**The EU ETS Reform**

## A revision to accompany the glass industry transition

**Position paper**

May 2022

Glass Alliance Europe fully supports the decarbonisation objectives set in the Climate Law to address climate change and its harmful consequences on our planet, and wishes to share its view on the ongoing reform of the EU ETS.

The glass industry is committed to undertake the journey towards full decarbonisation. Several technologies exist or are under development to do so: electrification of the furnace, hydrogen and/or biomass combustion constitute promising technologies to further reduce emissions linked to combustion, representing about 80% of the greenhouse gases emissions in the glass industry. The remaining 20%, related to the decomposition of raw materials, are more difficult to abate, but increased glass recycling, alternative raw materials or even CCS/U could bring solutions.

All these new technologies come yet with additional costs and the glass industry will have to invest massively to implement them. This represents a tremendous challenge not to be underestimated under the current context of sky-rocketing energy and carbon prices.

|  |
| --- |
| **It is therefore particularly important to make use of the current EU ETS revision to adapt the legislative framework to make it conducive to the industry transformation while preserving its capacity to innovate and invest. The glass contribution to the reform focuses on three fundamental aspects:**   1. **To preserve the investment capacity in the industry and provide for a predictable framework** 2. **To make use of the EU ETS reform to further support innovation in hard to abate sectors** 3. **To preserve the stability and integrity of the EU ETS** |

1. **Preserve the investment capacity and provide for predictability**

Predictability and stability must be at the core of the ETS system if it is to deliver the expected levels of GHG emission reductions while securing investments from sectors that are characterised by their long investment cycles. Carbon leakage protection measures providing full protection at the level of the benchmark are essential until a global agreement is in place requiring competitors outside the EU to meet the same conditions and obligations.

Therefore, the glass industry recommends to:

* **Maintain the ETS cap reduction without further linear reduction increase and without rebasing** not to further reduce the European industry profitability. In our views, a one-off reduction in the EU ETS market will generate a swift price increase that would be both unnecessary to achieve the trajectory and difficult to cope with in parallel with the important increase in energy costs.
* **Introduce measures to avoid the application of the cross-sectoral-correction factor (CSCF).** The 3% buffer between the auctioning and free allocations should be at minimum maintained and ideally increase to better reflect the abatement potential in the power sector. Similarly, the allowances in the Market Stability Reserve could be used to avoid the application of the CSCF.
* **Maintain the free allocations to an installation with no additional condition to the benchmark level.** The free allocations protect the European installations against the risk of carbon leakage and free allocations set at the benchmark level already provide incentives to reduce CO2 emissions by upgrading the installations with the best technologies in a cost-effective way. Additional conditions, such as implementing recommendations from energy audits or decarbonisation plans, are unnecessary and could endanger the system.
* **Update the sectors’ benchmarks according to the existing rules** and without further increased reductions. Several factors limit the options to upgrade the glass industrial tools on the short term. These limits include the long-term investment cycles and continuous manufacturing process (which cannot be interrupted for over 10 years), and the unavailability of certain energy sources in some European regions. It results that increasing the benchmarks’ reduction would only generate costs to some glass installations and reduce their financial capacity for upgrades at the time of investing.
* **Exclude from the calculation of free allocations for the period 2026-2030 the COVID year 2020** to avoid penalising EU companies which had an unrepresentatively low production because of the pandemic.
* **Include a solution for exports for sectors covered by the Carbon Border Adjustment** Mechanism **(CBAM)** and maintain a CBAM sector free allocations as long as the efficiency of the CBAM has not been demonstrated for that specific sector.

1. **Promote innovation**

The glass industry has considerably decreased its emissions per output in the last 50 years (i.e. a reduction of 69% of CO2 per tonne of melted glass). However, additional reductions since 1990 are realised at a slower pace as marginal gains become more difficult. The glass sector is a hard to abate sector and innovation will be key for its transition.

The industry has identified several theoretical potentials for emissions’ savings as presented in a position paper recently updated[[1]](#footnote-2). Turning these potentials into effective industrial options, some of them cross-sectoral, will require working on their funding, adapting the legislative framework, and preserving the investment capacity of the economic actors.

* The rules for **compensating against the indirect costs** shall be revised to allow the compensation of **the glass industries**. The switch to carbon neutral electricity source is one of the most important identified by the industry for its future manufacturing and including the sector in the list of sectors to be compensated would facilitate that route.
* Sufficient **allowances should be allocated to the ETS innovation fund to** support the industrial projects without reducing the industry’s financial capacity. Therefore, allowances for the ETS innovation fund should be **sourced in the auctioning** rather than in the free allocation share, **as well as in the Market Stability Reserve**.
* **Carbon capture and storage (CCU/S)** is one option currently considered removing the emissions from the decomposition of carbonates in the batch (i.e. process emissions) which are not reduced by a switch to carbon neutral energy. Under the current directive, the rules applying to the CCU/S are unclear and the development and uptake of these technologies would benefit from a revised framework.

1. **Preserve the stability and integrity of the EU ETS**

The EU ETS is a market-based mechanism addressing the reduction of CO2 emissions in the industry, which works independently of other non-market EU regulations. Creating bridges between this market-based mechanism and the non-market regulations (such as the IED) could prove being counterproductive. These legislations are different and abide by different dynamics and rules. Therefore, the glass industry is of the opinion that to preserve the stability and integrity of the EU ETS, the emission trading scheme should remain separated from other existing or new legislative instruments:

* To keep the EU ETS separated from the **Industrial Emission Directive (IED).** Both legislations are intrinsically incompatible. While the EU ETS is a market-based instrument incentivising investments in a cost-efficient manner, the IED is a “command and control” instrument based on Emission Limit Values. Therefore, introducing GHG limit values in the IED would simply go against the EU ETS raison d’être.
* To keep entirely separated the **ETS for buildings and transport** from the EU ETS. The energy intensive industry, transport and buildings sectors are completely different economic sectors with their own CO2 abatement potentials and costs. Therefore, should the buildings and transport have their own market-based mechanism, it should always work independently from the existing EU ETS.

**About Glass Alliance Europe - EU Transparency Register N° 74505036439-88**

Europe is the world leader in glass making. The glass industry comprises more than 500 plants providing 500,000 direct and indirect jobs. Glass is a unique and inert material made from abundant natural resources and fully recyclable. It is a key contributor to the EU objectives of a low-carbon, energy efficient and circular economy, and a key enabling material for essential supply chains, such as the pharmaceutical and health sector, the food and drink industry, buildings and construction, automotive, luxury goods and perfumes, electronics, etc.

For more information <http://www.glassallianceeurope.eu/>

**~~~**

1. Glass Alliance Europe, The European glass sector contribution to a climate neutral economy, May 2021. [↑](#footnote-ref-2)