

## VISION OF ECRN ON THE REVIEW PROPOSAL OF THE EUROPEAN ETS

ECRN welcomes the proposal of the European Commission to further improve the European Emission Trading System (ETS) before the start of the fourth trading period 2021-2030. As most cost efficient instrument and corner stone of the European climate policy, the ETS is expected to continue with delivering an important share of the European greenhouse gas emission reduction.

The recent historical climate agreement in Paris, supports our view that cooperation is the way forward towards a livable low carbon world. It is evident that thereby also the necessary monitoring and registration rules need to be set clear and respected worldwide.

The revision of the ETS needs to provide long-term predictability and legal stability to investors and industry. ECRN sees the following **main challenges** to be further refined in the proposal of the Commission:

- 1) The most climate-efficient installations, or best performers in the European Union should therefore not be burdened with unjustified direct or indirect costs. Otherwise in a context of economic and financial doldrums, downsizing production and relocation or investment leakage remains the final response to unfeasible emission reduction objectives. While internal economic growth is essential to finance innovative answers towards climate change.

As many companies are active on the world markets, it is crucial that in their development towards a low carbon future, **a full-fledged protection system against the risk of carbon leakage** can become active. This system will need to function, as long as competitors from areas outside the European Union, are not subject to comparable ambitious climate policy. In addition to tackle the risk of investment leakage, there is the need to develop specific criteria to encompass those economic effects.

To realize this, two initiatives are needed:

- a. **a significant increase of the share of 43 % of the emission rights**, available to be used in this protection system against the existing risk of carbon leakage.
  - b. To avoid direct overallocation on an individual or sectoral level, **the allocation system needs to become much more dynamic**, using production data as recent as possible. Test projects in the chemical industry demonstrated already the administrative and financial feasibility.
- 2) These measures, a more dynamic allocation and a significant increase of the available free emission rights, will both contribute to **the avoidance of the implementation of the Cross-sectoral Correction Factor (CSCF)**. As we could observe in the third trading period already, this cut of -18% by the CSCF causes a large negative financial impact even on the most efficient installations that exist. In the same context a tiered approach is not delivering this contribution, as the key elements are arbitrarily chosen.
  - 3) In the follow up of the Paris Agreement, the European Union could reassess its already ambitious European Climate target 2030, based on comparative international studies. It

needs to be clear that **in case of more ambitious climate targets, those options are preferable, that do not have a further negative impact on the competitiveness** of the participating installations.

**Other additional challenges** that need to be addressed in the review are the following:

- 4) In the updates of the EU-wide benchmarks, the development of technically feasible benchmarks, without default correction factors, will be most important to avoid that the best performers are not confronted with unjustified costs. For (sub)sectors with only a few European installations, a similar but adapted methodology could be considered. Also to take into account are resource availability and existing legal obligations on (solid, liquid or gaseous) waste and residual materials from processes, used for energy recovery.
- 5) No inappropriate hurdles should apply for the qualitative assessment of the sectors concerning selection for the carbon leakage list.
- 6) Concerning the financial compensation for indirect emissions, a further refinement is advisable, taken in consideration the diverse geographical zones in the electricity market. Non exhaustive applications are: the existing and newly proposed interventions to decrease the volume should be reassessed on its objective of sufficient fulfillment of compensation. And the risk of upstream suppliers outside this system, pushing the costs for the downstream companies, should be taken more in consideration.
- 7) It is positive that an opt out remains possible for small emitting companies. However the equivalent measures need to be clearer described, in the directive itself. Also a significant extension of the limit of 25 kton is advisable, seen the unbalance between the efficiency of the ETS and the current threshold for small emitting companies.
- 8) Concerning the renewed **Innovation Fund**, for the demonstration of innovative technologies to breakthrough innovation in industry, **more attention is needed for the approach on risk bearing and sharing**. The experience with its predecessor the NER 300-fund, indicates that this was a major factor in the non-realization of potentially interesting concepts. Also an administratively more simple organizational system would be a help for investors. Also further reflection is needed on the attitude towards different low carbon technologies and/or products. Do we need to continue dividing up the fund in closed boxes for each group of technologies? Or can we better jump towards a system that lines up in a **technologically neutral** way the best proposals in reaching the defined (reduction) target?
- 9) On a more general policy level, **more effort is needed on the concrete integration of different European policy instruments** aiming at related targets and overlapping groups of participants. We notice that aside of the ETS, there are also for example 1) renewable energy target(s), 2) the energy efficiency targets, 3) air quality targets and 4) the future goals in the circular economy package. It is widely known that, realizing all those objectives at the same time, does not go together with an efficient and a cost efficient approach. This is not ideal nor for the concerned companies nor for the member states nor the society as a whole.

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*The European Chemical Regions Network (ECRN) is an association of regional authorities from across Europe. Originally started as an INTERREG project in 2004, the ECRN has now a permanent Secretariat in Brussels and is registered as an association under German law. ECRN is recognized as a European stakeholder for regional issues concerning the chemical industry and policies. The network represents regions where chemical industry is an integral part of the local economy and seeks to bring regions together to tackle the challenges by exchanging information and exploring solutions to common problems. The aim of the ECRN is to improve the competitiveness of chemical regions, facilitate collaboration between regions, and to represent the common interests of the chemical regions in Europe.*



EUROPEAN CHEMICAL  
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