

## The EU ETS reform must anchor the system in sectoral realities

### Position paper on the EU ETS post-2020 (rev4)

Glass for Europe welcomes the launch of the trilogue discussions on the reform of the EU ETS post 2020 after the detailed examination of the EC proposal by both the Council of the EU and the European Parliament. Because Europe's flat glass industry is increasingly at risk of carbon leakage and is characterized by very-long investment cycles<sup>1</sup>, it is essential that the framework post 2020 is defined as rapidly as possible to provide regulatory certainty and confidence for the planning of investments.

Glass for Europe is convinced that the effective contribution of the European Union to the climate objective set by COP21 requires a European industrial base at the forefront of decarbonisation. To this end, the European Union shall adopt a climate legislative framework that provides positive signals to investors, starting with achievable targets for each sector to meet the objective of 40% GHG emission reduction by 2030. In this context, Glass for Europe advocates for a fine-tuned reform of the EU ETS, which will ensure a business environment allowing the flat glass sector to continue producing in Europe its energy-efficient glass technologies needed to decarbonize Europe's buildings and transport.

Glass for Europe believes that the reform of the EU ETS post 2020 represents a unique opportunity to finally anchor the system in sectoral reality which is a necessity to reconcile cost-effective emission reduction with industrial competitiveness. As long as the system fails to connect the allocation of free allowances with the emission reduction potential of each industrial sector, it will generate dangerous asymmetries within the EU ETS system.

## Key elements to anchor the EU ETS in sectoral realities

### Carbon leakage (CL)

- ▶ Reviewed criteria is effective and CL list shall be set for the entire trading period
- ▶ **Quantitative assessments should be possible at more disaggregated statistical levels, i.e. Prodcom-8, to match ETS realities.**

### Benchmarks & CSCF

- ▶ **CO<sub>2</sub> benchmarks should be based on real and verified data without minimum "flat rate" adjustments.**
- ▶ **A CSCF buffer of 5% is needed, i.e. a possible lowering of the auctioning share to avoid the cross-sectoral correction factor (CSCF).**

### Miscellaneous

- ▶ The review of production baseline for free allocation and the 10% threshold and mechanism for production increases is positive.
- ▶ **Compensation for indirect costs should be opened to all sectors exposed to risks of CL.**

<sup>1</sup> Based on the assessments carried out by the European Commission for establishing the carbon leakage lists for the second (2008-2012) and third periods (2013-2020) total CO<sub>2</sub> costs increased from 8 to 10% while the trade intensity has also increased from 21 to 24%, i.e. a 20% increase in risk of carbon leakage in 5 years. Flat glass plants run continuously for uninterrupted periods of 16 to 18 years hence the need for long-term planning and visibility.



## 1. Carbon leakage assessment: fine-tuning necessary for proper sectoral assessments

To Glass for Europe, the reviewed criteria based on the carbon intensity and trade intensity of the sectors is appropriate to define risks of carbon leakage for Europe's industrial sectors. However, the methodology needs to be applied using appropriate statistics that match the ETS production and activities of sectors.

The directive should **allow for a sector to request a quantitative assessment at a more disaggregated statistical level, i.e. PRODCOM-8**. In the flat glass sector for instance, NACE-4 includes both activities that are subject to ETS, i.e. basic flat glass production, and downstream activities that are excluded from the scope of ETS<sup>2</sup>, like glass coating. Only PRODCOM-8 statistics allow a proper assessment in the flat glass sector, i.e. an assessment limited to ETS production and activities. It results from this statistical mismatch that an assessment at NACE-4 consistently underestimates the effective risk of carbon leakage in the flat glass sector<sup>3</sup>. According to the newly proposed carbon leakage metrics, the carbon leakage risks would reach 1.02 for the flat glass sector at NACE-4 level, against 1.93 using PRODCOM-8 data.

- ▶ Both the European Parliament and Council of the EU address this issue in their respective resolution and general approach. Glass for Europe welcomes this progress although the exact wording of the provision needs to be improved. In particular, the Council of the EU's text on article 10b2a<sub>new</sub> rightly sets out a series of conditions but needs to be improved to be non-discriminatory.

Regarding carbon leakage assessments, Glass for Europe also calls for two items:

- The directive should clearly indicate that the list of sectors exposed to carbon leakage is established for the entirety of each trading period of the EU ETS, to ensure certainty and long-term visibility to industry and investors.
- The possibility for sub-sectors to be evaluated under a qualitative assessment regardless of any threshold, should be maintained. Under the EC proposal, only sectors whose exposure is evaluated between 0.18 and 0.2 are entitled to request a qualitative assessment while there may be several good reasons why a sector could be better assessed qualitatively.

## 2. Benchmarks: need for periodic revision of benchmarks based on real data without “flat rate” adjustments

Given that the level of protection against risks of carbon leakage directly depends on the number of allowances attributed to each installation, benchmarks reflecting sectoral performance and based on real and verified industrial data are required to ensure adequate protection against risks of carbon

<sup>2</sup> See: Guidance Document n°9 on the harmonized free allocation methodology for the EU-ETS post 2012: Sector-specific guidance. Final version 2011.

<sup>3</sup> These data have been calculated on the basis of the EC official calculations realized for the carbon leakage risk assessment of 2013, which was based on 2011 data.



leakage. In Glass for Europe's view, the approach which consists in applying **"flat rate" adjustments<sup>4</sup> to benchmarks carries perverse effects.**

- The "flat rate" reductions **will complete the disconnection between free allocation and sectoral realities.** Under the current system, benchmarks are the only existing link between the technology developments in the different sectors and the level of carbon leakage protection. Applying a flat rate reduction to benchmarks will add an additional correction factor to the already existing.
- The "flat rate" reductions will **penalise the sectors where available solutions to reduce emissions have been deployed in the previous phases**, such as in flat glass making. Over the last years, the implementation of available low-carbon technologies in our industry has generated an average reduction in the float glass benchmark of 0.2% annually, i.e. 0.88% between 2008 and 2012. The product benchmark is not expected to decrease at a faster pace over phase IV.

The European flat glass sector is constantly improving the efficiency of its installations, and the deployment of best available technologies is clearly identified by its companies not least to contain energy costs<sup>5</sup>. Figures available<sup>6</sup> show a reduced gap between the 10% most efficient installations and the rest of the installations between phase II and phase III. In other words, the analysis demonstrates a good uptake of best available technologies within the sector. **The current benchmark system has started delivering and there is no need to further modify it with the introduction of "flat rates".**

- ▶ Both the European Parliament and Council of the EU reintroduced benchmarks based on real and verified data but, unfortunately, both also maintain a minimum flat rate reduction, of respectively 0.25 and 0.2%. Glass for Europe believes that minimum flat rates should be abandoned.

### 3. A CSCF buffer, or flexible auctioning share, to minimize risks of CSCF

The Cross-Sectoral Correction Factor (CSCF) is the mechanism used in this current phase of the EU ETS to ensure that the total allocation remains below the cap. This factor seriously undermines the carbon leakage protection for all industrial sectors at risk and further decouples the ETS system from reality. For this reason, Glass for Europe believes that **the CSCF mechanism is dangerous and mechanisms to minimize the risk a CSCF applies are needed.**

Several options have been contemplated by the co-legislators and Glass for Europe welcomes the fact that both the Council of the EU and the European Parliament supports **the most effective option, i.e. a CSCF buffer.** It consists in introducing a flexibility in the share of allowances to be auctioned by Member States. Following that proposal, the auctioning share fixed at 57% would be maintained but could be decreased by a few percentage points in case of need to avoid the CSCF. This flexibility in the auctioning share could mitigate the impact of an eventual shortage of free allowances in the second part of the trading period. It is however essential that the level of the buffer is sufficient to provide that

<sup>4</sup> The European Commission proposes to introduce three improvement rates: central default flat rate of 1% for sectors with an improvement rate between 0.5% and 1.5% annually, low flat rate of 0.5% for sectors with an improvement rate lower than 0.5% annually, high flat rate of 1.5% for sectors with an improvement rate higher than 1.5% annually.

<sup>5</sup> The share of energy costs in production costs is between 33 to 37%.

<sup>6</sup> For the flat glass sector, figures show that the 3% GHG reduction for the sector (i.e. average for all installations) results from a reducing gap between the top 10% (product benchmark) and the rest of installations. By contrast, for the same period (2008-2012), the reduction of benchmark was equal to 0.8%.



the CSCF risk minimized, particularly in case of economic upturn, while safeguarding enough EUAs for auctioning.

- ▶ Glass for Europe supports the mechanism of a CSCF buffer / flexible auctioning share introduced by both the European Parliament and the Council of the EU. Based on the studies and calculations realised by several institutions, Glass for Europe calls for the possibility to reduce the auctioning share by up to 5% points (from 57 to 52 %), as proposed by the European Parliament.

*Glass for Europe is the trade association for Europe's flat glass sector. Flat glass is the material that goes into a variety of end products, primarily in windows and facades for buildings, windscreens and windows for automotive and transport as well as solar energy equipment, furniture and appliances. Glass for Europe brings together multinational firms and thousands of SMEs across Europe, to represent the entire building glass value-chain. It is composed of flat glass manufacturers, AGC Glass Europe, Guardian, NSG-Group, Saint-Gobain Glass Industry and Siseçam-Trakya Cam, and works in association with national partners gathering thousands of building glass processors and transformers all over Europe.*

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