



Response to the consultation on

“Consultation on Emission Trading System (ETS) post-2020 carbon leakage provisions”

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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.

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. General: competitiveness, carbon leakage and present free allocation rules.

1. Do you think that EU industry is able to further reduce greenhouse gas emissions towards 2020 and beyond, without reducing industrial production in EU?

YES.

EU industries can always reduce GHG emissions. The real question is by how much? For the flat glass industry has limited possibilities to reduce its GHG emissions in the near future. Best available technologies are widespread in flat glass manufacturing and there are limits to the reduction of CO₂ emissions. According to the revised Glass BREF(2012) there are no major breakthroughs technologies expected in the medium term.

Even technologies were to be discovered and successfully tested, it would 10 and 20 years before these are rolled out to most sites. That said, a number of techniques are undergoing constant (R&D delivers the desired. reduction over the long term could only be achieved by the development of and the CO₂-free electrification of the economy.

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?

NO.

Flat glass manufacturing is an energy intensive process where energy accounts for the largest share of manufacturing costs, i.e. 37% according to the CEPS study on drivers and evolutions of energy costs in the flat glass sector. High energy prices in the EU already provide the strongest incentive to energy efficiency.

Reducing energy consumption and CO₂ emissions is both an economic imperative and a permanent endeavor pursued by all glass manufacturers in order to remain competitive in the market place.

The EU ETS only generates extra costs for EU manufacturers. These extra costs are expected to increase under phase III of the EU ETS as the number of free allowances granted to manufacturing sites reduces due to the high Cross Sectoral Correction Factor. These costs negatively affect the industry's capacity of investment in ever more efficient manufacturing processes.

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?

YES.

EU industry faces higher costs for environment, energy, labor and raw materials, than the majority of extra-EU competitors. In the absence of an international agreement and a level playing field between EU and extra EU competitors, the EU industry needs to be provided with measures to safeguard its competitiveness.

Measures to ensure that the EU ETS does not adversely impact the competitiveness of EU industry is an absolute pre-requisite to ensure the EU ETS' coherence with the EU's ambition to revitalize European manufacturing activities, as proposed in the EC Communication on Industrial Renaissance.

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

VERY ADEQUATE.

Since phase III of the EU ETS has just started, it is too early to draw definite conclusions of its real impact on industry. In the previous phases of the system (phases I and II), the attribution of free allowances has helped industry invest in the efficiency of its plants. 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), CO₂ allowances have to be acquired. This represents a cost for manufacturing industries that is not borne by most extra-EU competitors.

The Cross Sectoral Correction Factor (CSCF), applying from 2013 onwards, reduces each year, free allocations to each installation, even for the least GHG emitting players. This factor and the subsequent reduction of free allowances are dangerous because they are cross-sectoral and therefore disconnected from both the real potential to reduce GHG emissions in each sector and from the effective risks of carbon leakage. This needs to be corrected.

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

IT ABSOLUTELY KEEPS THE INCENTIVE

Free allowances do not reduce the incentive to innovate; on the contrary, they allow industry to invest in the efficiency of its plants as they preserve investment capacity. Additionally, they offer industry the perspective to have to acquire less CO₂ allowances. This last incentive would be better preserved if the arbitrary CSCF was not forcing an unrealistic reduction of the number of free allowances.

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?

YES. QUITE PROPORTIONATE

Administrative burden should always be minimized to the extent possible. It is clear that the process necessitates a lot of administrative work, however flat glass manufacturers consider it quite proportionate due to the high financial stakes. That said, some improvements must be sought. For example, the replication of reporting and registration platforms between Member States should be avoided. In the case of new entrants (in particular in the case of capacity extensions) the administrative burden associated to the process is higher. It should be envisaged to facilitate procedures for new entrants.

7. What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes?

HIGHER SHARE

In principle, there should be no limit on the allowance budget so that the number of free allowances reflects real industrial needs and carbon leakage realities. In practice, this is likely to mean a higher share than in 2013 – 2020 therefore both responses b and d should really be ticked.

To Glass for Europe, the system should be revised in such a way that each installation receives allowances according to the benchmark level and actual production figures. This means, that historical production figures should no longer be used and the CSCF should be abandoned. Only in this way will adequate protection against carbon leakage be guaranteed. It is likely that such a system generates more free allowances than with the current system at times of industrial growth.

Should authorities wish to keep a system whereby free allowances reduce over time, it should be ensured that the number of free allowances does not reduce faster than the cost-effective CO₂ emissions reduction potential of each sector. That could be achieved by replacing the CSCF by sectoral correction factors.

8. Currently the European Commission implements the NER300 programme to provide from EU ETS specific support for large-scale demonstration of Carbon Capture Storage (CSS) 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?

I DO NOT KNOW

With regards CCS, it is not yet evident whether or not CCS is the right direction to go, considering impact on energy efficiency (extra energy consumption for CCS) and investments. It should therefore not be taken for granted as the 'one-size-fits-all' low carbon solution for the EU.

9. At the moment, EU ETS rules do not comprise a specific support scheme for industrial innovation and deployment of new low-carbon technologies (apart from support for CVS and renewable under the NER300). Do you think there should be such a financial support scheme?

YES.

There should be a financial support scheme for industry innovation focusing on process improvement and optimization, energy efficiency and new energy sourcing, only if funded by auctioning revenues and not by way of an allowance budget (see next question).

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

IT SHOULD BE FUNDED BY THE REVENUES FROM AUCTIONING.

Support scheme should be funded by 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 will 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.

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?

YES.

Regarding level of free allowances, the system of allocation needs to be revised in such a way that industries exposed to risks of carbon leakage do not face a decrease in free allowances that is greater than their estimated potential to reduce CO₂ emissions when using best available technologies. This effectively occurs due to the implementation of the CSCF, which forces a steep reduction of free allowances, regardless of industrial realities. Effectively, this means that industries are gradually less protected against risks of carbon leakage, against all economic and technical evidences. It seriously jeopardizes the system and thus is a threat to EU industry's competitiveness.

For this reason, the CSCF needs to be abandoned and replaced by another mechanism meant to ensure a realistic decrease in free allowances: either a regular review of the benchmarks or the instauration of a sectoral reduction factor that should reflect each industry's effective GHG reduction potential when using best available technologies.

2. Options for post-2020

B. Allocation modalities

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?

THE PRESENT TWO GROUPS SHOULD REMAIN

The binary model (in/out) is perfectly suitable so long that assessment of exposure to carbon leakage remains based on objective criteria.

There is no need to create categories of exposure. If this is intellectually appealing, in practice, it means that higher level of protection will be granted to EU industrial sectors which have already somewhat lost ground in global competition. The risk would therefore be high that most free allocations are poured into industrial sectors whose decline in Europe is likely to continue due to other competitive factors that are external to the EU ETS.

On the contrary, a single category of exposure ensures that all sectors are equally protected as soon as a risk is detected on the basis of objective criteria (see below question). It helps ensure protection to industry early enough so that they do not lose competitive ground and thus can remain profitable in Europe.

It is important however that the list of sectors at risk of carbon leakage is established for the entirety of the next trading period, so as to provide certainty to industry and investors.

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?

THE PRESENT CRITERIA SHOULD REMAIN

The current criteria under the quantitative assessment should be maintained.

Some adaptations are nevertheless required to the assessment methodology. For example, an assessment at NACE 3 or 4 level may not always be appropriate to identify the relevant industrial activities that are really falling under the EU ETS and therefore that deserve a carbon leakage assessment. Such a discrepancy between the NACE 4 level and the EU-ETS covered industrial activities exist in the flat glass sector. NACE 4 assessments consistently under-estimate risks of carbon leakage in our sector. Carbon leakage analyses, when focused on industrial activities rather than sectors, like those carried in Australia, show that the activity 'production of bulk flat glass' is 'highly emissions intensive'. This analysis better reflects flat glass reality than the CO₂ cost over GVA calculation realized at NACE 4 level by EU authorities.

To avoid this discrepancy problem, quantitative assessments should be based either on 'industrial activities' or be also possible at NACE 6 or 8 digit level in order to distinguish and cover the relevant activities and product groups.

14. What thresholds should be defined for the criteria measuring the risk of carbon leakage?

THE PRESENT THRESHOLDS SHOULD BE MAINTAINED

The present thresholds for the combination of factors, i.e. 5% for carbon costs over GVA and 10% for trade intensity, must be kept unchanged. They have proved adequate to capture the risks of carbon leakage in the flat glass sector. Additionally, the growing unbalance between the EU GHG reduction commitments and the absence of any such commitment from trading partners suggests that risks of carbon leakage will be growing rather than diminishing therefore all existing thresholds should be maintained and should not be set at higher levels.

Raising thresholds will only exclude sectors from free allowances regardless of effective risks and will send a damaging signal to EU industries against the EC's own re-industrialization objective. An artificial increase to the thresholds would mean that fixing a cap to free allowances is more important than the effective protection of industrial competitiveness.

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?

YES.

In the assessment hierarchy, a new assessment category should be created for quantitative assessments at NACE 6 or 8 digit level. This option should be made available after the NACE 3 or 4 digit level quantitative assessment and before the need for a full qualitative assessment.

The possibility for a qualitative assessment, for justified cases when the above two assessments have proven inconclusive, should be maintained. Other relevant parameters should be looked at as part of this qualitative assessment:

- (i) Projected new capacities around Europe and evolution of production investments within and outside the EU.
- (ii) contribution of the sectors and products to the EU economy (jobs, trade balance, other policy goals (such as energy efficiency) taking into account the whole value chain, and including the recycling of the products.
- (iii) territorial versus consumption based emissions.

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?

IN LINE WITH THE DURATION OF ETS PHASE 4

The list should be established for the entire duration of the ETS phase for which it is established. This is essential to provide certainty to industry and long term visibility to investors.

Besides as long as there is no global agreement on climate and that outside EU competitors do not effectively make the same level of CO₂ emission reduction efforts, effective protection against carbon leakage remains necessary. This is essential to guarantee a level playing field and thus ensure fair competition in open markets.

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?

THE PRESENT APPROACH OF 10% MOST EFFICIENT INSTALLATIONS SHOULD REMAIN.

Benchmarks, calculated as the 10% least CO₂ emitting installations, are already set at challenging levels for most industries. In the case of the flat glass industry for instance, the 10% best means that the benchmark is set on the basis of only 5 plants. It therefore provides a clear horizon for possible improvements in 45 other installations.

Benchmark levels therefore serve their purpose at the level of the 10% least CO₂ emitting installations. Should best performing plants, i.e. those below the benchmark, would get 100% free allowances, the system would work reasonably fine as best performing plants would obtain full compensation.

This is however not the case for the time being. Indeed, the number of free allowances granted to each installation is largely influenced and forced down by the implementation of the CSCF. Since the CSCF is disconnected from each industry's real CO₂ reduction potential, it effectively penalizes all players, including best performing ones, regardless of their ability to effectively reduce GHG emissions further.

18. Should the benchmarks be revised to reflect the technological state of the art?

YES.

In principle, benchmarks should be revised to reflect technology developments and deployment. The revision of the benchmarks should be aligned with the ETS phases. It should be established for the entirety of the next trading period, so as to provide certainty to industry and investors.

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 ability to improve its GHG performance. Effective protection against carbon leakage is thus no longer ensured and downward revisions of benchmark levels would only make the situation worse.

The response to this question is therefore YES if a comprehensive reform that abandons the CSCF is put in place and NO if the concept of CSCF is not abandoned or profoundly reformed.

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?

OTHER.

The current approach of “ex-ante” allocation, which is independent of market dynamics and production variations, can lead to over-allocation in economic recession periods and under-allocation in economic growth periods. A better approach to address disconnections between allocation of free allowances and real emissions is an “ex-post” allocation approach.

In practice, a preliminary amount of free allowances for each installation should be assigned at the beginning of each year. The final amount could then be revised and adjusted at the end of the year based on actual production data. A free allowance reserve could be used to manage the supply and demand of free allocations.

20. Is there a case for any deviations from general harmonised allocation rules, and what would be the risks involved?

NO, THERE SHOULD BE NO DEVIATIONS

There should be no deviations for individual installations in order to guarantee fair competition between companies and production sites.

In the very exceptional case of installations facing specific hardships, the situation of the entire sector should be investigated, so that potential adjustment measure applied to that site does not distort fair competition.

21. Should there be a harmonised EU-wide compensation scheme for indirect costs, i.e. for increases in electricity costs resulting from the ETS?

YES, IN THE FORM OF FINANCIAL COMPENSATION

Financial compensation for indirect costs should be foreseen at EU level so as to minimize risks of disruption to fair competition in the internal market. The level of compensation could be defined based on the findings of energy audits, required under the Energy Efficiency Directive. Financial compensations should only be opened to companies having environment management systems in place (ex. ISO 14001 or EMAS).

II. Options for post-2020

C. Innovation support

22. In your view, at which stage of the innovation process is there a particular need to strengthen the EU's innovation support? Please rank the options from the most important to the least important.

- ✓ To implement a small-scale prototype: *important*
- ✓ At the conception stage: *less important*
- ✓ To implement a large-scale pilot: *most important*
- ✓ At the commercialization stage: *least important*

23. Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation?

FROM THE MS AUCTION BUDGETS

Auctioning revenues should be used to support low-carbon innovation in general. As explained in a previous question, free allowances should only be used to protect industries from carbon leakage. The funding of schemes for any other purposes should not come from free allocation.

24. Question 24: Are there any other issues you would like to raise?

NONE