

## Questions for stakeholder consultation on Emission Trading System (ETS) post-2020 carbon leakage provisions

### Answers from Jernkontoret (Swedish Steel Producers' Association) 2014-07-23

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?

- A) Yes
- B) No
- C) I don't know

#### Motivation:

In steel industry, reduction of emissions towards 2020 may be achieved through increased efficiency by investments in known technology with current production levels. To maintain capacity in production equipment, it is essential to be able to vary production levels according to the economic situation. This is difficult with the current layout of EU ETS, resulting in increased cost on marginal products due to the cap on free allowances. This may lead to decreased investments, a slow dismantling of production capacity, and thus reduces production, which will be taken up by producers outside Europe. The incentive for increased production must be improved. In a longer perspective break through techniques are needed to significantly reduce emissions.

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?

- A) Yes
- B) No
- C) I don't know

#### Motivation:

The EU-ETS is an extremely laborious system which was intended to be a market system, but is changed by EU and governmental authorities, leaving companies with high energy costs and plans for reduction of production to meet EU emission targets. This decreases the competitiveness of the Swedish steel industry and the steel industry in Europe as a whole. The steel industry is energy intensive and constantly works to be more energy efficient. Energy efficiency is not always the same as CO<sub>2</sub> efficiency. Investments also have to result in total positive return to increase the competitiveness. ETS increases the costs for industry and thereby reduces the financial possibilities for investments in energy efficiency.

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?

- A) Yes
- B) No

~~C) I don't know~~

**Motivation:**

By pushing tough legislation in Europe, companies with world-wide sales become less competitive, if other countries do not follow fast enough to create a level playing field on the market. Therefore it is important to provide measures making it possible to keep competitiveness until a global agreement, with relevant commitments, is achieved.

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?

**A) Very adequate**

~~B) quite adequate~~

~~C) quite inadequate~~

~~D) very inadequate~~

~~E) I don't know~~

**Motivation:**

Carbon leakage is not a fictive construction, it is reality. Companies seldom "move" but lack of investment and in the end closure of industry in Europe, is a threat to the global greenhouse gas reduction scheme, if less efficient industry in countries outside Europe wins the race. Free allocation creates space for companies within Europe to make necessary investments and changes. Sectors at risk of carbon leakage should be provided with 100% free allocation, based on realistic benchmarks and without any correction factor. In Sweden the electricity cost increase due to EU-ETS not being compensated, which affects the energy intensive industry's competitiveness. Such compensations should be handled in a harmonized manner at EU level.

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

**A) It absolutely keeps the incentive**

~~B) it largely keeps the incentive~~

~~C) it largely compromises the incentive~~

~~D) it absolutely compromises the incentive~~

~~E) I don't know~~

**Motivation:**

The steel industry is extremely aware of the necessity to decrease the greenhouse gas emissions. The free allocation is, however, needed to create time to develop new techniques for lower emissions and doing the right investments, in order to stay competitive over time. The steel industry in Sweden has high ambitions for emission reductions in a longer perspective, including development of specialized products for globally improved climate efficiency. Increased cost due to lower free allocation does not incentivize such a development.

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?

- A) ~~absolutely proportionate~~
- B) ~~quite proportionate~~
- C) ~~quite exaggerated~~
- D) Absolutely exaggerated**
- E) ~~I don't know~~

**Motivation:**

The process of getting free allocation and reporting CO2 emissions is extremely laborious. The changes which are implemented regularly, not enough information available in time and short time spans to act, add additional burden and uncertainty for strategic decisions.

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

- A) ~~a lower share than in 2013-20~~
- B) ~~a higher share than in 2013-20~~
- C) ~~a constant share as in 2013-20~~
- D) There shall be no limit to overall free allocation to industry**
- E) ~~there should be no free allocation post-2020~~
- F) ~~I don't know~~

**Motivation:**

We prefer that the post-2020 free allowances are based on CO2 intensity for the carbon leakage industries and not an absolute cap. The methodology for free allocation needs to give possibilities for increased production, which is also covered by free allowances in relation to efficiency. Staying competitive on the world market is crucial for European industry. Without industry the welfare of the EU union will decrease and create a downward spiral, leaving little room for investments and development. Growth is therefore essential for continuing competitiveness.

8. Currently the European Commission implements the NER300 program 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?

- A) A substantially higher share than in Phase 3**
- B) ~~the same share as in Phase 3~~
- C) ~~a lower share than in Phase 3~~
- D) ~~there should be no such innovation support post-2020~~
- E) ~~I don't know~~

**Motivation:**

Finding and testing technological solutions to decrease greenhouse gas emissions is of vital importance for the society. Making funds available for this as a part of the ETS system makes sense. The problem is that the support is linked to the allowances, which have an unknown value. The support has to be changed to a certain amount of money and may be financed in another way. A demonstration plant for CCS is a huge investment, which has to be almost completely subsidized by authorities, not requiring pay back if it fails.

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 CCS and renewables under the NER300). Do you think there should be such a financial support scheme?

- A) Yes
- B) no
- C) I don't know

**Motivation:**

Just as renewable energy is a part of the solution of reducing greenhouse gas emissions, the development of industry is. Supporting industry development in terms of funds for research, innovation and pilot testing is a good way of making it easier to make informed and successful investments. Since industrial investments, such as in the steel industry, are very long-lived, it is important to dare to make large investments in Europe.

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

- A) ~~It should be funded under NER300 with extended scope to cover greenhouse gases reduction technologies in the industry~~
- B) ~~It should be funded through a new dedicated scheme financed by the revenues from auctioning (e.g. x% of the auctioning revenues)~~
- C) Other types of funding
- D) I don't know

**Motivation:**

The funding should be robust with a fixed volume of money rather than allowances. A variety of funding sources could be used.

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?

- A) Yes
- B) no
- C) I don't know

**Motivation:**

It is important for all countries to compensate for the increased energy cost due to the ETS system, which also is a source of decreased competitiveness. The compensation for indirect costs should be handled in a harmonized manner within EU.

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?

**A) At the present two groups should remain**

~~B) more carbon leakage categories should be defined~~

~~C) there is no need for a carbon leakage list, all non-electricity generating installations should be treated as exposed~~

~~D) there is no need for a carbon leakage list, all non-electricity generating installations should be treated as not exposed~~

~~e) I don't know~~

**Motivation:**

It is important to have a reasonably simple and transparent system.

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?

**A) The present criteria should remain**

~~B) only the share of 'carbon costs' in the gva should be maintained~~

~~C) the share of 'carbon costs' in the gva should be maintained, but 'carbon costs' should be taken into account to the extent that they can't be recuperated in product prices~~

~~D) only the intensity of trade with third countries should be maintained~~

~~E) additional criteria should be defined (please specify which current criteria should be maintained and which additional criteria should be defined)~~

~~F) both the current criteria should be replaced and other criteria should be used instead~~

~~G) i don't know~~

**Motivation:**

The major focus at all times must be to keep or increase the competitiveness of the European industry. When a cost cannot be transferred to a customer, competitiveness is lost. This includes products with international competition, even if trade intensity currently might be low.

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

**A) The present threshold**

~~B) other thresholds should be defined.~~

~~C) I don't know~~

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?

**A) Yes, it is important to maintain a certain level of discretion in the system for justified cases**

~~B) no, all criteria should be based on simple metrics and linked to clearly defined thresholds~~

~~C) I don't know~~

**Motivation:**

There will always be companies with production that does not fit into the bulk of the relevant sector. For these companies there should be a possibility to argue a case built on qualitative criteria.

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?

~~A) five years~~

~~B) longer (please specify)~~

~~C) shorter (please specify)~~

**D) In line with the duration of ETS Phase 4**

~~E) I don't know~~

**Motivation:**

It makes sense to have an alignment between the ETS phase duration and criteria for carbon leakage to maintain reasonably stable conditions for industry.

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?

**A) The present approach of 10% most efficient installations should remain**

~~B) the approach should be more stringent~~

~~C) the approach should be less stringent~~

~~D) I don't know~~

**Motivation:**

In the present approach, product groups include a variety of products; hence the benchmark is not technically achievable for all producers, especially for high quality products. More specialized benchmark groups might, however, make the system more complicated. Therefore the approach should not be more stringent. The benchmark for hot metal is today not set according to the 10% approach, and is thus not achievable for any producer and should be corrected. The benchmark for heat is clear, but the implementation of allocation rules for using heat differ between countries e.g. in Sweden early adopters using heat to

increase their energy efficiency get less allocation than companies in other countries who don't.

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

- A) Yes**
- ~~B) no~~
- ~~C) I don't know~~

**Motivation:**

Not to get stuck in old technology, the benchmarks have to be revised on a regular basis. However, to do this more often than the trading periods makes no sense, as investments in our sector are long-term and often very expensive. Ten years is a minimum span between revisions of the benchmark. The revision should be based on actual industry performance within EU.

**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?

- ~~A) no, the same baseline period chosen for allocation in Phase 3 should be maintained also for post 2020 (Phase 4) allocation~~
- ~~B) yes, production levels in 2016-2018 should be the basis for post 2020 (Phase 4) allocation~~
- C) Other**
- ~~D) I don't know~~

**Motivation:**

It is necessary for the ETS system, and the industry, to allocate emission allowances based on actual production and not historic. This would allow for both economic growth and recession, without negatively influencing the ETS-system.

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

- A) No, there should be no deviations**
- ~~B) yes, there should be deviations with higher allowances for installations facing specific hardships~~
- ~~C) yes, there should be deviations with lower allowances for installations enjoying very favourable circumstances~~
- ~~D) both b) and c)~~
- ~~E) i don't know~~

**Motivation:**

Favoring one installation on the expense of another should not be done. That would distort the competition.

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

~~A) no, the present approach should be maintained, i.e. That member states can provide such compensation~~

~~Based on state aid guidelines~~

~~B) no, and there is no need for financial compensation by member states, either~~

~~C) yes, in the form of additional free allocation~~

**D) Yes, in the form of financial compensation at EU-level**

~~E) I don't know~~

**Motivation:**

Compensation for increased electricity costs is an example of how different countries can influence the competitiveness of their industry by making different decisions. In a harmonized system also compensations should be fully harmonized at EU-level. Since the auctioning revenues are different in different countries, it is better to make a financial compensation at EU-level.

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 – least important**

**To implement a large-scale pilot – Most important**

**At the commercialization stage – less important**

**Motivation:**

Large scale pilots are the hardest to find financing for, and for such an important area it makes sense to make some funds available.

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

**A) From the Member states auction budgets**

~~B) from free allocation~~

~~C) from both~~

~~D) other~~

~~E) I don't know~~

**Motivation:**

Auctioning revenues may be used for funding low-carbon innovation support at EU level, instead of being used for various purposes on national level.

24. Other issues

The steel industry in Sweden has set up a vision for 2050, where we make the following commitments:



Our research and innovation revolutionize technology for tomorrow's society. Our steel constantly challenges the frontiers of engineering.

Our working environment fosters new solutions for communities through global collaboration. Our creativity constantly challenges the limits of contemporary thinking.

Our production uses resources so efficiently that only products of value to the community leave our plants. Our ambition constantly challenges the limits of the possible.

We work very hard to reduce greenhouse gas emissions, but cannot do it on our own. We need to work together in the society to set up conditions for reducing emissions without losing competitiveness. On the contrary we need to increase competitiveness, to be able to continue to develop sustainable solutions for the whole world. This requires research and legislation which does not distort competitiveness on the market.