
REVISION OF THE EU ETS (2021 - 2030)

Energy-intensive industry sectors in Poland support the objectives of 2030 EU climate and energy framework and the use of emissions trading system as the main instrument in the fight against climate change if accompanied with the promotion of competitiveness, growth and employment in the European Union. EU ETS revision must ensure a balanced approach: on one hand - achieve the objective of emissions reduction, on the other - guarantee adequate protection for EU companies operating in global markets as well as poorer Member States that cannot afford rapid decarbonisation of their economies.

In the context of ongoing work on the ETS reform, businesses and industries associated within FORUM^{CO2} wish to draw attention to the most important issues that we believe are essential to ensure stable development of energy-intensive industries and the successful transition to a low-carbon economy.

The level of ambition consistent with the conclusions of the Council of Europe and the maintenance of existing MSR rules

We support the maintenance of linear reduction factor (LFR) at 2.2% per annum to deliver 43% target by 2030 compared to 2005 (and 85% by 2050). Constant and gradual reduction of emissions provides strong signal for investments in low-carbon solutions and improves system predictability in the long term. Only then, the companies of highly capital-intensive industry sectors and power generation have the ability to achieve the objective in a cost-effective and economically efficient manner.

In order to safeguard basic social needs as well as the reduction of low emissions, district heating and high-efficiency cogeneration should be excluded from the application of linear reduction factor.

The proposed cancellation and doubling the allowances intake to Market Stability Reserve (MSR) will result in significant reduction of auction pool and result in artificial increase of carbon prices in the short term. Modernization fund and derogations will not compensate for significant cost increase that primarily affects the power sector. Tightening MSR does not directly touch the share of free allowances, but high market prices will greatly distort the EU industry's competitiveness. Over 90% of installations must purchase emission rights, and they are also affected by indirect costs problem. MSR should be a safety buffer envisaged to mitigate the potentially extreme events on carbon market during the final years of phase IV, in particular for sectors exposed to carbon leakage.



**Realistic benchmarks level -
technically and economically achievable**

FORUM^{CO2} supports the pragmatic solution based on dynamic and predictable reduction mechanism of benchmarks. Product benchmarks should be established at the level of the most

efficient installations in each sector and calculated on the basis of actual and reliable data. The update should take into account the specificities of representative technologies and the availability of resources. A good example of technology limitations is the production characterised by high, unavoidable process emissions. Moreover, the installations with alternative, so-called fall-back benchmark approach should not be penalized for emissions reductions resulting from the investments in emission efficiency. The rules should minimize the administrative burdens related to benchmark updates, so severe for small emitters and small and medium-sized enterprises.

Achievable benchmarks will motivate businesses to create and implement long-term investment strategies, upgrade technology and improve energy efficiency. Over-ambitious benchmarks artificially increase the costs for entire industry and in fact undermine the effectiveness of carbon leakage provisions. In result, less efficient industries outside the EU will replace Union industries and global emissions increase.

**Fairer rules for the allocation of free allowances
based on actual production levels**

The allocation for the industry, closely aligned with the possibly recent, actual production levels shall prevent excessive or insufficient allocation.

The dynamic mechanism provide the required allowances in case of potential production expansions or restart and prevent the problems that resulted from the economic collapse of 2009. Most of the required data to implement truly dynamic allocation, based on the average of verified production data for the two preceding years, are already available in the framework of the monitoring, reporting and verification.

**Real protection of industries from carbon
and investment leakage to countries
outside the European Union**

All sectors of the energy-intensive industries in Europe should receive full protection at the benchmark level, particularly if there is no hope for the introduction of equivalent measures for

competitors in other regions of the world. The situation in many sectors is further exacerbated by weakened protection opportunities of trade defence measures against unfair competition from countries with distorted production costs, which would also reflect additional carbon costs. FORUM^{CO2} advocates against the exclusion of the exposed sectors from carbon leakage list and free allocation in return for promises of protection in the form of hypothetical import inclusion scheme (so-called Border Adjustment Measures). Such system essentially leads to disruption of competitiveness among groups of substitute products in the internal EU market. In a situation where one type of product (e.g. cement)



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has additional carbon costs imposed, its competitive position against other construction materials deteriorates. Moreover, such system has never been properly tested and its practical impact on the competitiveness of specific sectors in the global markets is unpredictable. It is very likely that the proposed solution is to be challenged at the WTO.

Decreasing emission cap cannot justify insufficient protection of the Union industry and the use of cross-sectoral correction factor (CSCF), also applied in a selective manner. The carbon leakage assessment methodology should take into account both quantitative and qualitative criteria. In justified cases the analysis at a more disaggregated level is required, in particular for installations grouped under the generic statistical code NACE-4 with the subsectors not included in the ETS due to negligible emissions. District heating is also affected as high cost of participation in emission trading system can translate into the phenomenon of "internal" carbon leakage, i.e. to installations not covered by the ETS.

**Fully compensated indirect costs,
harmonized at Community level**

Lack of harmonized rules puts energy-intensive industries in Poland at a disadvantage against competition from other Member States, which can afford to allocate funds for such purpose. The

differing levels of compensations not only distorts competition within the EU, but also competition in global markets. There are sectors for which indirect costs exceed direct costs, and which cannot pass them in product prices without losing market share. The ETS revision should ensure equal treatment to off-set both direct and indirect costs. FORUM^{CO2} supports the introduction of EU-wide harmonized full compensation of indirect costs at the level of the most efficient installations, based on actual production data, that ensures predictability over the entire trading period.

**Use of funds: support to innovation
in energy intensive industry sectors
and modernization of energy sector**

The European industry faces a serious investment challenge aimed at transforming its production base and boosting competitive position. We believe that support from the innovation

fund should not be at the expense of free allowances share and thus, protection against the risk of carbon leakage. The Fund should focus on low-carbon investments in sectors of energy-intensive industries, including projects in district heating, cogeneration, industrial technologies of CO₂ capture and utilization (CCU), as well as innovative projects of a smaller scale. The selection of projects and new technologies should assume technology neutrality and take into account the realistic abatement possibilities - in particular technological, thermo-dynamic (related to the process emissions) or feedstock limitations. As a rule, the criteria for project selection within the modernization fund cannot exclude support for potential breakthrough clean technologies based on coal.



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Energy-intensive industry sectors play a key role in the Polish economy¹

**Contribution to domestic GDP
growth: gross value added
107 billion PLN**

**730 000
well-paid jobs**

**We promote sustainable
development.**

**The value of sold production
350 billion PLN**

**17.5 billion PLN
of investment
expenditures**

**Environmental protection
and safety issues
are a priority for us.**

FORUM^{CO2} is co-created by the representatives of the following organizations:

