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CONTAINER GLASS PRODUCTION UNDER THE EU-ETS REFORM POST-2020: AN ASSET FOR EUROPE'S LOW-CARBON ECONOMY

To maintain glass production and its associated value chains in Europe, and allow it to invest to reduce greenhouse gas emissions, the container glass industry requires a predictable and stable policy framework for decarbonisation that supports innovation and long-term industrial investments.

The container glass industry provides direct jobs to more than 43,000 people and represents close to 70% of all glass production in Europe (20 million tonnes). The container glass industry is committed to resource-efficiency and providing quality packaging solutions. Glass containers are part of several value chains, underpinning key European sectors such as wines, spirits, pharmaceuticals, perfumes, cosmetics and high value foods. Products packed in glass are massively exported and contribute to a positive trade balance of about 21€ billion per year.

Glass, as a permanent and inert material, can be endlessly recycled without losing its intrinsic properties. For over 40 years, the industry has been an active partner in ensuring that empty glass containers are being collected and effectively recycled in a closed loop production system. Today, 73% of the glass containers put on the market are collected for recycling and for every tonne of recycled glass used in the furnace, 670kg of CO₂ is saved in the value chain (EU average).

The container glass industry is ready to commit to increase its recycling capacity and the use of recycled material in container glass production, in line with the ambitious targets set out in the Circular Economy Package. At the same time, the EU Emissions Trading Scheme should provide incentives for European industry to decrease its greenhouse gas emissions and guarantee free allocations at the level of benchmark for sectors exposed to carbon leakage. This is key to ensure that best performers in the EU do not incur additional CO₂ costs.

As a result, FEVE welcomes the Commission proposal to reform the EU ETS post 2020. Now that the discussion is well underway in the European Parliament and Member States, the container glass industry is keen to reflect on the many proposals that have circulated and provide a set of recommendations:

- Maintain the European Commission's Carbon Leakage methodology, but clarify compensation for indirect costs
- Reject the misleading "tiered approach" policy
- Strike a fair balance between the auctioning share and the share of free allocations
- Guarantee that best performers in sectors at risk of carbon leakage do not incur additional costs
- Make the system more dynamic to avoid over-allocation
- Define thresholds to access NER in the directive, and not in delegated acts

MAINTAIN THE EUROPEAN COMMISSION'S CARBON LEAKAGE METHODOLOGY, BUT CLARIFY COMPENSATION FOR INDIRECT COSTS

The new methodology provides a clear identification of those sectors in need of an effective level of protection. By taking as references the carbon intensity and trade intensity of the sectors, the European Commission has been successful in reforming its methodology, independently of a carbon price.

The assessment of industries at risk of carbon leakage must remain valid for the entire trading period. Since energy intensive industries, such as the glass industries, are characterised by long investment cycles, the system needs predictability and stability. Similarly, the directive should clearly indicate that both the direct and indirect emissions continue to be included in the amended carbon leakage metrics as it is the case in the current directive and as requested by the Council in its October 2014 conclusions¹.

All sectors on the carbon leakage list should be compensated for indirect costs. Indirect emission costs are due to the pass through of carbon costs in the electricity bill of consumers. Direct and indirect emission carbon costs are both a result of the EU ETS. They are equally harmful for competitiveness and investments, but they are currently treated differently. The same procedure as the proposed new design for the evaluation of sectors at risk of carbon leakage must be put in place for the definition of sectors eligible for compensation for indirect costs, avoiding a non-level playing field within the EU between competing sectors on the same market (e.g. packaging where glass competes with for example aluminium cans).

REJECT THE MISLEADING “TIERED APPROACH” POLICY

In FEVE's view, the concept of a “tiered approach” is not a viable alternative to the European Commission proposal²:

It penalises employment and competitiveness

The new carbon leakage metric used to define the tiers is inversely proportional to Gross Value Added (GVA), which includes employment costs. As a consequence, a sector employing fewer people, with the same CO₂ emissions as a sector with high employment, would be in a higher tier and therefore benefit from more protection. Furthermore, a tiered approach would decrease free allocation to some sectors until their competitive situation worsens and they are moved to a higher tier. Rather than being preventive, and supporting innovation and competitiveness upfront, the tiered approach would be curative and the necessary allocations to maintain production in Europe would be coming too late, once the harm is done. What's more, not supporting certain sectors such as the container glass industry would have a negative impact on several value chains with high added value for the European Union (e.g. wines, perfumes etc...).

¹ European Council (23 and 24 October 2014) Conclusions on 2030 Climate and Energy Policy Framework, SN 79/14.

² At the core of the “tiered approach” concept is the belief that sectors exposed at risk of carbon leakage do not all need the same level of protection, and that reducing the protection from one sector will benefit another considered more exposed.

It is based on theoretical assumptions and distorts the internal market

The tiered approach is based on the flawed assumption that sectors with a lower carbon leakage metric are able to pass on their costs to customers. Moreover, it neglects the fact that different sectors compete on the same market. In the case of packaging, the different materials would be in different tiers, creating massive distortion of competition. It would result in subsidising some energy-intensive industries over others. Furthermore, the non-paper co-signed by several Member States including Greece, Lithuania etc... also highlights the potential distortion between centrally located countries and countries at the borders of the EU, which generally face more imports from non-EU countries.

It slashes industrial investments for innovation and decarbonisation

A tiered approach like the one proposed in the French/UK non-paper and in the ITRE Draft Opinion would cut the free allocation for the container glass industry by a factor 2 (tier with respectively only 50% or 60% free allocation) and will entail huge additional costs. While the total cost for the container glass industry of EU ETS over the 2021-2030 period will already reach approximately 1€ billion, the tiered approach would mean it could attain about 1.3€ billion or more depending on the scenarios. This represents over two years of investment from the container glass industry in Europe³ and would further deprive the sector from the necessary resources to modernise and upgrade its industrial infrastructure, exacerbating the risks of investment leakage to countries with less stringent climate policies. This is already happening as new investments are seen in countries just outside of EU borders.⁴

Moreover, the container glass industry has reduced its CO₂ emissions in the past thanks to, among others, a pro-active recycling policy.⁵ Today, on average, half of the raw materials used in a container glass furnace consists of post-consumer glass packaging. The tiered approach would penalise these investments in recycling rather than encourage them: the more the container glass industry invests in recycling, the lower it would rank in the tiers. This does not send a positive signal to industry to accompany its investments in recycling and decarbonisation.

STRIKE A FAIR BALANCE BETWEEN THE AUCTIONING SHARE AND THE SHARE OF FREE ALLOCATIONS

The Commission has inadequately calculated the auctioning share vs the free allocation share. As explained in the Belgian non-paper, unallocated allowances from Phase III, originally foreseen for industry and not distributed because of the low production resulting from the crisis, have been allocated to the auctioning share.

To address this inconsistency, we support the proposal that the **auctioning share should be reduced to 52.5%** and the **free allocation share should amount to 47.5%**, consisting of:

- **43% of the cap** from the allowances allocated for free over phase 3;
- **1% of the cap** from the “unallocated” allowances from the application of a carbon leakage factor for sectors not on the carbon leakage list, which the legislator has not directed to the MSR;

³ See Annex 2

⁴ See Annex 3

⁵ See Annex 1

- **1.5% of the cap** from "unallocated" allowances remaining unused in the New Entrants Reserve;
2% of the cap from "unallocated" allowances that were not handed out to installations because they stopped production (closures) or reduced their production (partial cessations).

In addition, the innovation support to industrial projects should reinforce industrial investments and should therefore come from the auctioning revenues. The innovation fund should support energy efficiency or low carbon technology, as foreseen in the ETS Directive, and be used by Member States to stimulate economic growth and relevant R&D investments. Innovation funding under the EU ETS should be allocated to energy intensive sectors listed in Annex 1 of the Directive and should be available in an appropriate form that promotes decarbonisation projects in these industries.

GUARANTEE BEST PERFORMERS IN SECTORS AT RISK OF CARBON LEAKAGE DO NOT INCUR ADDITIONAL COSTS

Free allocation to industries exposed to risks of carbon leakage should be fully connected with Europe's industry needs and should not be reduced by the application of additional correction factors, such as the cross-sectoral correction factor (CSCF). Installations in sectors covered by a product benchmark and at risk of carbon leakage must receive free allocations at the level of the benchmark to ensure an adequate protection for all European installations within an industrial sector. This is the only way to support innovation and investment capacities.

Mechanisms should be foreseen to avoid that best performers incur additional costs. In case a CSCF becomes necessary (not enough free allocation to cover EU production), mechanisms should be foreseen to cancel the effect of this CSCF, ensuring no additional costs for best players. This can be done by lowering the auctioning share to increase the free allocation share, while maintaining the overall environmental integrity of the ETS untouched. Such a transfer of allowances makes perfect sense as power generators can reduce their emissions thanks to renewables which are generally financed by public money. Another possibility is to create a buffer of allowances (e.g. from the free allocation share which is in the Market Stability Market) to be used to cancel the impact of a CSCF.

Product benchmarks must be based on the average of the 10% most efficient installations in the EU and should not be adjusted by way of "flat rate" reductions. The periodic revision of the benchmark based on real and verified industrial data will already ensure that free allowances are gradually reduced at levels that reflect the technology developments and deployment in each sector, and thus the ability of each industrial sector to improve its performance in terms of GHG emissions. Adding a new correction factor on the benchmarks (i.e. flat rate reductions or cross-sectoral correction factor) will not further incentivise technology deployment but will generate even more disconnection between free allocation and industrial realities. In practice, the container glass industry, which has already invested in low-carbon and recycling technologies, will be penalised by an artificial flat rate reduction of the benchmark.

MAKE THE SYSTEM MORE DYNAMIC TO AVOID OVER-ALLOCATION

FEVE considers the system should become even more dynamic and proposes that allocation be based on the production of the year Y-2 to further reduce the risk of over-allocation. The Commission proposal goes in the right direction as it proposes that allocation decisions will be made for a period of 5 years instead of 8, thus bringing the system closer to the recommendation formulated by the Council in its October 2014 conclusions, which stated that future allocations should “*ensure better alignment with changing production levels in different sectors*”. The principle of a rolling year for the production baseline would help better align free allowances to recent production levels and thus avoid an imbalance between the allowances market and the level of greenhouse gases emitted by manufacturing industries.

DEFINE THRESHOLDS TO ACCESS NER IN THE DIRECTIVE, AND NOT IN DELEGATED ACTS

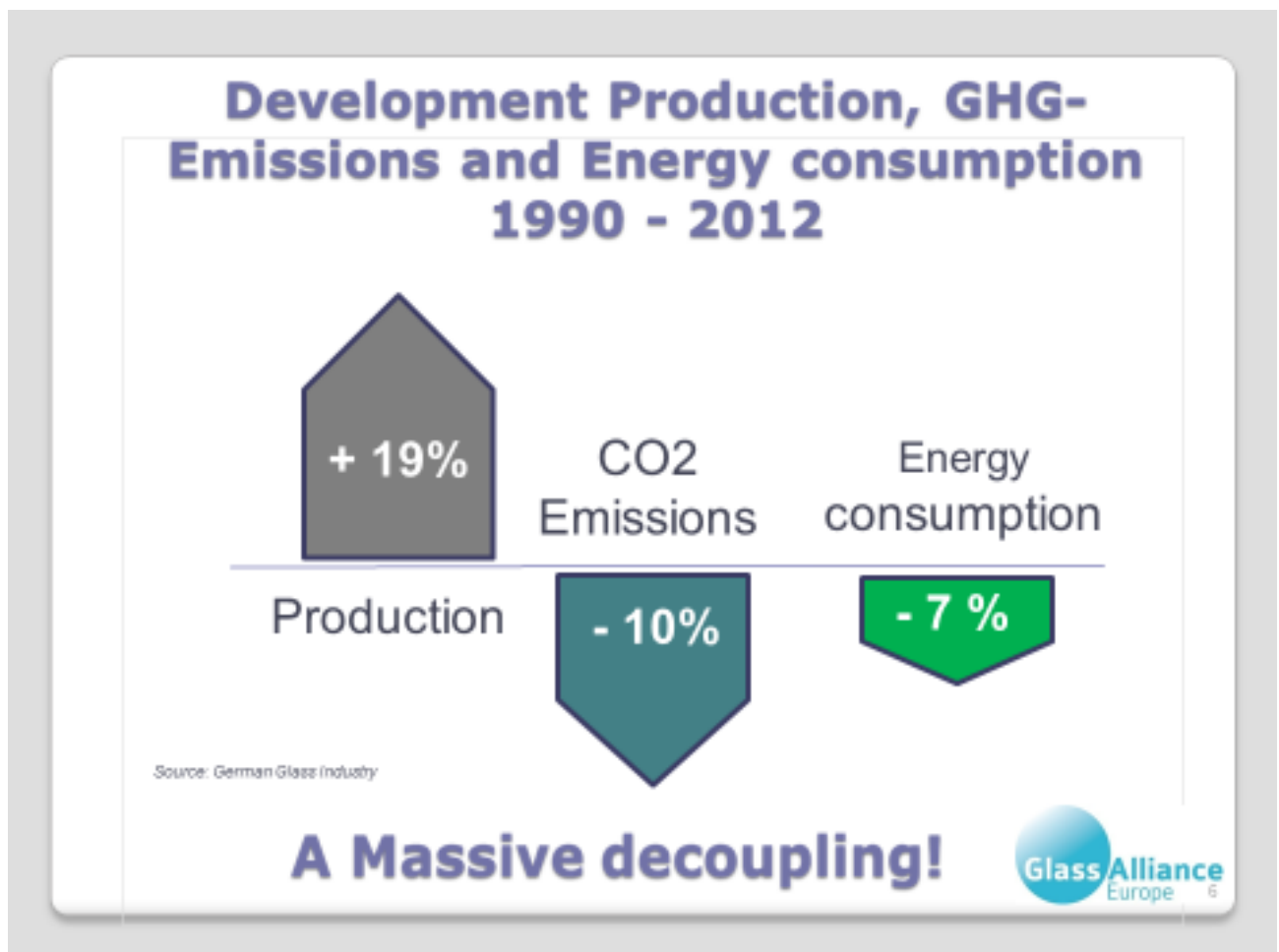
Finally, we welcome the fact that a reserve is constituted with 250 million unallocated allowances from the Market Stability Reserve for new entrants and for production increase, and not only for “capacity increase” as in the current directive. This proposal has the potential to allow industry to grow during an upturn in the economy while respecting the total EU cap on greenhouse gases. However, to be effective, the thresholds in terms of production increase to be granted access to the reserve need to be clearly defined by the legislator. In light of the importance of this mechanism and its potential benefit for the European industry, FEVE calls on the European Parliament and Council to include this item in their discussions on the legislative framework proposal. The threshold should be expressed in such a way to allow an absolute and a relative increase (e.g. 10,000 tonnes or 5%).

Annex 1

Container Glass Industry – Facts and Figures on CO2 reduction

Container glass has made big progress to reduce CO2 emissions. The glass industry has managed to decouple CO2 emissions from economic growth.

Graphic: Decoupling production from emissions: source German glass industry

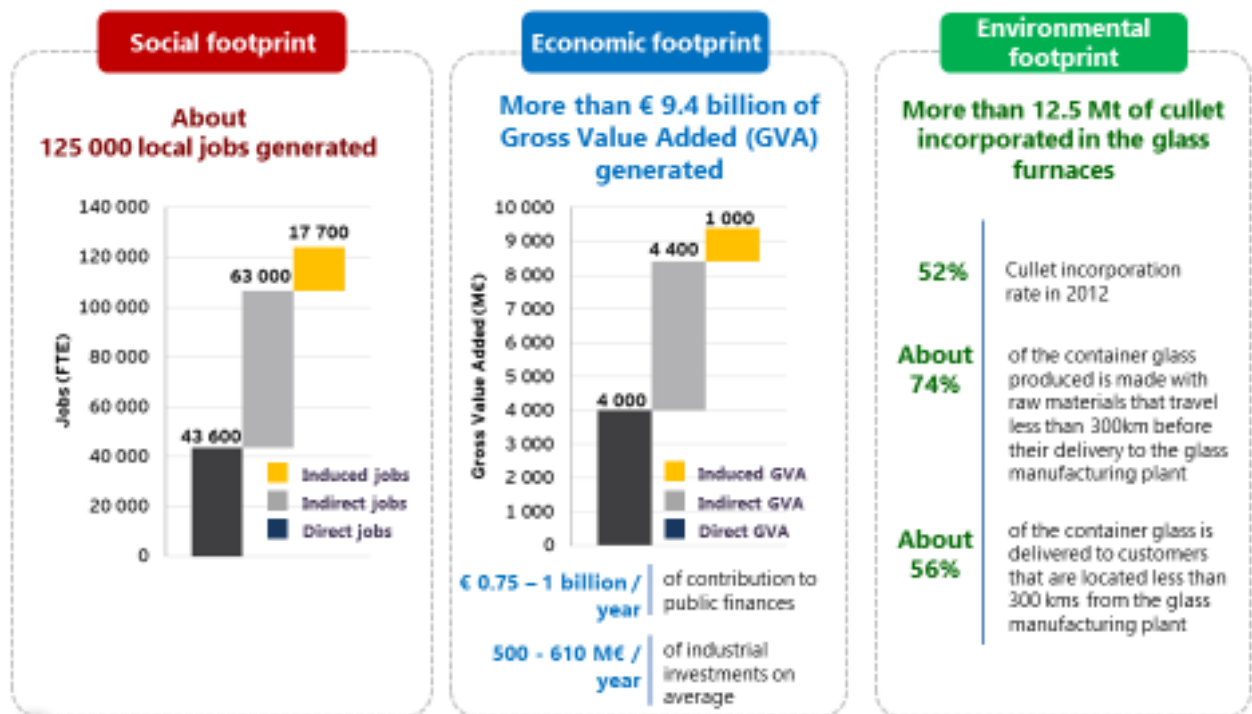


Annex 2

Container Glass Industry – Facts and Figures on the social, economic and environmental contribution of container glass

According to Ernst and Young, the container glass industry in Europe operates 162 plants, maintains 125.000 jobs has a turnover of almost €9.5 billion and invests on average over half a billion euros every year on energy efficiency, decarbonisation and upgrading our plants.

The triple bottom line – EU27



Annex 3

Container Glass Industry – Facts and Figures on plant closures and new investments at Europe’s borders

In addition Container glass is competing against factories that have grown up along the borders of the EU who are not subject to extra CO2 costs. There are 14 new furnaces accounted for while 9 plants and 6 furnaces have closed in the EU over the last 7 years.

Glass packaging production Investments at the borders of Europe

- ▶ 14 new furnaces accounted for at the EU’s borders
- ▶ 9 plants and 6 furnaces closed in the EU within the past 7 years

- Closures
- Openings
- No change



FEVE The European Container Glass Federation May 2015

