

EU ETS reform must acknowledge crucial differences between industries

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How to tier and where to tier? These are the key ETS reform questions that need answers, says Jacob Hansen.



In designing the new emissions trading scheme (ETS IV), it is important to build a system that will help the environment and drive emission reductions. At the same time, the system must stay close to economic and technological reality to let European industry continue to grow and provide jobs. For me, it is obvious that not all industry is in the same situation.

The risk of carbon leakage varies greatly between different sectors. This is a fact acknowledged by the European Commission in its impact assessment. Furthermore, it is equally a fact that there are sectors with unavoidable process emissions. In our sector, for example, two thirds of emissions during production of ammonia are technically impossible to reduce because they are an integral part of the chemical process.

The fundamental laws of chemistry cannot be altered. In practice, this means that where there is a shortage of allowances and the correction factor is applied, fertilizer producers will be affected three times more than any other industry.

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All the reduction will have to fall on is the remaining one third of emissions that are not process emissions. This is neither fair nor proportionate. We have to introduce solutions that tackle both the very real risk of carbon leakage and the challenge of process emissions.

We need to prevent a shortage in industry allowances for sectors at the greatest risk and we need to prevent a correction factor unfairly punishing unavoidable process emissions.

Obviously, not all industry sectors are in the same situation, and as a result a one-size fits all solution will not work. By introducing differentiation, the system becomes fairer and closer to the industrial reality on the ground.

This differentiation - targeting or tiering - can be done in two ways; it could be through an upfront, targeted approach to the distribution of industry allowances, as presented by Parliament's ITRE-rapporteur Fredrick Federley.

This will go a long way towards avoiding a correction factor kicking in later. This is the same idea recently presented by the French and the UK governments. It could also be a back-end tiering of the correction factor, which is one of the options listed by the lead rapporteur Ian Duncan.

In this solution, the sectors most exposed to carbon leakage will have no correction applied, with sectors having relatively little exposure to carbon leakage requiring a proportionally larger correction applied.

I also believe that the flat rate reductions of the benchmarks should be extended. Encompassing a wider range of reductions will better reflect what is technologically possible. Again, this creates greater differentiation, making the system better reflect reality.

I believe this differentiation is necessary to create a fair balance that will make ETS work for the whole of industry. For me, this is not about winners or losers. This is about protecting our environment.

This is about ensuring that all industrial sectors have a fair share of allowances, reflecting the industrial reality. Ultimately, this is about allowing industry to grow and creating production and jobs in Europe.

About the author

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