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)

EAA - European Aluminium Association AISBL

0.3. Please enter your contact details (address, telephone, email): -open reply-(compulsory)

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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)	a) yes

If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)

The ETS incentivised the emission reduction per unit of output in existing facilities through operational improvement alone, but further investments are required to upgrade existing capacity or for new plants. Emission trading targets are limiting the ability to invest by reducing the operational margins, in particular for electro-intensive industries. The latter are mostly price takers in global markets, and

the cost increase cannot be reflected in higher product selling prices. Electricity cost is a main localisation factor, and investments in Europe are unlikely since electricity cost is higher here due to the extra costs deriving from climate and energy policies. As demonstrated by the Cumulative Cost Assessment for the aluminium industry (2013), the impact of regulation is a major factor in the cost differential between EU and other regions, and the overall impact on price-cost margins has jeopardised our industry's ability to compete internationally.	
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? -single choice reply-(compulsory)	b) no
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
Innovation and energy efficiency are key drivers/incentives for our sector's competitiveness. The aluminium industry strongly supports innovation programmes, but these need to be coupled with a proactive industrial policy and adequate compensation to avoid an uneven global playing field. The primary aluminium industry in Europe has more than halved its GHG emissions since 1997, but increasing operational costs due to EU ETS have reduced the capacity for investments in energy efficiency. In order to invest, electro-intensive industries require certainty of full compensation for the extra costs related to European climate policy until a level playing field is restored through a global climate agreement. Reduced output from energy intensive industries may at an aggregate level falsely be interpreted as improvements in energy efficiency. Such effects don't correspond to an improved competitive position, but to carbon leakage to other areas, with severe consequences on the whole valu	
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? -single choice reply-(compulsory)	a) yes
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
In some energy intensive industries, product prices are set in global markets. Until a significantly larger share of competitors is influenced by similar increases in energy cost, there is a need for such accompanying measures. The dramatic drop in production of aluminium in Europe, despite a growing demand for aluminium products in all key European markets (Automotive, transport, aerospace, construction, packaging, consumer durables), demonstrates the need for support. Such measures are transitional in the sense that they can be phased out when an international agreement is in place, provided that it creates a global level playing field for relevant industries.	
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? -single choice reply-(compulsory)	b) quite adequate
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
Full compensation for both direct and indirect costs, linked to actual output and realistic benchmarks, is a sine qua non condition for addressing the risk of carbon – and investments - leakage. Without adequate compensation for the most exposed industries, entire segments of the sector's value chain would keep experiencing closures or curtailment plans. Other competing regions have identified aluminium as a strategic material and heavily invested in developments plans. The closures and drop in production affecting from the aluminium industry in Europe since 2008 is exposing Europe to a strong dependency.	
Question 5: In your view, how does free	a) it absolutely keeps the incentive

allocation impact the incentives to innovate for reducing emissions? -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, based on realistic benchmarks, should be linked to actual output in order to provide an incentive for growth and to allow production flexibility through business cycles. Free allocation based on historical values doesn't comply with these objectives. Insufficient compensation reduces the operational margins and the incentive to keep the production equipment in good operational conditions and to invest in new and more efficient technology. Allocation of allowances will not reduce the environmental incentive for the recipient. On the contrary, full compensation for direct and indirect effects of ETS through allocation 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 carbon (and investment) leakage have been designed. Harmonized approach in the different countries could be targeted.	

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)	
The retention of our industry in Europe offers the biggest potential – not only in terms of economic growth and jobs' creation – but also in terms of emissions' reduction at global level, especially for energy-intensive sectors. The most exposed industries have to be protected from unfair international competition until fair conditions are restored by an international climate agreement. Without a comprehensive international agreement including harmonised rules and similar cost, 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 attributable to emission trading and should therefore be covered by the ETS system itself.	
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)	d) there should be no such innovation support post-2020

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

The aluminium industry is a strong supporter of innovation programs, but these cannot replace a proactive industrial policy agenda nor the adequate compensation measures that are needed to avoid an uneven global playing field". Income from the sale of emission allowances should primarily be used to the mitigation of undesirable effects of emission trading. Once appropriate mitigation has been achieved, the remaining income should be used to fund low-carbon innovation, but not in the same way as until now. Most of the funds have been geared so far towards CO2 free power generation. It is now of paramount importance to support the energy-intensive industry in its shift towards CO2 free processes. As the Aluminium Low Carbon Roadmap indicates, the aluminium industry needs support for these investments, and these investments are possible only with the adequate predictability and therefore the adequate mitigation tools.

Question 9: At the moment, EU ETS rules do 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)	b) no

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

The aluminium industry is a strong supporter of innovation programs. Income from the sale of emission allowances should primarily be used to the mitigation of undesirable effects of emission trading. Innovation support should mainly be generated from other EU funding programs or Member States' general budgets and not from auction income. Once appropriate mitigation has been achieved, the remaining income should be used to fund low-carbon innovation but not in the same way as until now (see question 8).

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)

The aluminium industry is a strong supporter of innovation programs. Income from the sale of emission allowances should primarily be used to the mitigation of undesirable effects of emission trading. Once appropriate mitigation has been achieved, the remaining income should be used to fund low-carbon innovation but not in the same way as until now (see question 8). Innovation support must also be generated from other EU funding programs such as the European Innovation Partnership on Raw materials, Public-Private Partnerships, or Member States' general budgets and not from auction income.

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 pre¬sent 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 distur¬bances 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 renew¬able electricity generation and extra grid costs related to transmission and balan¬cing 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 that are globally priced are the most exposed to carbon (and investment) leakage and need full compensation for extra costs embedded in electricity prices. EUA costs are passed on into electricity prices through the marginal cost of the marginal sources of electricity, and for these industries, electricity related costs make up a high share of total cost. Other trading systems, like the Australian one, foresee more than one category of industries receiving different degrees of compensation. A similar approach has been used on the occasion of the European Commission's Energy and Environment State Aid Guidelines review. Specific criteria i.e.: electro-intensity, global price-setting mechanism could be used to further differentiate and address the real impact of ETS direct and indirect costs.

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)	f) both the current criteria should be replaced and other criteria should be used instead (please specify)

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

A single carbon leakage list (with several categories) should be estab¬lished. 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 (e.g.: London Metal Exchange) 2. The exposure to total EUA cost impact If both criteria are met simultaneously, specific attention should be set on the sectors matching those criteria.

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 on a proper ana¬lysis 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	a) yes, it is important to maintain a certain level of discretion in the system for justified cases

that similar qualitative criteria should be maintained to complement the quantitative criteria? -single choice reply-(compulsory)	
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
While EAA supports simple metrics linked to clearly defined thresholds, the consideration of "qualitative criteria" could be considered if this would lead to cost efficient measures e.g.: exemptions for economic activities such as "recycling" from the costs related to the Climate policies (e.g.: ETS, RES) based on the actual contribution to EU "circular economy" and resource efficiency goals.	
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 key for industrial planning and certainty.	
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)	
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)	
Benchmarks and carbon leakage lists should be revised simultaneously (i.e. for each ETS trading period).	
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)	
EAA supports the use of output based allocation linked to realistic benchmarks. For each industry, the baseline will then be set by the realistic benchmark. Indirect emissions should also be set based on realistic bench¬marks and actual output. The compensation will be linked to a sum of two bench-marks, 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	a) no, there should be no deviations

what would be the risks involved? -single choice reply-(compulsory)	

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

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 within the EU ETS scheme should be extended to fully cover indirect effects through increased electricity prices. With significantly higher EUA prices, the pre¬sent solution for indirect costs based on State Aid will be insufficient for long term survival of these industries in Europe and, as well, create today a significant distortion in the EU internal market. The cost of any compensation measures will be propor¬tionate to the EUA price, thus correspon-ding to the value of free allowances. Compensation could be provided as free allowances or as a sum of money propor¬tio¬nate to a given number of allowances from another source of finance. Indirect compensation is vital for electro-intensive industries, especially when these indirect costs are higher than directs.

II. Options for post-2020

C. Innovation support

To implement a small-scale prototype -single choice reply-(compulsory)	Important
At the conception stage -single choice reply-(compulsory)	Least important
To implement a large-scale pilot -single choice reply-(compulsory)	Most important
At the commercialisation stage -single choice reply-(compulsory)	Less important

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

Despite the ranking provided above, it should be noted that innovation projects can be very different, hence on a case by case basis there can be significant differences also in the stages at which support is more relevant.

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

If you wish, please motivate your answer (max. 1000 characters):
-open reply-(optional)

Income from the sale of emission allowances should primarily be used to the mitigation of undesirable effects of emission trading. Innovation support must also come out of other EU innovation and R&D programs or the Member States general budgets, and not only from auction income. Once appropriate mitigation has been achieved, the remaining income should be used to fund low-carbon innovation. While most of the funds have been geared so far towards CO2 free power generation, it is now of paramount importance to support the industry from all potential sources in its shift towards low-carbon processes.

Section II:

D. Other issues

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