EU ETS: Six steps to ensure industry’s competitiveness

The EU ETS reform, published on 15 July, presents several positive elements that contribute to improving the predictability of the regulatory framework. However, these improvements are not yet sufficient in protecting the competitiveness of energy intensive industries, ensuring adequate regulatory stability and predictability, and in stimulating investments in low-carbon technologies.

From 2005 to 2014, our industry has reduced carbon emissions by 26%, resulting in 21% carbon-intensity reduction. We have been early-movers in low-carbon investments and have plans to grow our business in Europe, building synergies with circular economy and the bioeconomy.

To bring environmental protection in line with industry competitiveness, we ask to:

1. **Remove artificial cap on free credits to industry.**

   Artificially capping access to free credits depresses future investments: it means accepting deindustrialisation as a legitimate way to reduce emissions in Europe, even if this would increase Europe’s carbon footprint in the world.

   The artificial cap will also lead, sooner or later, to the application of the cross-sectoral correction factor (CSCF). This is the most unfair among all instruments, as it cuts allocation irrespective of industry potentials, neutralises carbon leakage provisions, limits predictability, and punishes investments made by early movers.

2. **Keep the proposed approach to benchmarks review, but improve key design aspects.**

   The benchmark review needs to predictably promote and reward investments in low-carbon technologies, while finding the right balance between accuracy and administrative burden. Reducing benchmarks at achievable paces, with rules clearly stated upfront, will lower regulatory risks and reward the installations who will invest in low-carbon technologies.

   Looking at the administrative burden, the pulp and paper industry, with more than 700 installations in the ETS – 60% of which below 25kt – emitted just 31.6 MtCO2 in 2014. Roughly 1.4% of total ETS emissions. Yet, it is the 2nd biggest sector for number of benchmarks (11), covering only about 50% of industry production – the rest being under the so-called fall-back approach. It is self-evident that opting for a full review of benchmark values instead is disproportionately costly while only delivering marginal accuracy improvements.

   This is why we look favourably at the approach proposed by the Commission. However, many parameters need to be reviewed and/or clarified, starting with:

   - Linearity of the reduction factor;
   - Disruptive impact in moving from one reduction pattern to the other;
   - Avoid/reduce administrative burden in data collection and verification;
   - Fairly assess progresses for installations in fall-back approaches.
3. **Grant to all energy-intensive industries equal protection against present and future risks of carbon leakage.**

   Industry is either exposed to global competition or not: there is no middle ground. In this context, the Commission proposal seems reasonable. Moreover, it is worth noticing that the rest of the world does not impose comparable costs on energy intensive industries, with carbon leakage provisions appearing also in other non-EU countries.

4. **Adopt binding EU rules for compensation of indirect carbon costs.**

   Indirect carbon costs affect industrial international competitiveness as much as direct carbon costs do. The principle of equal treatment in shielding industry from both carbon costs must effectively and consistently apply in all Member States.

5. **Stop penalising investments in industrial Combined Heat and Power (CHP).**

   In the pulp and paper industry CHP is considered as Best Available Technique. Installations are therefore expected to use this technology. Today however the EU ETS does not send the right investment signal to invest in industrial CHP: the EU ETS grants no free credits for electricity produced and no consistent and adequate compensation for indirect carbon costs is given across Europe either. Given the relevant co-benefits CHP delivers in moving Europe towards a low-carbon economy, corrective measures to provide the right investment signal are urgently needed.

6. **Earmark innovation and modernisation funding to energy intensive industries.**

   The earmarked 450 million allowances is the largest industry innovation fund ever. To deliver its full potential it should be linked to the goal of 2050 sectoral roadmaps, and aimed at the deployment of new technologies for each Annex I sectors. The modernisation fund should also primarily support low-carbon technologies in industry.

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**Note**

CEPI aisbl - The Confederation of European Paper Industries

The Confederation of European Paper Industries (CEPI) is a Brussels-based non-profit organisation regrouping the European pulp and paper industry and championing industry's achievements and the benefits of its products. Through its 18 member countries (17 European Union members plus Norway) CEPI represents some 515 pulp, paper and board producing companies across Europe, ranging from small and medium sized companies to multinationals, and 940 paper mills. Together they represent 23% of world production.

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