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## BUSINESSEUROPE comments on the Commission's EU ETS reform proposal

### KEY MESSAGES

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In order to place the EU Emissions Trading System (EU ETS) revision in context, this position paper recalls some key data, highlights what is at stake and clarifies a few concepts before elaborating on a number of concrete recommendations to amend the European Commission's proposal, in particular:

1. Changing the distribution between auctioning and free allowances in order to secure sufficient free allowances for the future growth of new and most efficient installations, and to avoid the application of the cross-sectoral correction factor;
2. Adjusting better allocation to real industry activity levels to support economic growth and to prevent under or over allocation;
3. Ensuring realistic benchmarks based on bottom-up real installation data taking into account sector-specific characteristics, once at the beginning of the fourth trading period and without a flat rate. Their level of ambition should be in line with technological progress to ensure industry's competitive edge;
4. Getting the carbon leakage list right allowing for flexibility on the qualitative threshold for carbon leakage assessment;
5. Harmonising compensation for indirect costs to ensure an adequate protection of industries at risk of investment leakage;
6. Making the innovation fund fit-for-purpose by improving the eligibility criteria and reducing the financial risk for companies wishing to invest in innovation projects and focusing on the ETS sectors;
7. Simplifying the EU ETS for small emitters.

# BUSINESSEUROPE COMMENTS ON THE COMMISSION'S EU ETS REFORM PROPOSAL

## INTRODUCTION

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BUSINESSEUROPE firmly favours a market-based approach such as the EU ETS as the best policy instrument to reach the proposed -43% industrial emissions reduction by 2030. It is essential that the instrument work for all covered sectors. This is important for the power sector, which requires a carbon price that drives investment decisions. It is equally important for the energy and trade-intensive industries, which are also exposed to competition from countries without comparable climate efforts. The European Commission's proposal fails to support the competitiveness of the most efficient industries.

This position paper recalls a few **key data, highlights what is at stake and clarifies a number of concepts** (section A) before outlining a number of **concrete recommendations to amend the European Commission's proposal** (section B). These are designed to make the EU ETS really work for all covered industrial sectors.

## A) SETTING THE SCENE

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### KEY FIGURES ABOUT CLIMATE CHANGE, EU AND INDUSTRIAL EMISSIONS

BUSINESSEUROPE, together with all our members and the millions of European companies they represent, is committed to and aware of the challenges that climate change presents as well as the impacts of human activities.

Climate change is a global challenge that requires global action. Global greenhouse gas (GHG) emissions need to reduce drastically to hold the rise in global average temperature to well below 2°C. If current trends continue, there is however a high probability of significantly greater temperature rises, increasing the risk of severe and irreversible impacts on ecosystems, significant disruptions to agricultural systems and impacts on human health in this century and beyond. According to first analysis of Intended Nationally Determined Contributions, "the estimated aggregate annual global emission level resulting from the implementation of the INDCs do not fall within least-cost 2° C scenarios by 2025 and 2030."<sup>1</sup>

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<sup>1</sup> UNFCCC, "Synthesis report on the aggregate effect of the intended nationally determined contributions", 30 October 2015



From 1990 to 2014, the EU has decreased its emissions by 23%<sup>2</sup>, more than any other economy in the world. Looking forward, the EU's share of global GHG emissions today is 9% and is projected to be even lower by 2030 while China, India and other major economies are expected to increase their shares (table 1).

**Table 1: Share of global GHG emissions in 2012 and estimations for 2030**

| Country           | Share of global emissions in 2012 <sup>3</sup> | Estimated share of global emissions in 2030 <sup>4</sup> |
|-------------------|------------------------------------------------|----------------------------------------------------------|
| EU                | 10.1%                                          | 5.5%                                                     |
| US                | 14.4%                                          | 6.5%                                                     |
| China             | 25.3%                                          | 26.5%                                                    |
| India             | 6.9%                                           | 8.8%                                                     |
| Rest of the world | 43.3%                                          | 52.7%                                                    |
| TOTAL             | 100%                                           | 100%                                                     |

EU industry has taken up its responsibilities and significantly reduced its emissions, by 24.34% between 1990 and 2012<sup>5</sup> and is committed to do more in the future. Today many EU industrial sectors are global leaders in low-carbon technologies and to continue on this track, they must be supported by the right regulatory framework.

## FIRST REACTIONS ON THE PARIS AGREEMENT

BUSINESSEUROPE has consistently called for the United Nations climate conference in Paris to deliver an ambitious, balanced and legally binding agreement.

The final Paris outcome is an important step forward for global efforts to reduce emissions. It is essential that all countries now deliver on their pledges. The agreement contains several legally binding provisions that are fundamental to improving trust between countries undertaking mitigation actions. These provisions should be used at their full potential for other major economies to catch up, as quickly as possible, with the EU's level of ambition.

A strong implementation of the agreement has the potential to bring many benefits to the competitiveness of EU industry, maximising the development of markets worldwide for low-carbon technologies and bringing major economies closer in terms of carbon costs on industry.

However, a first review of the INDCs submitted points into the direction of neither the short- nor the medium-term framework conditions for a truly global "industrial" level playing field. An in-depth assessment of the agreement should be carried out with a focus on the

<sup>2</sup> EEA Report No 4/2015, "Trends and projections in Europe 2015"

<sup>3</sup> World Resources Institute: <http://www.wri.org/blog/2015/06/infographic-what-do-your-countrys-emissions-look>

<sup>4</sup> Calculations from "ESRC Centre for Climate Change Economics and policy and Grantham Research Institute on Climate Change and the Environment", May 2015

<sup>5</sup> Calculations based on Eurostat data, 1990-2012



opportunities and risks for the competitiveness of European companies, and the implications it may have on climate-related EU policy instruments such as the EU ETS reform.

In particular, such an assessment should guarantee well informed and evidence-based discussions on how to best ensure the EU's energy- and trade-intensive sectors are not unduly exposed to unfair competition/competitive disadvantages resulting from asymmetric climate policies.

### GENERAL VIEWS ON THE EU ETS

Since its inception ten years ago, BUSINESSEUROPE has advocated in favour of a market-based instrument such as the ETS as the best policy approach to reduce emissions while stimulating investments in innovative and low-carbon technologies and products at locations where they deliver the greatest possible climate benefits at the lowest costs. The increasing number of national and sub-national jurisdictions implementing emissions trading systems also shows the growing interest worldwide for such a market-based approach.

In recent years, while opposing ad-hoc quick fixes such as 'backloading', we supported the principle to achieve less carbon price volatility as embodied in the Market Stability Reserve (MSR) upon the condition that this was accompanied by effective carbon leakage measures. This is important for the power industry which needs a carbon price that drives investment decisions.

A well-functioning EU ETS is also the best shield against the risk of renationalisation of climate policy. At a moment when the EU is pushing hard to make further progress on the completion on a single energy market, it is imperative to keep a strong EU-wide approach towards GHG reductions.

But it cannot be at any cost. The EU ETS has to work for all covered industrial sectors. Its parameters need to be well calibrated to make sure it incentivises a sustainable growth in Europe, rather than penalising industry. On this aspect, the Commission's proposal has not reached the right balance because it is weakening carbon leakage measures while the need remains strong.

The key question of overlapping between the EU ETS and other climate-related policy instruments such as the renewable energy directive and the energy efficiency directive also needs to be carefully analysed. Our request for a well-functioning and improved ETS could be significantly undermined with the impact of the multiple policies that overlap with it and that create additional costs. According to some estimates, the energy efficiency and renewable energy directives alone could lead to an additional reduction in demand for ETS allowances of more than 700 million tonnes of CO<sub>2</sub> by 2020<sup>6</sup>.

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<sup>6</sup> International Emissions Trading Association "Overlapping Policies Paper", June 2015



### ETS VERSUS NON-ETS: TOWARDS A FAIR BURDEN SHARING

While industry is required to reduce emissions by 43% until 2030, compared to 2005, GHG emissions in the non-ETS sectors (e.g. residential, transport, agriculture, etc.) will have to be reduced by 30%. Thanks to constant efforts and investments by industry, the share of industrial emissions in the total of EU emissions has lowered significantly over the last decades. There are limited low hanging fruits making every additional percentage reduction gradually much more cost-intensive.

The cost-effectiveness principle should also guide actions in the non-ETS sectors where a balanced solution must be found to safeguard the competitiveness of all sectors covered. There is particularly cost-effective, yet untapped potential in the residential and buildings sectors, which currently account for the highest share of emissions when compared to all other sectors.

### CARBON AND INVESTMENT LEAKAGE

It is key to understand that it is not because 'carbon leakage' in the strict sense of relocation has been avoided that 'investment leakage' is not happening.

Firstly, 'carbon leakage' in this narrow sense is a misleading concept, which now needs to be adjusted to the reality of today's economics. From the ETS Directive, carbon leakage is understood as production relocation due to the ETS. The relocation focus is however misaligned with the reality. For business, closure and plant relocation are always the last step of an investment decision. Before companies decide to relocate, they had to previously decide to decrease capital expenditure, meaning that carbon leakage starts when investment stops. In this context, carbon cost differences have a high influence on investment decisions and there is clear evidence that investment in the EU is falling particularly in the energy-intensive sectors.

From the pre-crisis (2003-2008) to the post-crisis (2009-2013) years, average annual investments by energy intensive industries have declined in Europe by 15%, investments in the same sectors have grown in other industrialized regions, most notably in Japan by 11% and in the US by 13%<sup>7</sup>. For example:

- In Germany, energy-intensive industries have reined in domestic investments between 1995 and 2011, with a decrease of 11% while other industries have experienced increased investment by 5%.<sup>8</sup>
- In the Netherlands and Belgium, there is also evidence that the chemical industry has seen investment leakage with a negative impact on the value chain. In comparison

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<sup>7</sup> European Commission Staff Working Document, SWD(2014) 278, Member States Competitiveness Report, 2014

<sup>8</sup> Deutsche Bank Research, Carbon Leakage: *Ein schleichender Prozess*, 18 December 2013



with other world regions, there is a growing focus on the US with many EU companies turning to North American markets instead.<sup>9</sup>

- Between 2007 and 2011, Europe lost more than a third of its primary aluminium production notably due to ETS impacts.<sup>10</sup>
- Since 2008 and the beginning of the EU economic crisis, the total EU refining capacity has decreased by 10% corresponding to more than 10 000 direct jobs and 40 000 indirect jobs.<sup>11</sup>

Secondly, ‘carbon leakage’ has been limited due to appropriate protection measures in place, particularly the necessary amount of free allowances. That is exactly the central point of the ETS directive that the proposal currently downgrades. Undoubtedly, the industrial sectors receiving lower or not at all free allowances will mechanically be more exposed to the risk of investment leakage.

Thirdly, if the price of carbon has mainly been below 10€ per tonne since 2011, following backloading, the adoption of the Market Stability Reserve and the increase of the annual reduction factor, several analysis forecast a price of around 20€ per tonne by 2020. The direct and indirect costs impact of the ETS is therefore expected to significantly increase in phase 4.

### FREE ALLOWANCES: NOT A DISINCENTIVE FOR INDUSTRY TO INVEST IN LOW-CARBON TECHNOLOGIES

The allocation of free allowances is sometimes referred to as a disincentive for companies to invest in low-carbon technologies. This is wrong. First, companies are granted allocations for free because they are energy- and/or trade-intensive and therefore are exposed to international competition. This does not have an impact on the environmental objective of the ETS to reduce emissions. Besides, as allocation is based on benchmarks and historical production, companies that are not up to their benchmark level will always have the incentive to optimise their productions in order to limit the amount of allowances they have to purchase on top of their allocations. Second, while receiving allowances for free – at the level of ‘best performers’ (see below) – they remain subject to the obligation to lower their GHG emissions. That objective of reduction, is not achievable without a continued optimisation of industrial processes, investments in less emitting technologies or switching to less fuel-intensive energy. Third, the incentive remains even for best performers (see below) to improve their GHG efficiency beyond the 10% best performers in order to “earn” more allowances that can then be banked or traded.

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<sup>9</sup> Contribution to a future oriented energy strategy for the chemical industry, Impact of energy and feedstock costs on the competitiveness of the chemical industry in the ARA-cluster, 6 May 2014 [https://www.vnci.nl/Content/Files/file/Downloads/Finaal\\_%20Report\\_essenscia-VNCI\\_140507.pdf](https://www.vnci.nl/Content/Files/file/Downloads/Finaal_%20Report_essenscia-VNCI_140507.pdf)

<sup>10</sup> European Aluminium Association, “Agenda for Action: Towards a competitive and sustainable aluminium industry in Europe”, November 2013

<sup>11</sup> FuelsEurope “Annual Review 2013”



### WHAT 'BEST PERFORMER' MEANS

It is vital to understand that what the EU industry is advocating for is that the amount of free allocation is given at the level of the so-called best-performing installations to prevent them from facing additional carbon costs. The reason is that 'best performers' are the installations that have upgraded their installations to set emissions at the level of best available technologies. Therefore, it is unfair that European installations at the top of their class have to bear additional carbon costs creating a competitive disadvantage towards their international competitors and leading to a disincentive in low carbon technology investments.

Those 'best performers' represent the average of the top 10% most efficient industrial installations (in some sectors the average of the best performers is only 5%). This means that 90% to 95% of industrial installations will either be purchasing allowances or reducing emissions.

Unfortunately, while it is repeatedly stated that 'best performers' should receive 100% of free allowances, reality is different. Already in phase 3, a number of best performing installations will not receive 100% of free allowances, and according to the European Commission's proposal for phase 4, the number and extent, to which best performers will be subject to purchasing allowances, will significantly increase. This is due to the mechanic application of the cross-sectoral correction factor (C-factor). This C-factor, is significantly reducing the total amount of free allowances even for the best performers. Additionally, as benchmarks will be reduced following an artificial linear improvement rate, the gap between allocation levels and reality is widening even further.

## B) RECOMMENDATIONS TO AMEND THE COMMISSION'S PROPOSAL

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The EU ETS is one of the European climate measures with the highest impact on the way European industry invests to reduce emissions. Any endeavours to reform its design, will remain among the most important political decisions in the next decade for the future of European business.

Given that the Commission's proposal does not strike the right balance, BUSINESSEUROPE has devised a range of recommendations to address better European industry's competitiveness while safeguarding a well-functioning and improved ETS.

### CHANGING THE DISTRIBUTION BETWEEN 'AUCTIONING' AND 'FREE' ALLOWANCES (ARTICLE 10§1)

The Commission proposal introduces a new approach to determine the amount of allowances available for free. While in the past the shares available were attributed through specific calculations, it is now proposed to set a fixed ratio between the share of allowances





for auctioning (57%) and for free allocation (43%) in the Directive itself. Furthermore, 2.6% of allowances are meant to be subtracted for the innovation fund (equivalent to 400 million) leaving only 40.4% to be allocated for free.

While the ETS cap is meant to guarantee the environmental integrity of the scheme, free allocation is needed to safeguard competitiveness and investments in low carbon technologies in the EU. Therefore, the volume of free allocation needs to be expanded. Any decline can only be sustained by comparable global action on carbon costs.

With the ETS cap being reduced 2.2% every year after 2020 (so-called 'Linear Reduction Factor'), this fixed ratio means that the total volume of free allowances will be drastically reduced compared to previous phases,<sup>12</sup> with far-reaching consequences:

- As the cumulative deficit of free allowances might amount up to 1450 million allowances in Phase IV (2020-2030), costs to EU ETS installations will increase by around 35 to 42 billion EUR.
- Looking specifically at the "best performing" installations, the deficit of free allowances could amount 620 million allowances in the period 2026-2030.
- Assuming a carbon cost of 30 EUR per tonne by 2030, the direct and indirect carbon costs will account for between 5% to 18% of the value added of a large range of industrial sectors, with a significant impact on their competitiveness.

In addition, the current approach in the proposal does not represent the only option available, showing different calculation methods can lead to different results in the distribution between the auctioning and the free allocation share. Therefore, alternative calculation methods should also be explored.

### **BUSINESSEUROPE recommendations**

**In order to secure sufficient free allowances for future growth of new and most efficient installations, and to avoid the application of the cross-sectoral correction factor, we recommend to explore the following measures:**

- **To modify the proposed ratio of 57% 'auctioning' and 43% 'free' allowances in order to attain the level needed to preserve industrial competitiveness;**
- **To ensure that the allowances foreseen for the innovation fund come from the 'auctioning' share rather than from the free allocation share;**
- **To secure that unallocated allowances, including those absorbed by the MSR, which are meant to be allocated via 'auctioning', are available for free in phase IV.**

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<sup>12</sup> All data from: I4CE, formerly CDC Climat, *A First Assessment of the European Commission proposal for a revised EU ETS Directive by 2030*, Emilie Alberola and Matthieu Jalard – Paris, 7 September 2015 and *Exploring the EU ETS beyond 2020. A first assessment of the EU Commission's proposal for Phase IV of the EU ETS (2021-2030)* November 2015





### ADJUSTING BETTER ALLOCATION TO REAL INDUSTRIAL ACTIVITY LEVELS AND NER THRESHOLDS (ARTICLE 11 and 10A§1)

The Commission proposes an alignment with changing production levels would only happen once every five years with a long time lag (2021-2025 activity level based on 2013-2017 data). This time lag between relevant production and allocation is significant and will not reflect the real dynamics of economic development. The incentive to invest and improve efficiency by gradually increasing production is lost.

Secondly, the proposal foresees to mirror partial cessation rules for production increases. In this way, windfall profits are avoided in times of decreasing production, while underallocation is also avoided in times of increasing production, leading to a more correct carbon leakage protection. However, the current levels, applied in partial cessation (50%) do not reflect the economic reality for production increases, therefore a much lower threshold would also allow for protection in the event of smaller production increases.

#### **BUSINESSEUROPE recommendations**

**- To ensure that allocation is more closely related to industrial activity levels in order to support economic growth and to prevent under or over allocation.**

**- To make sure that the NER thresholds take into account smaller production increases. With a lower threshold, the NER could enhance flexibility in the supply of free allowances, providing a better protection to existing and new efficient installations. In addition, the amounts that have not been used, should be carried on cumulatively and kept on the reserve instead of being deleted.**

### ENSURING REALISTIC BENCHMARKS (ARTICLE 10A§2)

The discussion around benchmarks needs to be better put into perspective with the economic and technical reality of managing energy and capital-intensive industrial plants and processes. Technological improvements and optimisation of industrial processes is in constant checks by plant managers. When a new plant is built or investments are made to upgrade the technological performance of existing plants, the primary objective of managers is to make sure the plants' performance will remain stable over at least the next decade. Making such a huge investment and thinking that five years later new major technological investments will be implemented is unrealistic. Investment cycles for this kind of industrial activities are between 10 and 20 years. Benchmarks need to better reflect such a reality. Breakthrough technology is of course another important aspect of the decarbonisation agenda, but it is something which can hardly be factored into the benchmarking exercise.

Against this background, industry is committed to continue to attain and improve benchmarks, but these must be realistic and achievable. Arbitrarily tightening the benchmark values by 1% as currently proposed, will have consequently that not all sectors will have the capacity to achieve such a reduction, which would entail improvements of more than 15% over the ten years period. Besides, it will lead to a decrease of free allocation in each sectors



covered, regardless of their exposure to carbon leakage and of their performance level. This is contrary to the principle that best performers should face no additional carbon costs.

Benchmarks should reflect the technological evolution of real installations in Europe. Although the proposal foresees a variation of 0.5% for benchmark corrections, this remains extremely strict even for the best performers to achieve. A reason is that some sectors with process emissions are already producing at their physical technology limits. Such a random calculation will only have as an effect acting as a covert C-factor than actually pushing companies to achieve it.

### **BUSINESSEUROPE recommendation**

**- To review benchmarks, based on bottom-up real installation data taking into account sector-specific characteristics, once at the beginning of the fourth trading period, and without a flat rate. Their level of ambition should be in line with technological progress to ensure industry's competitive edge.**

## **GETTING THE CARBON LEAKAGE LIST RIGHT (ARTICLES 10A AND 10B)**

The concept of carbon leakage is needed to protect European industry's competitiveness. In the explanatory memorandum of the proposal, the paragraph on carbon leakage states that *"the proposed rules aim at safeguarding the international competitiveness of the EU energy intensive industries in the gradual transition to a low-carbon economy as long as no comparable efforts are undertaken in other major economies, and maintain incentives for long-term investment in low-carbon technologies."*

Regarding the list of exposed sectors, while acknowledging the Commission's proposal, there should be more flexibility on the qualitative threshold for carbon leakage assessment, such as taking into consideration the risk of investment leakage, the impact on sub-sectors alongside the value chains and the exposure to indirect costs.

The proposal mentions that *"... sectors deemed to be exposed at a risk of carbon leakage will continue to receive higher allocation than others who have a higher ability to pass on relevant costs in product prices..."*. This dismisses the fact that the ability to pass cost through in the manufacturing industry has a direct influence on two key elements of the competitiveness: profit margins and market shares. Therefore, this needs to be taken into consideration when developing a carbon leakage criteria.

### **BUSINESSEUROPE recommendation**

**- To allow for flexibility on the qualitative threshold for carbon leakage assessment based on a detailed impact assessment when considering a specific sector or sub-sector at PRODCOM level.**



### HARMONISING COMPENSATION FOR INDIRECT COSTS (ARTICLE 10A§6)

The EU ETS was designed to function as a neutral instrument that sets a cap for all installations covered by it. Other sectors may be added in the future but currently it covers only installations in the power and manufacturing industries. However, in practice the ETS coupled with renewable energy targets and national subsidy schemes has allowed the power sector to decarbonize while costs have been borne by households and the manufacturing industry, which has seen its bill increase. This is known as indirect ETS costs, the carbon costs passed on by utilities to their customer's electricity price. According to the European Commission, the emission factor ranges from 0.56 to 1.12 depending on who is the marginal producer in the different market regions.<sup>13</sup>

The situation is different in the case of energy- and trade-intensive industries, which operate in highly competitive markets. If an EU producer would pass-through (parts of) EU carbon costs in their product prices, non-EU competitors not exposed to carbon costs would either be in a position to gain market shares or to increase their sales margin and attract future investments. It is worth noting that the study published by the European Commission in November 2015 has not properly addressed these important considerations.<sup>14</sup>

Direct and indirect emission carbon costs are both a result of the EU ETS; they are equally harmful for competitiveness and investments, but treated differently. Direct costs are compensated through free allowances, while compensation for indirect costs remains optional through state aid at the discretion of the Member States. Even when a budgetary line is foreseen in the national budgets to compensate industry, EU governments may instead decide to allocate the amount only partially or not at all. This non-binding approach to compensation generates a difference of treatment (see Table 2), which lacks any reasonable basis and is in direct contradiction with the aim of safeguarding the international competitiveness of EU energy intensive industries.

While the Commission's proposal new wording attempts to better coordinate compensation for indirect costs at EU level, in practice it leaves the issue unsolved by perpetuating the voluntary nature of compensation and risks having zero impact.<sup>15</sup>

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<sup>13</sup> European Commission, Guidelines on certain State Aid measures in the context of the GhG emission allowance trading scheme post-2012, (2012/C 158/04)

<sup>14</sup> European Commission DG Climate Action, "Ex-post investigation of cost pass-through in the EU ETS An analysis for six sectors" prepared by CE Delft and Oeko-Institut, 20 November 2015.

<sup>15</sup> In the political agreement on the Market Stability Reserve reached on 5<sup>th</sup> May 2015, the Council and the European Parliament gave a clear mandate on indirect costs to European Commission: "In pursuing the goal of a level-playing field, that review should also consider harmonised arrangements to compensate for indirect costs at the Union level".



**Table 2: Examples of compensation schemes for indirect costs in Member States**

| Country               | 2013 (in million €) | 2014 (in million €) | 2015 (in million €) |
|-----------------------|---------------------|---------------------|---------------------|
| Spain <sup>16</sup>   | 1                   | 1                   | 4                   |
| Germany <sup>17</sup> | 350                 | 203                 | 203                 |
| Netherlands           |                     | 78                  | 78                  |
| UK                    | 18                  | 69                  | 69                  |
| Belgium               | 7-113               | 7-113               | 7-113               |
| Greece                | 14-20               | 14-20               | 14-20               |

### **BUSINESSEUROPE recommendation**

**- To set mandatory EU compensation measures to achieve full offsetting of indirect costs in all Member States. This should be developed through a harmonised EU approach using specific mechanisms, such as the use of auctioning revenues or unallocated allowances at the end of the third trading period, rather than through state aids rules.**

### **MAKING THE INNOVATION FUND FIT-FOR-PURPOSE (ARTICLE 10A§8)**

Industry welcomes the provision of allowances to be made available for innovation, this constitutes a good basis to support industry's efforts to invest in breakthrough low-carbon technologies. The extension to industrial processes is also positive because support to innovation in those sectors is equally important to achieve our commonly shared emissions reduction efforts. However, experiences with NER300 has shown that the functioning of the fund is too bureaucratic and needs to be improved. For instance all projects applying for CCS funding did not succeed because of undue red tape and remaining financial risk for companies, which made it difficult for projects to be eligible for funding.

It is also important to acknowledge that, given the scale of the challenges, the ETS innovation fund needs to be complemented with other innovation-support schemes at EU and national levels, in particular on the market deployment of innovative technologies. As a matter of comparison, the power sector is progressing fast on decarbonisation through subsidies for low-carbon technologies such as a solar and wind which will amount to 50 billion per year.<sup>18</sup> To ensure the funding streams do reach industry, the innovation fund should be aimed at the deployment of new technologies for each Annex I sectors in the ETS Directive.

<sup>16</sup> In 2013 and 2014, the amounts foreseen for compensation were not allocated.

<sup>17</sup> In 2013, out of 350 million EUR, only 314 million EUR were allocated.

<sup>18</sup> BUSINESSEUROPE, A Competitive EU Energy and Climate Policy – BUSINESSEUROPE recommendations for a 2030 Framework for Energy and Climate Policies, June 2013



### **BUSINESSEUROPE recommendation**

**- To improve the eligibility criteria by eliminating unnecessary bureaucracy and reduce the remaining financial risk.**

## **SIMPLIFYING THE EU ETS FOR SMALL EMITTERS**

In line with the overall goal of the European Commission to ensure better regulation, changes to the proposal are needed to enable simplification, especially when small emitters are concerned. The sometimes heavy-handed ETS procedures can be made easier to handle for operators and competent authorities while keeping up the robustness of the system. According to the recently published report on the functioning of the European Carbon Market in 2014,<sup>19</sup> 72% of ETS installations emitted less than 50.000 tonnes of CO<sub>2</sub> per year. This large number of installations covers a very small percentage of ETS emissions (around 5%). Therefore, extending the opt-out possibility to these installations would give the opportunity to significantly reduce their administrative burden, particularly for SMEs without undermining environmental goals. When Member States make use of the opt-out schemes, best practices should be taken into account when developing alternative measures.

### **BUSINESSEUROPE recommendation**

**- To simplify ETS procedures as far as possible in order to reduce the administrative burden for small emitters, e.g. provide an opt-out for small emitters below 50.000 tonnes of CO<sub>2</sub> emissions per year.**

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<sup>19</sup> COM(2015) 576, published on 18.11.2016, p. 8