

# Euro Chlor Position Paper

Brussels, 23 February 2016

## ETS reform post 2020 - Chlor-alkali industry calls for full compensation of indirect CO<sub>2</sub> emission costs

To safeguard the global competitiveness of EU manufacturing activities, the EU ETS must compensate industries exposed to global competition and facing higher carbon costs. The European Council in its conclusions (23-24 October 2014), confirmed that both direct and indirect carbon costs need to be taken into account, in line with EU state aid rules. Further, to maintain international competitiveness of energy intensive consumers, the most efficient installations should not face undue carbon costs leading to carbon leakage.

The European 40% CO<sub>2</sub> emission reduction target by 2030 will result in higher carbon and electricity prices. In its ETS phase IV (post-2020) impact assessment, the European Commission estimates an average price of €25/tonne of CO<sub>2</sub>. The consequence is a significant competitive disadvantage for electro-intensive industries, such as the chlor-alkali industry, located in the EU compared to non EU. Therefore safeguards against carbon leakage are essential.

In the current ETS phase III (2013-2020), the chlor-alkali industry is recognised as an indirect emitter exposed to carbon leakage (NACE4 code: 2013). Although the Commission's ETS reform proposal strengthens compensation for CO<sub>2</sub> costs to a certain extent, it does not provide for a satisfactory EU wide solution compensating indirect emitters.

**The European chlor-alkali industry calls for an ETS reform package that safeguards its international competitiveness and ensures regulatory certainty - in order to provide investment certainty a comprehensive EU wide solution to fully compensate indirect CO<sub>2</sub> emission costs is needed.**

- **Carbon leakage is a real risk.** The chlor-alkali industry is clearly recognised as a sector at risk of carbon leakage (NACE4 level 2013 basic inorganic chemicals<sup>1</sup> and Annex II of the State Aid Guidelines<sup>2</sup>). It must be ensured that ETS post 2020 there is legal certainty that these criteria will also apply to indirect emitters.  
**We urgently need certainty that we are recognised as exposed to carbon leakage to prevent further investment leakage.**
- **Use auctioning revenues to compensate indirect emitters.** In the ETS reform proposal Member States can use auctioning revenues to fund financial measures to support indirect emitters exposed to carbon leakage (Art 10 (3) j). While we support this proposal, it does not give guarantee that indirect emitters will actually receive compensation. In order to safeguard the competitiveness of the industry and to ensure a level playing field, **Member States must use auctioning revenues to compensate indirect emitters that meet the conditions set in Art 10a (6).**

<sup>1</sup> [Commission Decision 2014/746/EU](#) list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage, for the period 2015 to 2019

<sup>2</sup> [Communication from the Commission 2012/C 158/04](#) Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012

- **100% compensation for indirect CO<sub>2</sub> emission costs.** Compensation should be based on realistic benchmarks in line with BAT<sup>3</sup>, taking into account specifics of the chlor-alkali production process. Electricity is a raw material and its use is limited by the laws of thermodynamics. The benchmark set for the chlor-alkali industry (2.461 MWh/t Cl<sub>2</sub>)<sup>4</sup> is already very challenging and does provide sufficient incentive for less efficient operations to improve their performance.  
**Full compensation at 100% of the benchmark is required and there should be no reductions in compensation through use of an aid intensity correction factor.**
- **EU wide solution needed.** We recognise that in the proposed Art 10a 6 the member states “should” adopt financial measures. This is an improvement from the current “may”. However, noting the Council conclusions of October 2014, best performers should be protected from any undue indirect carbon costs. Therefore we call for an EU wide solution requiring all member states to provide compensation for indirect CO<sub>2</sub> costs.  
**Need to change proposed “should” - to Member States “shall” adopt financial measures.**

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<sup>3</sup> Best Available Techniques

<sup>4</sup> Communication from the Commission [amending the Guidelines \(2012/C 387/06\)](#)