Position Paper

European Union Emissions Trading System (EU ETS) Phase IV and the EU 2030 Climate & Energy Framework

This statement complements the CPI Position Statement on EU ETS.

The European Union (EU) is in the process of negotiating a set of policies around energy through to 2030, focused on a continued drive towards a well-integrated energy efficient low carbon economy.

The central part of the policy is now set with a target to reduce EU domestic greenhouse gas emissions by 40% compared with 1990 levels by 2030 – which translates to a 2030 target for sectors regulated under EU ETS of a 43% reduction from 2005 levels.

A key part of the negotiations is focused on the shape of EU ETS for the period 2021-30 (known as "Phase IV"). One of the most critical outcomes for our sector is the necessity for continued Carbon Leakage protection for energy intensive parts of European manufacturing industry.

The UK continues to play a full part in these negotiations even though many of the polices will only be delivered post- Brexit. Likewise, UK companies remain obligated by EU policies until the UK leaves the EU. Assuming the Great Repeal Bill successfully transposes EU law into UK law then effectively policies will be unchanged until post-Brexit policy changes.

CPI Position:

- **CPI continues to support the principles of EU ETS.** A market based cap and trade system, if properly designed and implemented, remains the most cost-effective way to drive down emissions.

- **Climate change ambition needs to be integrated with a proper industrial competitiveness strategy.** Recent economic problems have served to highlight the importance of manufacturing industry and its potential role in rebalancing the economy. To meet the target of industry contributing 20% of EU GDP by 2020, a stable and long-term legislative framework is required that combines industrial competitiveness with actions to support decarbonisation.

- **A clear vision is needed on how the sector can meet any new targets.** Targets must be accompanied by a clear understanding of how sectors can meet targets and remain competitive. This should include support for both innovation and investment, funded through EU ETS auction revenue.

- **Carbon policies should not add additional costs to the best performing sites – either directly or indirectly.** The European Parliament stressed that industrial targets for 2030 should be "technically and economically feasible". Once levels of free allocation have been set by a benchmark based upon the best performing sites, then these must be respected. The 57% share of total allowances allocated to auction by the European Council in 2014 does not leave sufficient allowances for all installations in need of free allocation to receive 100% of the benchmark. This is likely to lead to imposition of a "cross sector correction factor" or CSCF. Such an imposition must be rejected and more allowances found to enable adequate free allocation to be given to industry.

- **Carbon leakage protection/tiered allocation.** The protection of EU industry from carbon leakage must remain a priority for the Commission and Member States. As such, free allocation (at a level set by the most efficient sites) should be respected and provided free of charge to installations operating in sectors at risk of carbon leakage. Any proposals for tiered allocation (based on a so-called ranking of carbon leakage risks) are simply wrong and unjustified from both an economic and a fairness perspective.

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- Each Phase of EU ETS should not be micromanaged. Frequent changes to the way EU ETS operates mean long-term planning is impossible.

- **EU ETS compliance must be simplified.** The present system is overly bureaucratic. The administrative burden could be greatly simplified with some common sense changes to the scheme. For example, current rules require the reporting of emissions 'however small' which leads to the inclusion in a site emissions report of complex but inconsequential sources such as propane ignition gas, acetylene for welding and even gas used for laboratory Bunsen burners. This requirement should be scrapped as it incurs disproportionate effort and cost in reporting a tiny fraction of a typical site's emissions. This sort of bureaucratic nonsense brings a potentially worthwhile scheme such as EU ETS into disrepute.

- **Small emitter opt-out.** EU ETS currently allows small emitters (below 25,000 tonnes of CO_2 p.a.) to opt-out into a national scheme (and CPI welcomes the fact that the UK took advantage of this provision in Phase III). In Phase IV this option should be extended to provide an opt-out to installations with emissions up to 50,000 tonnes p.a. and a complete opt-out for very small installations. Equivalent national schemes should also be simplified so that an opt-out provides real and substantial simplification for operators. The requirement for 'broad equivalence' should be scrapped as this greatly limits the options for simplification.

- **Industrial allocations should allow for the use of electricity as well as heat.** Managing this issue through the use of free allocations would obviate the need for the existing compensation package to offset the cost impact of EU ETS on electricity prices.

- **A genuine global agreement remains critical.** Europe cannot address global climate change issues in isolation and imposing carbon costs unilaterally on European Industry can only damage competitiveness. Closing European Industry and switching to imported manufactured products (with embedded carbon emissions) makes no environmental or economic sense.

- **Industrial Combined Heat & Power (CHP).** Across the EU, the environmental benefits of CHP are still not being properly realised. One simple way to support CHP deployment would be to provide free EU ETS allocation for power as well as heat.

Further Information

Further information is available from Steve Freeman, Director of Environmental and Energy Affairs, on 07775 696514 or email sfreeman@paper.org.uk.

Confederation of Paper Industries

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising recovered paper merchants, paper and board manufacturers and converters, corrugated packaging producers, and makers of soft tissue papers.

- CPI represents an industry with an aggregate annual turnover of £6.5 billion, 25,000 direct and more than 100,000 indirect employees.

- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.

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