To the Directorate-General Climate Action - Unit B.1

Attached please find Ardagh Group's input regarding the consultation on structural reform of ETS before 2020.

Kind regards

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Glass Alliance Europe input to the Public Consultation on structural options to strengthen the EU Emissions Trading System

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1. Executive Summary

Executive summary

- Glass Alliance Europe supports the ETS as a cost-effective tool to achieve absolute greenhouse gases emissions reductions as long as the ETS does not damage the competitiveness of the EU industry
- But it should be borne in mind that the sole objective of the ETS directive is to reduce CO_2 emissions by 20% by 2020 in the most cost-efficient way, not to achieve an arbitrarily pre-determined carbon price.
- The fact that, in an economic downturn, the CO_2 price is low is precisely an indication that the market is functioning well. There is therefore no justification to artificially intervene in the market to increase CO_2 prices; and low carbon prices do not mean the end of ETS !
- Glass Alliance Europe firmly opposes any change in the ETS rules and targets before 2020. The third period has already started and the rules of the game should not be changed mid-way;
- However, Glass Alliance Europe supports the idea of a structural reform, with discussions of all involved stakeholders post 2020;
- The six options as proposed by the Commission only try to influence carbon prices they do not propose structural measures to address the real problems: energy-efficiency in the manufacturing industries, global competition, global greenhouse gas emissions, territorial emissions vs territorial consumption, sectorial approaches, ex-post allocation…

2. Background

Extract from DG Climate website:

Stakeholders and experts in the field of the European carbon market are invited to comment on the structural options and views reflected in the report "The state of the European carbon market in 2012", which serves as the consultation document. There is no additional questionnaire.

In order to assist the Commission in its evaluation of your contributions, it would be appreciated if you could maintain the numbering of the options, when commenting on the options in the report. Please indicate the expected impact of individual structural options, including on:

- *emission reductions;*
- *ability of the EU ETS to meet the EU long-term target of an 80-95% reduction in a cost-effective manner;*
- *your activities or the activities of the business under your jurisdiction, including estimated changes in compliance and administrative cost;*
- *employment and households.*

Please also state the reasoning behind your comments and any evidence supporting it

1. Glass Alliance Europe input to the Consultation

1.1 General statement

The unique objective of the ETS directive is to achieve an absolute greenhouse gases emissions reduction target by 2020 (-20%) in the most cost-efficient way. It is not the purpose of this market mechanism to provide an arbitrarily pre-determined carbon price – a tax would have been better adapted for this purpose. This is largely acknowledged in the recitals of the directive, e.g. in Recital 5[1] of the ETS.

Whatever the CO_2 price in the third period 2013 - 2020, it is absolutely certain that the overall EU cap will be achieved, because the number of CO_2 allowances is fixed by the directive and a linear reduction factor (-1.74%) applies every year.

The ETS will therefore deliver its objective independently of the carbon price and in the most cost-efficient way (market mechanism). Low carbon prices do not mean the end of the ETS.

The market-based nature of the mechanism ensures that the cap on industrial emissions is reached in the most economically efficient way; it should not be altered by interventions in the market intended to increase CO_2 prices. The fact that, in an economic downturn, the CO_2 price is low is precisely an indication that the market is functioning well. An artificial increase of this price will enhance carbon leakage. Therefore, there is no need to intervene. Moreover, it should be kept in mind that some of the most vocal stakeholders calling for an increase of CO_2 prices are not affected by the ETS (meaning that they are not included in Annex I of the ETS) and are motivated by maximizing their profits coming from trading operations.

We understand the need to encourage investment in low carbon technology; however, any structural change which might be consulted on today will not come into force until the phase is well underway, meaning that it cannot influence investment decisions until much later in the phase. In many sectors, including the glass sector, investment cycles that affect the majority of emissions are long (a furnace lifetime is 10 – 20 years) and without certainty as to the 2030 cap, it is not foreseen that any restructuring of the ETS before 2020 would lead to any change in investment decisions in phase III. Conversely, by introducing a long period of uncertainty and a track record of U-turns and rule changes, one undermines any confidence in EU manufacturing investments, which will only push companies to invest outside areas of EU regulation.

For all these reasons, Glass Alliance Europe firmly opposes any structural reform before 2020. The third period has already started. Changing the rules during the game would send a very negative signal to investors concerning manufacturing in Europe, and is at odds with the 20% target of industry share in EU GDP as recently proposed by the Commission[2]. A thorough study on additional carbon leakage risk would be necessary in such case. An impact assessment would be necessary together with an analysis of carbon (and investment) leakage (outside EU) already have been taken place since 2005.

However, Glass Alliance Europe supports the idea of a structural reform for the period after 2020 in order to address structural flaws in the ETS (and not only carbon prices) such as global competition, global objectives in greenhouse gas emission reductions, territorial emissions vs territorial consumption, sectoral approaches, ex-post allocation,…

1.2 The six options proposed are not "structural reforms"; they address only CO2 prices

The Commission has proposed 6 different options to address CO_2 prices before 2020.

As explained above, Glass Alliance Europe is of the opinion that low CO_2 prices reflect the difficult economic situation, and that any attempt to artificially manipulate CO_2 prices before 2020 is simply not acceptable.

Glass Alliance Europe urges the Commission to consider other measures which address the real problems and therefore could very well deliver more effective solutions after 2020.

Trying to manipulate CO_2 prices (which is what the 6 options basically propose) is not considering the full range of structural measures. What is needed is a thorough consultation with all industries affected by the ETS to try to find real solutions enabling an effective CO_2 reduction which maintains the competitiveness of industry.

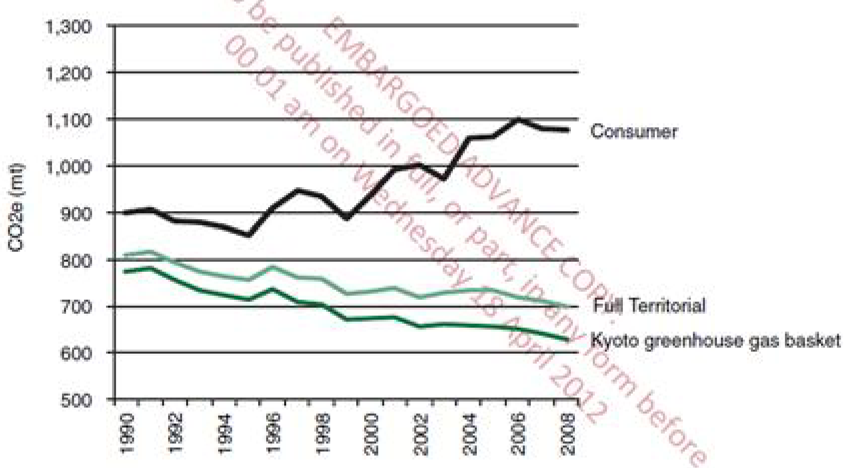
Several options (and not only the six options proposed by the Commission) need to be looked at:

1.2.1 Commission options do not address displacement of CO2 emissions outside Europe

Glass Alliance Europe believes that Europe must address global emissions so as to avoid emissions displacement. A report by the UK Parliament[3] shows very clearly how the UK's Green House Gases (GHG) differ when measured on a consumption basis (good or services generated in another country and exported to the UK) rather than a territorial basis (emissions physically emitted from chimneys in the UK). UK Territorial emissions have been going down while UK consumption emissions have been going up. The rate at which UK consumption based emissions have increased has far outstripped territorial emissions. Therefore the UK contributes to net increase in global emissions (see graph below).In other words, industry is leaving UK to produce elsewhere, while consumption is growing. In a context where Europe represents just about 12% of the global CO_2 emissions, Glass Alliance Europe does not understand why Europe still puts more unilateral pressure on its industry, when re-industrialisation should be a priority. We need to address global emissions.

Recommendation: Consider an option for phase 4 to address CO2 displacement following a full consultation and study on consumption CO2 at an EU level.

Figure 1—Comparison of UK consumption-based GHG emissions with territorial emissions[22]



Source: UK Energy Research Centre (UKERC)

1.2.2 Commission options do not address over- and under- allocation

Glass Alliance Europe believes that the proposed solution must reconcile emissions reduction and growth. Over-allocation in crisis times and underallocation in periods of growth times is the result of the so-called “ex-ante” allocation, where allocations are fixed at the beginning of the trading period, without any possibility to change it. Industry has always opposed this system. Allocation (allocation dependent on production capacity, driver should be the reduction of specific emissions) based on real output should be at least envisaged and analysed.

Recommendation: Consider an option for phase 4 to allocate free allowances based on real output following full consultation and analysis.

1.2.3 Commission options do not set targets based on real potential

A “bottom up” rather than “top down” approach should be adopted. To date, reduction targets have been set mainly on political grounds, without looking at real potentials in the different sectors. Glass Alliance Europe recommends a target-setting exercise based on consultation with sectors, to identify real reduction potentials. For instance, a 90% reduction in CO_2 emissions in the glass industries is simply not achievable due to the decomposition of raw materials in the furnace which represent about 20% of the CO_2 emissions of a glass furnace.

Recommendation: Consider an option for phase 4 which takes into account real emission reduction potential in sectors such as glass. This must follow analysis of opportunities and barriers to emissions reductions and the restructuring option would need to address these barriers, which are likely to be out of an operator’s control.

1.2.4 Commission options do not look at the potential issue of traders

Currently, the ETS directive allows organisations not covered by the ETS to trade CO2 allowances. As a consequence, a lot of financial actors (banks, traders,…) speculate on CO2 prices and influence them while they don’t have any obligation under the ETS.

Recommendation: the Commission should look at the possibility to allow only activities covered by Annex I of the ETS directive to trade.

1.3 Analysis of the six options

1.3.1 Option a: Increasing the EU reduction target to 30% in 2020

The EU CO_2 reduction target should only be increased when other important global emitters commit to comparable reduction targets. The negotiations in the past have shown that ambitious unilateral commitments by the EU do not encourage other countries to follow. This option involves changing the 2020 target which is equivalent to "moving the goal posts mid-way through a match". It is an option that is not acceptable for Glass Alliance Europe as it will deeply affect industries at risk of carbon leakage which have been carefully assessed for free allowances. Any reduction in free allowances would negatively impact the competitiveness of the EU industry and undermine the painstakingly detailed work which has taken place over recent years to ensure that EU competitiveness is protected.

1.3.2 Option b: Retiring a number of allowances in phase 3

This option is not acceptable to Glass Alliance Europe. If it has its intended effect it will have a strong impact on CO_2 prices which will place financial burden on industries attempting to grow out of a recession. This measure would also increase electricity prices for industry and citizens, which is not recommended in these difficult times. As set out above, any changes during phase 3 are unlikely to have impacts on investment decisions taken for phase 3.

Again, this measure changes the rules that participants are already working to and therefore undermines the confidence in the ETS.

Finally, in case the economy recovers, this measure would have unpredictable effects on the carbon price which could soar to unacceptable levels, placing EU manufacturing at a further disadvantage.

1.3.3 Option c: Early revision of the annual linear reduction factor

This option is not acceptable for Glass Alliance Europe for the same reasons set out in option a.

1.3.4 Option d: Extension of the scope of the EU ETS to other sectors

This option is worth looking at, but the timing (as the Commission intends to do this before 2020) is clearly not appropriate. Inclusion of, transport, agriculture and households e.g. in a trading system will take much more time.

1.3.5 Option e: Use access to international credits

1.3.6 CDM and JI should be strengthened rather than limited. Besides, the EU has already restricted the use of international credits significantly: On average, each company can use international credits only for about 6% of its emissions.

1.3.7 Option f: Discretionary price management mechanisms

As it stands, this option is too vague to be properly considered. Anyhow, carbon floor prices should go together with carbon price ceiling. This option may have outcomes which oppose the very nature of a trading scheme. If the objective is to achieve a specific CO2 price regardless of

lowest cost, then a taxation mechanism would be a more effective way to achieve this, as set out in the opening statement of 3.1 above.

2. Glass Alliance Europe

Glass Alliance Europe brings together the sector and national associations representing the glass industries in Europe.

The different glass industries manufacture products needed for Europe to achieve energy savings and a low-carbon society, such as highly insulating windows, photovoltaic panels or light weight reinforcement glass fibres for use in buildings, wind turbines and transport. Being massively recycled, container glass also contributes to improve resource-efficiency (by helping saving natural resources) and to reduce CO_2 emissions.

The different glass associations represented by Glass Alliance Europe (FEVE for the container glass industry; Glass for Europe for the flat glass industry; Glass Fibres Europe for the continuous filament glass fibres: ESGA for the speciality glass industry and EDG for the Tableware and domestic glass industry) produce about 30 million tonnes of glass per year and employ about 150.000 people.

Since 2009, the glass industry production has dropped dramatically in some sectors (up to -40%), due to moving of companies of glass sectors outside of the EU.

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[1] "The Community and its Member States have agreed to fulfil their commitments to reduce anthropogenic greenhouse gas emissions under the Kyoto Protocol jointly, in accordance with Decision 2002/358/EC. This Directive aims to contribute to fulfilling the commitments of the European Community and its Member States more effectively, through an efficient European market in greenhouse gas emission allowances, with the least possible diminution of economic development and employment"

[2] The communication "Mission Growth: Europe at the Lead of the New Industrial Revolution", urges immediate action to revert the current downward trend and promote the re-industrialisation of Europe. It sets out a new aspirational goal to increase the industry's share of EU GDP to around 20% by 2020, up from 16% currently.

[3] House of Commons – Energy and Climate Change Committee. Consumption-based Emission Reporting. Twelfth report of session 2010 – 2012. Volume 1.

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