of the thresholds should be based proper analysis of the proposed new set of categories and criteria (see response to Q12 and Q13).

Question 15: In the current system, there is a possibility to assess the exposure of sectors to the risk of carbon leakage also based on qualitative criteria (abatement potential, market characteristics and profit margins). Do you think that similar qualitative criteria should be maintained to complement the quantitative criteria? -single choice reply-

(compulsory)

a) yes, it is important to maintain a certain level of discretion in the system for justified cases

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Justified cases could be: inability to pass through the CO2 costs to its global customers (i.e. price-taker industrial sector), economic activity of major importance for EU society (eg recycling as a contribution to the "circular society")

Question 16: Currently, the list of sectors exposed to the risk of carbon leakage is valid for five years. What should be the validity of the list for the post-2020? -single choice reply-

(compulsory)

d) in line with the duration of ETS Phase 4

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Predictability is the key to incentive efficiency. There is reason to believe that the set of criteria described above will establish robust and

stable lists.

Question 17: Currently benchmarks are set to the average greenhouse gas emission performance of the 10% best performing installations in the EU for a given product. What adaptations of benchmarks for 2021 onwards should be considered, if any? -single choice reply- (compulsory)

a) the present approach of average of the 10% most efficient installations should remain

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Special solutions for industries where it is impossible to establish sectorial benchmarks (as for eg small number of installations) should remain.

Question 18: Should the benchmarks be revised to reflect the technological state of the art? -single choice reply-(compulsory)

a) yes (please specify how often)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

In alignment with other EU environmental legislations tackling sustainability goals (eg IED)

Question 19: Currently, historical production data are used to determine the allocation due to each installation. Operators had the possibility to choose between 2005-2008 or 2009-2010 as basis years. Should the production data used to calculate allocations in Phase 4 (post 2020) be updated? -single choice reply-(compulsory)

c) other (please specify)

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

The main advice to be found in the literature is to use output based allocation linked to realistic benchmarks. For each industry, the baseline will then be set by the realistic benchmark. Indirect emission should also be set by realistic benchmarks and actual output. The compensation will be linked to a sum of two benchmarks, one derived from emissions and one derived from electricity consumption.

Question 20: Is there a case for any deviations from general harmonised allocation rules, and what would be the risks involved? -single choice reply-(compulsory)

a) no, there should be no deviations

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

There should be no deviations linked to the short-term financial conditions of industries. There might however be a need to find special solutions for industries where it is impossible to establish sectorial benchmarks. Overall, EU's sustainability and climate goals should be better linked throughout core environmental and climate policies.

Question 21: Should there be a harmonised EU-wide compensation scheme for indirect costs, i.e. for increases in electricity costs resulting from the ETS? -single choice reply-(compulsory)

c) yes, in the form of additional free allocation

If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Compensation inside the EU ETS should be extended to cover indirect effects through increased electricity prices. With significantly higher EUA prices, the present solution for indirect costs based on State Aid will be insufficient for long term survival of these industries in Europe and, as well, create significant disturbances in the internal market. The cost of any compensation measures will be proportionate to the EUA price, thus corresponding to the value of free allowances. Compensation could be provided as free allowances or as a sum of money proportionate to a given number of allowances from another source of finance.

II. Options for post-2020

C. Innovation support

To implement a small-scale prototype -single choice reply-(compulsory)	Important
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At the conception stage -single choice reply-(compulsory)	Least important
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To implement a large-scale pilot -single choice reply-(compulsory)	Most important
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At the commercialisation stage -single choice reply-(compulsory)	Less important
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If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

Question 23: Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation? -single choice reply-(compulsory)	d) other
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If you wish, please motivate your answer (max. 1000 characters):

-open reply-(optional)

ETS should be focused on emission trading and mitigating the undesirable effects of such trading. Innovation support should mainly come out of MS general budgets and not from auction income.

Section II:

D. Other issues

Question 24: Are there any other issues you would like to raise? -open reply-(optional)