Brussels, 17 May 2017

European paper industry reaction to Fertilizers Europe "alternative facts" in "Allowances balance calculation in the EU ETS" Ecofys report

On 15 May 2017 Ecofys published the report "Allowances balance calculation in the EU ETS", commissioned by Fertilizers Europe.

The document is full of omissions in data collection and analysis. Although the authors acknowledge such shortcomings throughout the whole report, they still conclude that, even with improved accuracy "by performing an extensive data collection […] it is expected that the main conclusions of this study would remain the same". In other words: the results would be the same, regardless of facts and figures.

Such a statement would be sufficient to disregard this alleged "objective study".

Yet in CEPI we are strongly convinced that facts and figures are essential to developing informed decisions. CEPI facts and figures are backed by our in-house statistical team and are third-party verified. We believe this ethos should equally apply to others.

As the Ecofys document is built on an impressive amount of misleading or "adjusted" information, we believe it is imperative to rectify the claims against the pulp and paper industry:

1. <u>Sector definition and cross-boundary heat flows</u>

   A whopping 20% of additional carbon emissions for our industry are not accounted for in the Ecofys report.

   In the ETS, emissions from heat are allocated to the heat <u>consumer</u>, not the heat <u>producer</u> (where emissions effectively take place). Heat-related emissions are thus not counted under the ETS registry codes "pulp and paper" but under "combustion installation", even if these emissions happen within the perimeter of the industrial site.

   The impact of these emissions is massive: the sector actually moves from having a surplus to having a shortage of allocations[1].

   Ecofys is well aware of the impact heat flows calculations has on industry allocation, particularly for the pulp and paper industry. Yet, it decides to disregard them, concluding that "indicatively" the pulp and paper industry has "an allowance surplus that carries long into phase IV".

   Clearly, by using "alternative facts", anything can be "indicatively assumed".

[1] In Germany, this information is publicly available in the Annual VET-Report. For 2015 for example, allocation for the pulp and paper sector was 123% of its emissions (long). Corrected for cross sectoral heat flows, the allocation was 87.5% (short).

2. Emission levels in Phase III

   Despite concrete achievements, our sector's emission reductions have not matched the allocation reductions induced by the cross-sectoral correction factor. For example, in 2016 only our sector was 4% under-allocated.

   Our sector is under-allocated and, unless major disruptions happen, will remain so until at least 2020. The regulatory impact post-2020 is still unknown.

   Any increase in allocation surplus for our sector, as illustrated in the Ecofys report from 2014 to 2020, is unreal and unrealistic.

3. Emissions carried over from Phase II

   First and foremost, the above-mentioned cross-border heat flow applies also here. The figures lack data on emissions from combustion installations in the paper industry. Had these figures been taken into consideration, they would have shown a cumulative surplus in line with other industrial sectors. This comes to no surprise as the pulp and paper industry, like all industries, was heavily hit by the economic and financial crisis.

   Moreover, at the beginning of Phase II, in 2008, the pulp and paper industry had 872 open permits in the ETS. In 2013, at the beginning of phase III the open permits were reduced to 825.

   Many of the installations that closed were small and medium enterprises, often family-owned. When an installation closes those allowances are gone: either released to the market or cancelled. There is no intra-company transfer.

   Unused allowances released to the market could be in anyone's account, including in fertilizer companies.

   Assuming that all those allowances remained at the disposal of the pulp and paper industry for future use, painting the image that the sector is sitting on an immense amount of unused credits, is purely fictional.

4. Carbon intensity improvements (past, present, future)

   The pulp and paper industry is proud of the achievements reached in reducing carbon emissions over the past years. Since 2005, when the ETS began, we have reduced our carbon intensity by around 21%.

   This was the result of real investments and it lead to the creation of jobs and growth. In the recent years we have been investing 3.5 bn €/year, including investments in energy efficiency and higher use of renewable energy sources.

In fact, in some countries we have even achieved an impressive 75% emission reduction since 2005, without jeopardising international competitiveness.

The Ecofys report, on the contrary, retroactively assumes no historic emission intensity improvement occurred. Nor future emission intensity improvements are foreseen.

We strongly disagree.

5. The misplaced logic of “improvements are not possible”

The carbon footprint of the pulp and paper industry is already very low (0.7%of EU GHG emissions) and will further reduce.

We see tremendous potential in linking the low-carbon economy to the bioeconomy and the circular economy. Our mills are already producing cost-effective low carbon solutions to replace carbon intensive products.

For instance, looking at fertilisers:

- Bio-based fertilisers → ETS benchmark: 0.02 - 0.12 tCO_2/t (pulp)
- Fossil-based fertilisers → ETS benchmark: 1.619 tCO_2/t (ammonia)

There is definitely some untapped potential to be exploited!

The Ecofys report, on the contrary, assumes no improvement in carbon-intensity both in the past and the future. Meaning rewarding incumbents and putting up barriers to innovation.

We strongly disagree.

In conclusion

Climate change is a serious threat, and needs to be treated seriously. We need to refocus on investments in the EU economy, driving the transition towards a low-carbon economy where Europe leads by example

Within this context, the ETS needs to promote and reward those investing in low-carbon technologies and solutions.

All sectors are important and should be treated equally. And they all need to contribute.

The clock is ticking and 2021 is just around the corner. We need to close the ETS negotiations as soon as possible, to give industry the regulatory predictability needed to start planning the next wave of low-carbon investments.