

Revision of the EU ETS Directive

Starch Europe's key messages on the revision of the EU ETS Directive

- Starch Europe supports the EC proposal towards a post-2020 Carbon Leakage List, including the "in or out" approach and the new criteria for the assessment of the risk of Carbon Leakage. **It is crucial for starch producers in the EU that their sensitivity to Carbon Leakage is recognized;**
- Starch Europe also **calls for the establishment of realistic benchmarks to be used for the entire period 2021-2030**, but also for consistency between different pieces of EU legislation related to energy efficiency and climate change;
- Starch Europe **demands that the compensation for EU ETS indirect costs is harmonized at EU level and that rules for such compensation are updated** to reflect the latest assessment of the risk of Carbon Leakage for the EU industry.

Introduction

On 15 July 2015, the European Commission published its proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low carbon investments.

The EU ETS Directive is important for EU starch producers. Energy represents 15% of the operating cost for the starch industry, second only to the cost of raw materials. EU starch producers need a stable policy framework to plan investments that will allow them to both increase their energy efficiency and to remain competitive compared to non-EU competitors facing less stringent climate policies.

The EU starch industry has already achieved significant efforts to improve its energy efficiency, both in energy uses and in primary energy conversion, and to reduce its carbon intensity. This is best illustrated by the wide use of Combined Heat and Power generation (CHP – cogeneration) for the production of the heat and electricity used in starch plants, or by the investment in biomass boilers. The development of biogas production from effluents, or the use of geothermal energy, are other examples of efforts made over the past years. Nevertheless, it is important to note that there are regional limits to the implementation of such alternatives (availability of biomass, of geothermal sources, etc...) and it should not be considered that such alternatives can be implemented for all starch plants in the EU.

As these efforts will continue, Starch Europe has the following comments on the revision of the EU Emission Trading Scheme.

Post-2020 Carbon Leakage List and post-2020 Carbon Leakage provisions

On the provisions for the post-2020 Carbon Leakage List (CLL), Starch Europe welcomes the new approach proposed by the Commission with regards to the methodology to determine sectors at significant risk of Carbon Leakage.

This approach is less dependent on assumptions on the carbon market, and gives a more stable assessment of Carbon Leakage risks over the years. In addition, the EU starch industry supports the Commission's proposal to keep the "in or out" approach for the CLL, which is transparent and predictable. Any other alternative to this approach would increase the administrative burden for EU industries and would result in an uncertainty that would be detrimental for investments in climate change mitigation measures. Alternative approaches, such as tiered approaches, would also leave more room for arbitrary decisions on threshold to be used to determine the risk of carbon leakage.

It is crucial for the EU starch industry to remain considered as exposed to a significant risk of carbon leakage in the current situation. To date, non-EU competitors already face less-stringent environmental policies than starch producers in the EU. This comes in addition to other competitive advantages in non-EU countries (price of energy, governments' subsidies) that are hindering the competitiveness of the EU industry. As an example, the USA, highly relying on shale gas and oil, and China, with its important coal-based power production, are important competitors of the EU starch industry. The situation is not likely to change in the near future, and other threats are also appearing, such as the further globalization of the market.

Excessively stringent environmental policies coupled with the lack of protection of EU's efficient industries may lead to the delocalization of starch manufacturing out of the EU, with, as a result, a higher carbon intensity of starch production. For these reasons, it is crucial that the starch industry remains in the next (post-2020) Carbon Leakage List.

Compensation for EU ETS indirect costs

Another positive aspect of the Commission proposal is the acknowledgement of the importance of the EU ETS indirect costs (passed on by electricity producers) and the necessity to harmonize in all EU Member States the compensations for such indirect costs. Unfortunately, the proposal does not make it compulsory for Member States to compensate industrial sites for the EU ETS indirect costs they face. In addition, there is no indication that the current Commission guidelines¹ setting the legal framework for such compensations will be reviewed, although the current guidelines do not allow for an adequate compensation for all sectors deemed at a significant risk of Carbon Leakage. **Therefore, Starch Europe asks that the guidelines for EU ETS indirect costs compensation are reviewed to achieve the overall ambitions of the EU, for climate change and for a well functioning single market.** Arbitrary selection of sectors listed in the guidelines should be changed for a similar approach as existing for the EU ETS Carbon Leakage List.

Benchmarks and their revision

The Commission, in its proposal, suggests that the benchmarks, used to measure the carbon intensity of industrial sites covered by the EU ETS, should be reviewed and updated to reflect continuous technological developments. To this end, the Commission is suggesting to apply a default yearly improvement value of 1% (+/- 0,5% to be determined), based on the

¹ Commission Communication 2012/C 158/04 "Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012"

benchmarks established in 2008. The question remains whether the heat and fuel benchmarks, applied when a product benchmark is not possible to implement, will be updated in a similar way. Starch Europe calls for existing and already approved efficiency levels, set for heat and steam production system in other pieces of EU legislation in place, to be used (e.g. provisions of the Energy Efficiency Directive). This would bring consistency with related EU legislation, technically realistic benchmarks that can be met by the most efficient operators, a decreased administrative burden and an increased predictability for operators under the EU ETS. This would also ensure that operators who invested in best available technologies are rewarded for their efforts, and that operators who still need to improve energy efficiency have a proper incentive to do so. The benchmarks should not be one tool amongst others to achieve the EU Greenhouse Gas emissions reduction target, and must remain linked to realistic technological developments (e.g. boilers will never develop efficiency levels over 100%). To achieve the overall GHG emissions reduction target, other aspects of the EU ETS should be considered.

Innovation fund to replace NER 300

Starch Europe welcomes the Commission's intention to enlarge the scope of use of the innovation fund, built against the EU ETS. In determining the exact scope of the innovation fund, more possibilities must be considered to concretely decarbonize the EU economy and to use funds from the EU ETS allowances auctioning to fight climate change.

The current proposal suggests that innovative renewable energy technologies that are not yet commercially viable could benefit from the fund's support up to significant levels (up to 60%). It should be noted that some technologies (e.g. for renewable energy) may be commercially viable for certain uses only (e.g. individual thermal solar panels) but would require further support to equip industrial installations (to cover industrial needs for heat). The fund should be used to help industries invest in low-carbon technologies when the incentive from the EU ETS is not sufficient compared to the importance of investments. Also, all initiatives aimed at decarbonizing the EU economy should be considered.

Therefore, when developing the framework for the use of the innovation fund, we would strongly recommend that the possibilities to use the funds for climate mitigations measure be extended beyond the current scope of the NER 300.

Examples of such innovations could be:

- testing at industrial scale of high temperature heat pumps;
- On site biogas production when possible.

Another important aspect concerning the innovation fund is that the allowances that would be allocated to the fund should come from the share of allowances to be auctioned by Member States, and not from the share of allowances meant to be allocated for free to prevent Carbon Leakage. Otherwise, what may be given to some projects would be taken away from all installations at risk of Carbon Leakage, with no distinction between the best performers and the others. This would be counter-productive and will limit significantly the incentive for ETS installations to keep investing in the EU.



General remark on the post-2020 EU ETS

The fixed share of emission allowances to be auctioned by Member States and to be allocated for free to installations at risk of Carbon Leakage should be fine-tuned with the aim to avoid the application of the Cross-Sectoral Correction factor (CSCF). This would allow best performers to be fairly rewarded for their efforts, while providing a real incentive to other operators to invest in emissions reduction measures. On the other hand, for the share of allowances to be auctioned, the market based mechanism of the EU ETS will fully operate, as it was designed to operate originally, hence increasing the incentive for ETS installations to invest in low carbon technologies.

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