

Consultation on revision of the EU Emissions Trading System (EU ETS) Directive

EK response

Confederation of Finnish Industries EK is a stakeholder association representing all sectors of business and all sizes of companies in Finland • 27 member federations • About 16,000 member companies of which 96 % SMEs • Over 70 % of Finland's GDP • Over 95 % of Finland's exports • About 950,000 employees

EK is a member of BUSINESSEUROPE representing 41 central industrial and employers' federations from 35 countries.

Identification number of Confederation of the Finnish Industries EK in the Commission register of interest representatives is 1274604847-34.

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1. Free allocation and addressing the risk of carbon leakage

1.1 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 order to encourage installations to good performance and to be a forerunner, the most CO₂-efficient installations, which are at risk of carbon leakage, must not face additional carbon costs. They should be given allowances for free to cover their emissions fully. The determination of present benchmarks demanded a significant amount of administrative work. So the benchmarks should be revised only, when a benchmark has turned out to be unrealistic and unfeasible for the best 10 % of a sector's installations.

1.2 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?

While promoting ambitious climate policy targets, it is essential to address carbon leakage measures, both direct and indirect costs. The risk of carbon leakage has to be taken seriously as long as there is no balanced binding international climate agreement committing all major economies in place. Until that, the criteria for the determination of list of sectors under risk of carbon leakage should be kept unchanged.

An EU-wide compensation system for indirect costs should be developed to avoid competition distortions between Member States. EK prefers the compensation model where both the direct and indirect costs are compensated within EU ETS avoiding the use of national state aid.

1.3 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?

Energy intensive industry faces the international competition, and there is no possibility to pass carbon costs through to customers (at least as long as there are no comparable carbon-pricing mechanisms in use globally).

1.4 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?

The free allocation has been a shield for the competitiveness of the EU industry and helped maintaining economic activity within EU borders. However, competitiveness is not secured over the short and medium term as the fast decrease of free allocation, the cross-sectorial correction factor, the inadequate compensation for indirect costs, and the expected increase in carbon prices are the threats the EU industry faces in the near future.

Generally, a higher flexibility in free allocations is needed. There are situations when production units for some reasons, i.e. due to low competitiveness or high emissions, have to shut down. A higher flexibility in the free allocation of a company with several production units could favour lower investment costs and lower emissions. To transfer the production from an inefficient unit to another production unit in the company does not today increase the allowances in the other unit. Such a transfer alternative would give the opportunity to improve the competitiveness as the production rate in a unit can increase and the emissions decrease.

In addition to the influence on electricity costs, the EU ETS carbon price can increase the price of raw materials, for instance wood.

The opt-in possibility for transport emissions of a member states should not be taken into use, because it is against the harmonized approach of the EU ETS. The opt-in possibility for transport will only create distortion between the member states.

2. Innovation fund

2.1 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.

A scope of a new innovation programme should be widened to cover innovative low-carbon technology projects in the industry in addition to demonstration projects of CCS and renewable energy. The projects should be seen as a unity: the support should cover also necessary non-innovative parts, for instance pre-treatment processes.

2.2 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.

2.3 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?

Any support for innovation in industry should not come at the expenses of carbon leakage protection. Allowances for innovation will have to come on top of free allowances for industry.

3. Modernisation fund

3.1 Implementation of the modernization fund requires a governance structure: What is the right balance between the responsibilities of eligible Member States, the EIB and other institutions to ensure an effective and transparent management?

Modernisation of energy systems or energy efficiency improvements should be financed preferably through structural funds etc. The EU ETS was designed to achieve the agreed reduction target at the lowest cost, not to finance any specific sector. However, if the EU ETS allowances are used, the governance and the selection of projects have to perform transparently.

3.2 Regarding the investments, what types of projects should be financed by the modernization fund to ensure the attainment of its goals? Should certain types of projects be ineligible for support?

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

Yes, and also important is to monitor and verify the results.

3.4 How do you see the interaction of the modernisation fund with other sources of funding available for the same type of projects, in particular under the optional free allocation for modernisation of electricity generation (see section 4 below)? Would accumulation rules be appropriate?

3.5 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)?

3.6 Should the level of funding be contingent on concrete performance criteria?

4. Free allocation to promote investments for modernising the energy sector

4.1 How can it be ensured that investments have an added value in terms of modernising the energy sector? Should there be common criteria for the selection of projects?

Financing the modernisation of energy sector should be done preferably through structural funds etc. The EU ETS was designed to achieve the agreed reduction target at the lowest cost, not to finance any specific sector or member state. However, if ETS allowances are used, the governance and selection of projects has to be transparent.

4.2 How do you see the interaction of the free allocation to energy sector with other sources of funding available for the same type of projects, e.g. EU co-financing that should be made available for the projects of common interest under the 2030 climate and energy framework? Would accumulation rules be appropriate?

4.3 Do you have any views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. as regards improving transparency)?

4.4 The maximum amount of allowances handed out for free under this option is limited. Do you think eligible Member States should use the allowances for a period of time specified in advance (e.g. per year), or freely distribute them over the 2021-2030 period? (Please explain your motivation.)

4.5 Should there be priorities guiding the Member States in the selection of areas to be supported?

x yes
no

If so, which of the following areas, if any, currently supported through investments for modernisation of electricity generation up to 2020 should be prioritised for support up to 2030 and why?

Interconnectors	x
Smart Grids	
Super-critical coal	
Gas	x
Renewable energy	
Energy storage	x
Energy efficiency	
Other (please elaborate)	

Please explain in detail:

In order to achieve an EU-wide internal energy market, a lot more interconnectors are needed between member states. Energy storage will be an essential solution for the electricity market when heavily fluctuating electricity production like wind and solar power will increase. A LNG infrastructure needs to be developed.

4.6 How can improved transparency be ensured with regard to the selection and implementation of investments related to free allocation for modernisation of energy? In particular regarding the implementation of investments, should allowances be added to auctioning volumes after a certain time period has lapsed in case the investment is not carried out within the agreed timeframe?

5. SMEs / regulatory fees / other

5.1 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 has grown ETS phase after ETS phase. This development shall be stopped and turned to the opposite direction. The verification, monitoring and reporting system should be streamlined more simply in the fourth phase. It should be assessed if the

present, very detailed regulation is really needed. A better input/output balance should be found for the next ETS phase.

5.2 Member States had the possibility to exclude small emitting installations from the EU ETS until 2020. Should this possibility be continued? If so, what should be the modalities for opt-out installations to contribute to emission reductions in a cost-effective and economically efficient manner? Should these be harmonised at EU level?

The possibility of excluding small installations shall be continued.

5.3 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?

5.4 Do you consider discrepancies in Registry fees in different Member States justified? Should Registry fees be aligned at EU level?

5.5 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?

Auctioning revenues shall be used within the ETS sectors. Revenues should be used partly for EU-wide compensation scheme of indirect costs and partly to support low carbon technology investments.

6. General evaluation

6.1 How well do the objectives of the EU ETS Directive correspond to the EU climate policy objectives? How well is the EU ETS Directive adapted to subsequent technological or scientific changes?

The EU ETS is a main tool to reduce industrial emissions at the lowest cost and to promote investments in low carbon technologies. The objectives of the directive correspond well to the EU climate policy. The linear reduction factor and benchmarking give incentives to continuous improvements.

6.2 What are the strengths and weaknesses of the EU ETS Directive? To what extent has the EU ETS Directive been successful in achieving its objectives to promote emission reductions in a cost-effective manner compared to alternatives, e.g. regulatory standards, taxation?

The most important strength is that the EU ETS is a market-based system, which gives price for carbon. A strength is also an (almost) fully harmonization of ETS, because 28 different GHG reduction systems for industry and energy production would not be as cost-efficient as the EU ETS.

Weakness of the EU ETS is that it is covering only European industrial and energy productions emissions and the same tool (or alternative) is not in use globally or widely among major economies. This creates competition loss for European companies. Weakness is also the

national state aid based compensation of indirect cost, which has created competition distortion among EU countries.

6.3 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?

Indirect costs differ from country to country due to the implementation of compensation schemes.

6.4 How well does the EU ETS Directive fit with other relevant EU legislation?

The EU energy and climate package 2020 contain overlapping targets like reduction target, renewable target and energy efficiency target. This has led us to the situation where the GHG reductions have and will come more expensive than with optimum one target solution.

Implementation of the EU ETS and the present energy tax directive has caused the overlapping burden to use of fossil fuels for instance in Finland.

6.5 What is the EU value-added of the EU ETS Directive? To what extent could the changes brought by the EU ETS Directive have been achieved by national measures only?

A harmonisation is the main advantage of the EU ETS. (Almost) all installations have the same rules.

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

Competitiveness of European Industry should be taken into the focus when revising and creating new regulation. Only successful industry can bring welfare and growth to Europe. Also in the mitigation of climate change the EU needs to promote industrial production in Europe, which is good for the environment and climate. The average CO₂-emissions caused by electricity production in Europe are low in global comparison. Hence, the more industry produces in Europe, the lower the global CO₂-emissions will be.