



Response to the consultation on

## “Revision of the EU Emission Trading System (EU ETS) Directive”

MARCH 2015

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*Glass for Europe is a registered organization on the European Commission's register of interest representatives under the ID number 15997912445-80.*

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***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.

## 1. Free allocation and addressing the risk of carbon leakage

### 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?

In principle, a periodic revision of benchmarks, in line with technology developments and deployment in each sector is an appropriate solution.

Realistic benchmarks, in combination with the review of the production level baseline (and no longer use historical production), are required to ensure that an adequate level of free allowances is attributed to each installation. A few aspects should be considered:

- The revision of benchmarks should ensure that free allowances are gradually reduced at levels that reflect the industry's ability to improve GHG performance. However, this approach only makes sense if the CSCF is eliminated otherwise a disproportionate decrease in free allowances will be forced on industry via two means (benchmarks and CSCF). To date, the CSCF reduces the amount of free allowances faster than the industry's real CO<sub>2</sub> reduction potential.
- Benchmarks, calculated as the average of the 10% least CO<sub>2</sub> emitting installations, which in practice means that only 5% of the installations are at the level or below the benchmark, are already set at challenging levels for most industries. In the case of the flat glass industry for instance, the average of 10% best means that the benchmark is set on the basis of only 5 plants and that only 2 are below the benchmark level. It therefore provides a clear horizon for possible improvements in 48 other installations. However, under current rules, even the best performing plants, i.e. those below the benchmark, do not receive 100% free allowances. This is problematic and is linked to the CSCF (see above), which needs to be abandoned as periodic revision of benchmarks are introduced.
- The revision of the benchmarks should be aligned with the ETS phases and established for the entirety of the next trading period, so as to provide certainty to industry and investors. To ensure a stable horizon for industrial actors, trading periods should not be too short: 8 to 10 years seem to be a reasonable length.

European sectoral associations can coordinate the benchmark reviews process, by way of organising the data collection through an independent third party to ensure confidentiality. Verified industry data should be used in the revision process.

### 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?**

Industry sectors exposed to risks of carbon leakage after 2020 should not face undue carbon costs leading to risks of carbon leakage and be given full and effective compensation under the form of free allowances. Manufacturing sites belonging to exposed sectors should receive sufficient free allowances, in line with updated CO<sub>2</sub> benchmark figures and actual production. The cross-sectoral correction factor needs to be abandoned, so that free allowances are not 'artificially' reduced. Nevertheless, not only the most efficient installations, but all installations within the sector, should receive effective compensation. Only helping the "best performers" would highly increase the risk of closure or relocation of supposedly "less good performers", rather than serve as a reference for their innovation. It has been demonstrated that installations emitting more CO<sub>2</sub> are not necessarily less efficient, but may be producing different products, generally with higher added value, which require higher melting temperatures or raw materials to stay longer in the furnace.

The attribution of free allowances has helped innovation and industry to invest in the efficiency of its plants as they preserve investment capacity. It therefore drives innovation and emissions reduction while ensuring the competitiveness of EU industries. However, this instrument alone does not guarantee full protection of industry against carbon leakage under Phase III. Considering that the amount of free allowances is disconnected from industry needs (in particular due to the CSCF), CO<sub>2</sub> allowances have to be acquired. This represents a cost for manufacturing industries that is not borne by most extra-EU competitors. Therefore, 'artificial' reduction factors not related to the benchmark - should be removed so that free allocations do not decrease at a faster pace than the sector's technical ability to improve its CO<sub>2</sub> efficiency.

**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?**

In principle and at least for the most part, industry sectors recognized at risk of carbon leakage, are not able to pass costs through to customers. This is effectively the case in the flat glass sector. Power generation is generally the only sector that is able to pass through costs to 'captive' customers. Effective compensation for indirect costs should therefore be foreseen to address this issue.

**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?**

Glass for Europe took note of the Council's desire to secure measures against risks of carbon leakage for industries covered by the EU ETS. Some of the principles laid out by the Council go into the right direction. The better alignment of allowances to production levels (and no longer historical production) and regular review of benchmarks are indeed needed to provide manufacturing sites belonging to sectors exposed to risks of carbon leakage sufficient free allowances. However, these improvements will deliver their positive effect only if any artificial factor reducing free allocations at a faster pace are removed. Under the current system, the attribution of free allowances does not guarantee full protection of industry against carbon leakage, even for the least emitting manufacturing sites. The correction factors (and in particular the CSCF) disconnect the amount of free allowances from the industry's real potential of GHG emission reduction and the effective risk

of carbon leakage. This needs to be corrected and we regret that the Council did not address that question next to the alignment of allowances to production levels and regular review of benchmarks. In addition, we regret that the Council remains silent on the criteria which have to be taken into account for the assessment of the list of sectors exposed to the risk of carbon leakage. To properly serve the objectives set in the Council conclusions, the assessment leading to the list of sectors exposed to risk of carbon leakage should be made clear as rapidly as possible. The exposure of industrial sectors to risks of carbon leakage needs to be focused on energy intensive industrial processes and must remain based on objective criteria. First, the list of sectors exposed to carbon leakage must be established for the entirety of each trading period of the EU ETS, to ensure certainty and long-term visibility to industry and investors. Second, the CO<sub>2</sub> cost metrics should be made more relevant to analyse the impacts of carbon cost on sectors' financial viability. To that end, the CO<sub>2</sub> cost over GVA criteria should be replaced by a CO<sub>2</sub> cost over Gross Operation Surplus (GOS). The 5% threshold should stay unchanged. Third, the quantitative assessment should focus on those industrial activities that are really covered by the EU ETS. The use of public PRODCOM 4-digit level data is problematic in the case of the flat glass sector as it encompasses many activities and products, which should not be taken into account in the assessment.

**3. 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?**

In principle, a periodic revision of benchmarks, in line with technology developments and deployment in each sector is an appropriate solution.

## 2. Innovation fund

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.

The innovation fund should continue to be funded by auctioning revenues in order to avoid market distortions. Other methods, such as financing by way of unused/backloaded/reserved allowances, could generate shortfalls in the allowance market and artificially increase the price of carbon, adding extra costs on industries and limiting their capacities of participating in the investment in industrial low carbon technologies.

In addition, innovative renewable energy technology projects should be differentiated from other low Carbon Technology projects and in particular CCS projects.

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.

The innovation found should support scheme for industry innovation focusing on process improvement and optimization, energy efficiency and new energy sourcing. However, as highlighted in question 2.1 the innovation fund should be funded by auctioning revenues and not by the diversion or use of any sort of potentially tradable allowances.

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?

We underlined in the previous consultation our support to a specific scheme for industrial innovation but that support is conditioned to the way it is financed. We consider that it could be funded only via auctioning revenues and not by way of an allowance budget. This last option would have two negative effects: first it would generate shortfalls in the allowance market, which would penalize industrial production growth and would prevent full protection against carbon leakage. Second, it would artificially increase the price of carbon and add extra costs on industries thus limiting their capacities of investment in industrial low carbon technologies.

Therefore, we consider the financing scheme and the increase in the initial endowment from 300 to 400 million allowances not appropriate.

### **3. Modernisation fund**

#### **2. Regarding the investments, what types of projects should be financed by the modernisation fund to ensure the attainment of its goals? Should certain types of projects be ineligible for support?**

Projects aiming at restoring EU growth and competitiveness with an important spill-over effect over other sectors should be prioritized. It is obvious that the building sector and its renovation must be a priority. A study for KfW Bank on the German programme for building renovation found that each euro invested in building renovation generates additional revenue of 4 to 5 euros for public authorities through increasing tax revenues and social security contributions while reducing expenditure on unemployment and social benefits. The choice of directing investments towards building renovation is thus one of sound public finance management at a time of budget constraints.

An adequate support scheme for renovation projects would benefit the Member States with lower GDP where the room for improvement is substantial. In addition, prioritizing investments in this sector would contribute to attain energy efficiency objective of 27% set in October 2014's Council conclusions and would be a tangible EU action to give core to the Commission's communication on the 'Energy Union' and its prioritization of the building sector for energy efficiency improvements.

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

The projects should be evaluated in light of their effective contribution to the EU energy efficiency objective and thus reducing the energy dependency of the European Union. As far as final energy consumption is concerned, the buildings sector has a huge energy savings potential (according to the International Energy Agency, 80% of the Economic Potential of Energy Efficiency in buildings still untapped). Consistent efforts to innovate and bring forward ever more efficient solutions and their uptake should be enhanced by facilitating buildings' renovation and the replacement of inefficient equipments.

#### **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)?**

Projects in the building sector should be considered a priority and specific objectives should be set in the relevant programmes (being European or national). The most effective signal should take the form of a sectoral target for buildings as a complement to overall energy efficiency ambitions.

Europe should strengthen its policy to support the renovation of Europe's building stock with concrete legislative tools and more robust implementation of existing instruments, such as the Energy performance of buildings directive. The deep renovation of the existing building stock in Europe offers an important potential for energy savings that remains largely untapped so far. Prioritising deep renovation of buildings in a revised Energy Efficiency Directive could contribute to exploit that potential next to the energy efficiency obligations for utilities and to the public building renovation requirements for Member States. Economic and fiscal incentives to consumers – for instance in national energy efficiency action plans (NEEAPS) - will also contribute to the promotion of energy efficiency in the building sector.

## **5. SMEs / regulatory fees / other**

### **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.**

Administrative burden should always be minimized and simplified to the extent possible.

It is clear that the process necessitates a lot of administrative work. That said, some improvements must be sought. For example, the replication of reporting and registration platforms between Member States should be avoided.

Another significant aspect is the different speeds and deadlines and delays of reporting rules and requests to operator in each member state. Different deadlines and delays are difficult to anticipate and manage. Harmonisation should be envisaged.

In the case of new entrants (in particular in the case of capacity extensions) the complexity and administrative burden associated to the process is very high. The revision of the rules and calculation methodology should be envisaged to facilitate procedures for new entrants.

### **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?**

To have a proper level of security and 'user-friendliness' should be objectives of every EU registry system. The level of security should be linked to the level of data confidentiality required, therefore these services should be part of the system in place and no additional fees should be required.

### **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?**

A part of the auctioning revenues should be earmarked to support innovation in energy intensive industrial sectors. Additionally, revenues generated by auctioning allowances should support projects in the field of energy efficiency, and in particular in the building sector in light of the considerable energy savings it can generate.

## 6. General evaluation

### 1. 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 5. Under the current EU ETS Directive, at least 50% of the revenues generated from the auctioning

If the objectives of the EU ETS are to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner (Article 1), we can consider that these do match the EU Climate policy objective. That being said, this statement does not mean that today's functioning of the EU ETS achieve these objectives nor that the ETS is sufficient to achieve the Climate policy objectives.

For instance, the EU ETS instrument does not cover certain sectors with high reduction potential while the climate objective is global. It results in a clear disequilibrium between sectors with ETS sectors always 'forced' to contribute with greater emission reduction levels than 'non-ETS' sectors. Additionally, there is no policy instrument guaranteeing that non-ETS sectors will deliver their smaller share of emission reductions.

The EU ETS objective underlines the necessity of GHG emissions reduction in a cost-effective and economically efficient manner. From the flat glass sector experience, this is not the case. To reach the EU objectives in terms of decarbonisation of the energy sector, the system requires a level of CO<sub>2</sub> cost which is not economically viable for flat glass manufacturing industries. This one-size-fits-all approach is not economically efficient and the correction made to artificially increase the price of carbon allowances (e.g. backloaded allowances and Market Stability Reserve) further increase costs that are not borne by external competitors. It undermines the viability of the system and puts EU manufacturing industries and related jobs in jeopardy.

EU CO<sub>2</sub> emission reduction targets should be aligned and compatible with the emissions reduction potential of each sector and all artificial reduction factors (linear or CSCF) should be removed. For ETS sectors, this requires to take into account, first, thermodynamic limits to the reduction of CO<sub>2</sub> emissions in some industrial processes, second, that process emissions are even harder to reduce, and, third, that breakthrough and low carbon technologies are not readily available for most industrial processes. Technological developments should be reflected and translated via a regular revision of the benchmarks (following the principles suggested in question 1.1).

Predictability and stability must be at the core of the system in order to secure investments from sectors that are characterised by their long term investment cycles (15 to 20 years in the flat glass industry). Therefore, in order to secure the necessary predictable business environment for the companies operating in Europe, the system should guarantee that no corrections will be undertaken in the course of an ETS phase, and that the conditions of assessment and the list of sectors exposed to carbon leakage after 2020 will be known shortly.

With regards to the development of low carbon technologies, the Directive should not promote nor finance the development of any specific technology (for example CCS), but remain technology-neutral, so that all technologies can be exploited and potentially developed.

**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?**

The implementation of the EU ETS represents additional costs for companies, in particular associated with data verification and buying of allowances.

The process necessitates a lot of administrative work, however flat glass manufacturers consider it quite proportionate due to the high financial stakes.

**4. How well does the EU ETS Directive fit with other relevant EU legislation?**

The EU ETS is part of a more general legislative framework that includes other pieces of legislation serving the global climate/energy EU objectives. In order to ensure that policies work synergistically and effectively, the legislator should base its decisions on robust and detailed impact assessments.

The Energy Efficiency Directive and the Energy Performance of Buildings Directive, for example, aim at improving energy efficiency and reducing CO<sub>2</sub> emissions from non-ETS sectors and in particular from the building sector. Sectors covered by the EU ETS which manufacture energy savings products necessary to design Nearly Zero Energy Buildings (EPBD) and to renovate the building stock (EED) need to remain competitive. Indeed, a less competitive industry will struggle to deliver the 20% target of industry's share in Europe's GDP by 2020 (COM(2014) 14 final). Industries manufacturing products essential to achieving a low carbon economy, such as the flat glass industry, require a level playing field with competitors not subjected to equivalent environmental legislation and need a long term perspective in order to plan where to locate their manufacturing investments.

All together ETS sectors are expected to reduce their GHG emissions by 43% by 2030. Under the Industrial Emissions Directive (IED, 2010/75/EU) operators of industrial installations are required to implement best available techniques (BATs). In the case of the flat glass sector, it appears that the EU ETS reduction levels are not aligned with the GHG emissions reduction potential achievable by BATs as described in Glass BREF (Best Available Techniques reference document adopted under the IED). Best available technologies are already widespread in flat glass manufacturing and in case of major technological and industrial breakthroughs, these could only become operational in a 15 to 30 years' timeframe. This discrepancy means that even if other 'ETS sectors' can deliver bigger emission reduction levels, manufacturing costs for the flat glass industry will become extremely high when protection against carbon leakage will slowly diminish.

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

The multiplication of corrections to the system over the last few years has negatively impacted the European investment climate while it is crucial for the European Union to remain attractive for investors. The implementation of isolated changes to the system, such as backloading of allowances, regular revision of the Carbon Leakage list and the market stability reserve, reduce certainty and predictability for medium-long term strategic investments for EU companies. Predictability and stability must be at the core of the system in order to secure investments from sectors that are characterised by their long

investment cycles (15 to 20 years in the flat glass industry). The system should guarantee that no corrections will be undertaken in the course of an ETS phase, and that the conditions of assessment and the list of sectors exposed to carbon leakage after 2020 will be known shortly. A number of investment decisions on float glass manufacturing sites in Europe need to be taken in the two years to come. Uncertainty around the EU ETS and the carbon leakage exposure post 2020 put Europe in difficult position as an investment location.

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