

Question	Answer	Motivation
Question 1: Do you think that EU industry is able to further reduce greenhouse gas emissions towards 2020 and beyond, without reducing industrial production in the EU?	a) Yes	The roadmaps show that further emissions reduction is feasible. Care should be taken that the reduction path is cost-efficient. To mitigate the risk that industrial production is reduced and to stimulate carbon efficiency growth, in Europe, adequate carbon leakage provisions must be in place.
Question 2: Do you think that the EU ETS helps the EU industry to become more energy efficient, and thus contributes to increasing the competitiveness of European industry in the long-term?	a) Yes	The objective of the EU ETS is to reduce CO2 emissions in a cost-effective and economically efficient manner. As it is important to make sure that investments in clean, low-carbon technologies are carried out in time, the CO2-price should adequately reflect the (long term) marginal cost of reducing CO2. With the current and projected large surplus of allowances this may not be the case: dynamic efficiency is reduced and overall costs over the mid- and long-term are increased. Therefore the ETS-system needs to be strengthened and carbon leakage should be prevented. Measures should be taken to guarantee both.

<p>Question 3: Do you think the EU needs to provide special (transitional) measures to support EU industry covered by the EU ETS, in order to address potential competitiveness disadvantages vis-à-vis third countries with less ambitious climate policy?</p>	<p>a) Yes</p>	<p>Carbon Leakage measures should be in place for the industry sectors that face a real carbon leakage risk, also after 2020, as long as third countries have a less ambitious climate policy (such as binding CO2 targets for the specific industry sectors). Full compensation should be given to the CL industries, based on the most efficient production techniques and realistic carbon leakage criteria and recent production.</p>
<p>Question 4: In your view, how adequate a policy instrument is free allocation and, in particular, increased free allocation for certain industrial sectors to address the risk of carbon leakage?</p>	<p>b) Quite adequate</p>	<p>Depending on the implementation of the policy instrument, free allocation can be an adequate policy instrument. We think that 100% free allocation of rights should be based on realistic benchmarks, recent production and based on the best performance in the sector. The current method used to assess if a certain industrial sector is exposed to carbon leakage, should be reviewed. This should be part of a more comprehensive package of strengthening the ETS along with tightening of the reduction path for the ETS cap aimed at achieving the long-term goal of an 80 to 95% reduction in greenhouse gases for the whole economy by 2050 including also compensation for the indirect (electricity) costs, based on the best performance in the sector.</p>

<p>Question 5: In your view, how does free allocation impact the incentives to innovate for reducing emissions?</p>	<p>b) it largely keeps the incentive</p>	<p>The incentive to reduce emissions and to innovate is provided by the carbon price and the benchmarking principle, and is not seriously impeded by free allocation. The benchmarking principle gives carbon-efficient producers an economic advantage compared to less carbon-efficient ones. The incentive for less efficient producers is therefore to close the gap with their more efficient competitors as much as possible. The carbon price provides that any reduction of carbon emissions – even for the most efficient plants - directly leads to cost savings from handing in less emission allowances, translated as less need to buy or more room to sell allowances. With the current and projected large surplus of allowances this is not the case: dynamic efficiency is reduced and overall costs over the mid- and long-term are increased. Therefore the ETS-system needs to be strengthened and carbon leakage should be prevented.</p>
<p>Question 6: In your view, is the administrative burden for companies to ensure the free allocation via the implementation of the benchmarking provisions proportionate to the objectives?</p>	<p>b) quite proportionate</p>	<p>Options to reduce the administrative burden should always be considered. One of the most promising options to reduce the administrative burden is to increase the number of product benchmarks, and move any remaining production from the current heat benchmark to the fuel benchmark. The heat benchmark does not fit in well with common industrial practice, and is therefore a main source of a high administrative burden.</p>

<p>Question 7: What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes?</p>	<p>f) I don't know</p>	<p>The Netherlands is in favor of a system of allocation based on recent production and realistic benchmarks for the carbon leakage industry. It is therefore impossible to state at this moment what share of allowances should be dedicated to carbon leakage.</p>
<p>Question 8: Currently the European Commission implements the NER300 programme to provide from EU ETS specific support for large-scale demonstration of Carbon Capture Storage (CCS) projects and innovative renewable energy. 300 million allowances, representing ca. 2% of total phase 3 allowances, are dedicated for this purpose. What share of the post-2020 allowance budget should be dedicated to such innovation support?</p>	<p>e) I don't know</p>	<p>Various scenarios, the Commission's roadmap and IPCC studies indicate that amongst other instruments, large scale application of CCS is necessary on the path to a CO2 reduction of 80-95%. It is important to have CCS in place by 2030. We consider it necessary that a new NER300 is focused on CCS projects and that the NER300 becomes more flexible to be able to allow changes in the business even after the award decision and/or FID has been taken.</p> <p>The size and success of a new NER300 programme will depend on the projected future carbon price, as that will help stimulate projects like CCS.</p> <p>A minimum and a maximum budget in euros should be considered.</p> <p>We also think that an evaluation should be carried out which should answer the following questions before a decision on continuation is made:</p> <ul style="list-style-type: none"> <li>- <i>Was the NER300 successful, effective and efficient?</i></li> <li>- <i>What are the alternatives to stimulate CCS post 2020</i></li> </ul>

<p>Question 9: At the moment, EU ETS rules do not contain a specific support scheme for industrial innovation and deployment of new low-carbon technologies (apart from support for CCS and renewables under the NER300). Do you think there should be such a financial support scheme?</p>	<p>b) No</p>	<p>A support scheme for these innovations and deployment is very important but should not necessarily be financed from the EU ETS.</p>
<p>Question 10: If innovative low carbon technologies in the industry are to be further supported, which could be possible sources of funding?</p>	<p>c) other types of funding (please specify)</p>	<p>The Netherlands is in favor of a more streamlined approach and suggests using existing European (co-financing) funds such as e.g. LIFE or certain sections of Horizon 2020 aimed at low carbon technologies.</p>

<p>Question 11: In your view, is there a need for additional measures beyond free allocation and EU-level innovation support to address the risk of carbon leakage for energy intensive sectors covered by the EU ETS, post-2020?</p>	<p>a) yes</p>	<p>Depending on the implementation of the policy instrument, free allocation can be an adequate policy instrument. We think that a 100% free allocation of rights should be based on recent production and realistic benchmarks set by the best performance in the sector. However improving the balance between supply and demand of free allocated allowances should be part of a more comprehensive package of strengthening the ETS, along with tightening of the reduction path for the ETS cap in order to achieve the long-term goal of an 80 to 95% reduction in greenhouse gases for the whole economy by 2050 and including also a compensation for the indirect (electricity) costs, based on the best performance in the sector.</p>
<p>Question 12: Currently there are two categories for sectors in terms of exposure to the risk of carbon leakage: sectors are either deemed to be exposed to such risk (the sectors on the carbon leakage list) or not (sectors not on the carbon leakage list). Should the system continue with two carbon leakage exposure groups or is some further differentiation needed?</p>	<p>b) more categories should be defined</p>	<p>We think that introducing some differentiation into the system can bring the carbon leakage provisions more in line with the actual carbon leakage risks of each industrial sector.</p> <p>A four categories CL-list depicting levels of exposure per (sub)sector is worth exploring. To counteract the increased complexity that goes with this differentiation, limiting the frequency of possible changes to the carbon leakage lists might be considered. See also our answer to question 16.</p>

<p>Question 13: Under the current system, exposure of sectors to the risk of carbon leakage is primarily measured by the share of 'carbon costs' in their gross value added (GVA) and by the intensity of trade with third countries. What carbon leakage criteria should be defined for the post-2020 period?</p>	<p>c) the share of 'carbon costs' in the GVA should be maintained, but 'carbon costs' should be taken into account to the extent that they can't be recuperated in product prices</p>	<p>We do not think that Trade intensity should be used as single/separate criterion as it is in the current system. We think bringing some differentiation into the system, i.e. four categories depicting levels of exposure of sectors is worth exploring. See our answer to question 12.</p>
<p>Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage</p>	<p>c) I don't know</p>	<p>The thresholds will depend on the criteria used. The carbon price used in the assessment should be in line with the projection made by the Commission for the long term. An update of the carbon price used could be part of the five year review.</p>

<p>Question 15: In the current system, there is a possibility to assess the exposure of sectors to the risk of carbon leakage also based on qualitative criteria (abatement potential, market characteristics and profit margins). Do you think that similar qualitative criteria should be maintained to complement the quantitative criteria?</p>	<p>b) no, all criteria should be based on simple metrics and linked to clearly defined thresholds</p>	<p>We favor objective quantitative and transparent criteria, possibly combined with categories depicting levels of exposedness per (sub)sector.</p>
<p>Question 16: Currently, the list of sectors exposed to the risk of carbon leakage is valid for five years. What should be the validity of the list for the post-2020?</p>	<p>a) five years</p>	<p>The criteria should be (predictability) set for the complete trading period. But the parameters should be open for evaluation after five years (or halfway the trading period) making it possible to qualify or disqualify as 100% carbon leakage half way in the new trading period. See also our answer to question 12.</p>



<p>Question 17: Currently benchmarks are set to the average greenhouse gas emission performance of the 10% best performing installations in the EU for a given product. What adaptations of benchmarks for 2021 onwards should be considered, if any?</p>	<p>d) I don't know</p>	<p>We strongly advocate an alternative approach in which benchmarks are tightened in a predictable way over the trading period. The benchmark should be sector specific. Depending on the total amount of free allocated allowances, the benchmark could be based on the performance of the 10% best performing installations in the EU for a given product, or another percentage.</p>
<p>Question 18: Should the benchmarks be revised to reflect the technological state of the art?</p>	<p>a) yes (please specify how often)</p>	<p>The benchmark should progressively follow the technological feasible path. The benchmarks should be adjusted (tightened) yearly but the path should be fixed for a longer term. The path could be revised every 5 years together with the revision of the CL list. In a study commissioned by the Netherlands (Ecofys (2014), "Dynamic allocation for sustainable growth"), a yearly sharpening of 1% was assumed.</p>

<p>Question 19: Currently, historical production data are used to determine the allocation due to each installation. Operators had the possibility to choose between 2005-2008 or 2009-2010 as basis years. Should the production data used to calculate allocations in Phase 4 (post 2020) be updated?</p>	<p>c) other (please specify)</p>	<p>We think the current allocation rules should be revised. An approach, in which free allocation would be based on recent production levels would be a better option than fixed historical data. An advantage of using actual production data would be that it removes the option for CL industry to create an excess of free allowances by lowering the production volume vis a vis the historical production data. The only remaining option to create an excess would then be to perform better than the benchmark. If production is higher than the historical volume, the installation would not experience the full carbon costs for the additional production other than the performance against the benchmark.</p>
<p>Question 20: Is there a case for any deviations from general harmonised allocation rules, and what would be the risks involved?</p>	<p>a) no, there should be no deviations</p>	<p>The complexity of the current allocation rules, where a static ex ante allocation is corrected afterwards in a variety of ways to account for changes in actual production levels, provides a huge incentive for differences in interpretations of the rules, and for deviations of the rules where they lead to "unintended consequences". This potentially distorts the level playing field and leads to high administrative costs for industry and government. Of course, the rules need to be unambiguous.</p>

<p>Question 21: Should there be a harmonised EU-wide compensation scheme for indirect costs, i.e. for increases in electricity costs resulting from the ETS?</p>	<p>c) yes, in the form of additional free allocation</p>	<p>We are in favor of a level playing field and would therefore prefer to have a EU wide compensation for the indirect (electricity) costs, based on the best performance in the sector. Compensation could be direct or through free allocated allowances.</p> <p>(answer c and d apply)</p>
<p>Question 22: In your view, at which stage of the innovation process is there a particular need to strengthen the EU's innovation support? Please rank the options from the most important to the least important.</p> <p>a: Most important  b: Important  c: Less important  d: Least important  e: I don't know</p>	<p>A) To implement a small-scale prototype  B) At the conception stage  C) To implement a large-scale pilot  D) At the commercialisation stage</p>	<p>From most important to least important.</p> <p>A, B, C, D</p> <p>This is only regarding support for CCS.</p>

<p>Question 23: Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation?</p>	<p>d) other</p>	<p>For individual member states to decide.</p>
<p>Question 24: Are there any other issues you would like to raise?</p>		<p>The decision to develop a post 2020 carbon leakage framework should accompany the decision on the overall level of ambition of the ETS in the context of the 2030 EU-wide reduction target. The new framework should ensure that CO2-efficient installations from the most exposed sectors receive allowances that cover their emissions. This principle is reflected throughout our answers, in particular via the following elements:</p> <ul style="list-style-type: none"> <li>• There is sufficient regulatory certainty for operators during the 2021-2030 period concerning the protection against carbon leakage</li> <li>• Free allocation is aligned as much as possible with the most recent activity of the concerned installations, taking into account reported activity data</li> <li>• Benchmarks are ambitious but feasible and adapted to technology development</li> <li>• The level of support is gradually correlated with the exposure to carbon leakage</li> </ul> <p>Auctioning revenues might also play a role in meeting the investment challenge, for example by a reprise and expansion of the NER-300 program.</p>