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ETS Review: Five comments and proposals on the ITRE draft opinion

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On 26 April the ITRE rapporteur published the draft opinion on the Commission proposal to review the Emission Trading System[1]. While the report includes some positive proposals, other aspects still need to be improved. In some cases, some proposed solutions would need to be thoroughly thought through, as they would have the unintended consequence of negatively impacting industrial competitiveness and destabilising the regulatory framework.

The following five aspects are of primary importance:

1. Availability of free allowances for industry

On the positive side, the report seeks to increase the availability of free credits for new entrants and production increases. On the other hand, the report does not address the fundamental question of how to ensure enough free credits to meet industry's needs.

CEPI proposal: as future industry demand for free credits is subject to many uncertainties, any firm decision taken now will likely result in either excess of unused free credits or an excessive shortage of these. We would thus suggest focusing on:

1. Re-balancing the share free credits / auctioning to 47.5% / 52.5%, to take into consideration free credits originally allocated to industry but unused due to the economic crisis.

2. Stimulating and rewarding investments in low-carbon technologies: this would be the most cost-effective way to meet the free credits cap while improving industry's competitiveness.

3. Defining in the legislation a process whereby the availability of free credits is constantly monitored and, in case of upcoming shortage, the legislator is called to take the most informed decision, exploring all available options.

2. Carbon Leakage

The proposal from the rapporteur is simply unacceptable. The motivation that such a "tiered" approach would support the "sectors in greatest need" is arbitrary and lacks any evidence that such a system would target "those sectors genuinely and most exposed to carbon leakage". Such a discriminatory approach, if approved, would inevitably entail legal challenges in courts, leading to an unstable and unpredictable regulatory framework. Moreover, it would increase the risk of carbon leakage for most sectors in the economy, putting millions of jobs across industries and local communities at risk.

CEPI proposal: keep the Commission proposal.

[1] DRAFT OPINION of the Committee on Industry, Research and Energy for the Committee on the Environment, Public Health and Food Safety on the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments (COM(2015)0337 – C8 0190/2015 – 2015/0148(COD))

3. Benchmarks update

The proposal from the rapporteur is heading in the right direction. Building on the Commission proposal, it stresses the need to use real data and tries to accommodate the need of those sectors moving at a slower pace in emission reductions.

On the other hand, the slower reduction pace should be enlarged to any type of emission, not only to "unavoidable process emissions". Moreover, the proposal does not address the risk for a sector of remaining "trapped" into one reduction pattern, independently of technological progress. The report also does not address rules for assessing progress in installations not covered by product benchmarks (so-called fall-back approaches), which are responsible for one third of industrial emissions.

CEPI proposal:

1. Build on the rapporteur's proposed amendments.

2. Assess progress in comparison to latest benchmark value set in the legislation.

3. Broaden the 0.3% category to any type of source of emissions.

4. Specify in the legislation the rules for assessing progress in installations not included in product benchmarks (fall-back), based on energy intensity improvements.

4. Indirect carbon costs passed on in electricity prices

Although we strongly support the need to reduce the impact of carbon costs in electricity prices, the proposals will have little or no impact in this respect. This is because most industrial installations purchase electricity on the wholesale market. Differing levels of compensation will not impact the way the electricity market operates, thus the way carbon costs are passed through in electricity prices. Suggesting that no compensation should be paid if the carbon price is less than 15 euros would expose industrial sectors to real costs in the short to medium term and is based upon the same flawed "tiering" approach proposed in the carbon leakage policy area.

The proposals would therefore increase the carbon cost exposure for industries while not addressing the shortcomings of the current state aid regime, namely the lack of compensation in all Member States and the unpredictability of the rules. It should also be noted that, in some countries, the lack of compensation for indirect costs coupled with no free credits for electricity produced and consumed on-site (as in the case of CHP) is already leading to up to 40% shortage in compensation for on-site emissions.

CEPI proposal: the ETS review needs to ensure 100% compensation for both direct and indirect carbon costs throughout the whole trading period, at benchmark level.

5. Innovation Fund

We welcome the rapporteur's attempt to increase and facilitate access to the financing of innovative projects in the industry. We also welcome the attempt to clarify the parameters already upfront in the text of the directive; this will accelerate the process by timely releasing the first funding opportunities.

CEPI proposal: build on the rapporteur's initiative. Strengthen provisions on the share of financing support, ensuring all industrial sectors can really benefit from this opportunity.