

EU ETS Post 2020 – CPI Calls for Equal Protection for All Industrial Sectors



As part of the discussions to shape the European Union Emissions Trading System (EU ETS) post 2020, the British and French Governments have issued a discussion paper proposing tiered free allocation of carbon allowances based on questionable assessments of the extent to which specific industrial sectors are at competitive risk from carbon costs. If instigated, the proposals would fully support a limited number of sectors at the expense of other sectors also exposed to carbon leakage – **this is simply wrong for a number of reasons:**

- **Protecting auction revenue for Member States should not be a priority.** The UK/French proposal does not question the split between the allocation of allowances to be auctioned and the free allocation of allowances to support industry. If analysis indicates a certain number of allowances are required to support industry, then this should not be scaled back to protect auction revenue.
- **Tiered allocation is unjustified from both an economic and a fairness perspective.** The proposal's aim is to ensure adequate protection against the risk of carbon leakage. However, it reduces the free allocation to the vast majority of industrial sectors, without providing any evidence on the impact of the resulting additional costs on their competitiveness.
- **It penalises competitive industries investing in low-carbon technologies.** The methodology and formula used behind the tiered approach seek to identify and support the most carbon intensive and less profitable sectors, and provide such sectors (alone) with full protection from carbon leakage. Perversely, the formula punishes a sector investing in carbon emission reductions by giving lower protection against the risk of carbon leakage as a direct consequence of these investments. To provide investment certainty, protection against the risk of carbon leakage is required as industries move towards a low-carbon economy.
- **It hampers innovation.** The EU ETS is expected ultimately to promote the substitution of high-carbon with low-carbon production. Solutions may come from within a given sector or as a cross-fertilisation of ideas from other sectors. The proposed tiered approach provides different carbon cost exposure to different sectors, making such a positive outcome less likely.

Alternatives to the tiered approach:

- **There should be equal treatment between carbon exposed sectors.** Some sectors should not be disadvantaged to protect others.
- **The balance between industrial free allocation and auctioning should be reviewed.** Discussions on tiered free allocation are triggered by analysis indicating that insufficient free allocations are available to cover industrial needs. In the current phase, this has resulted in all free allocations being scaled back through use of the Cross Sectoral Correction Factor (CSCF). There should be a set of rules to properly assess potential shortages in the supply of free allocations and, where shortages are expected, to explore all possible options to preserve industrial competitiveness.
- **EU ETS should support and reward investment in low-carbon technology.** In the long term, such investments are the only way to reduce carbon emissions and so reduce the demand for free allocations. The alternative is continued deindustrialisation, and the loss of jobs and wealth creation to locations outside the European Union.
- **A support programme to accelerate the market-readiness of breakthrough technologies for industrial installations.** To decarbonise European industry, breakthrough technologies are required; support is required to develop and deploy such technologies.

EU ETS and the UK Paper Industry

The UK has 29 paper mills currently regulated through the main EU ETS scheme. An additional 11 mills are regulated through the UK opt-out scheme for small emitters, with a further five mills below the production threshold for inclusion within the EU ETS.

These 40 EU ETS regulated installations emitted a total of 1.6m tonnes of fossil carbon dioxide in 2015, while a total of 1.24m free allocations were provided – a shortfall of 23%.

Of the 29 UK mills currently in the main scheme, 22 were short of allowances in 2015 and seven were long. **So more than three-quarters of UK mills already receive less free allocation than their emissions.**

In 2005 (the start of EU ETS), the UK had 73 paper mills producing 6m tonnes of paper per year. By 2008 (the start of EU ETS Phase II), the UK had 59 mills producing 5m tonnes of paper. By the end of 2015, the number of mills had fallen to 45, with production down to 4m tonnes of paper.

The UK is now the largest net importer of paper in the world, and more than half the paper collected for recycling in the UK is exported for recycling elsewhere – a massive missed opportunity for job and wealth creation in the UK.

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NOTES TO EDITORS

- 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.