

Position of the chemical industry on ETS

Key Messages



- **We support the objectives of ETS** to achieve emission reductions; we already achieved a lot in the past
- **Chemistry shows a positive CO₂ balance**, e.g. a life cycle assessment demonstrated 3 times higher savings in CO₂ emissions through the use of chemical products than emitted at production
- **We oppose a taxation on CO₂** that might well be the main result of an auctioning system (plus risk of speculation)
- **The chemical industry is exposed to international competition**; it cannot pass on EU ETS costs to customers

Position of the chemical industry on ETS

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- **The ETS must encourage efficient and economic transition** towards low-carbon and high performance manufacturing in Europe whilst avoiding distortion of competition
- **Chemical industry should be granted CO2 certificates based on performance benchmarks**, e.g. receiving CO2 allocations free of charge
- **Free (administrative) allocation based on benchmarks is not free riding;** it encourages technology leaders and penalises low performers

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- **ETS scope must be focused on major emitting processes** accounting for the bulk of the chemical industry's CO₂ emissions (8 building blocks)
- **SMEs and small emitters below 50.000 T CO₂/year must be exempted**; 75% of companies represent 5 % of emissions (report of the European Environment Agency)
- **CO₂ costs for power intensive processes and energy generation must be compensated:**
 - ❖ Through allocation of free allowances to processes such as chlor-alkali manufacturing
 - ❖ Through allocation of free allowances to energy generation in chemical installations such as Combined Heat and Power (CHP)

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- **Clarification is needed now:** the chemical industry cannot wait until 2011 to know how ETS will impact its operations; if ETS is not clear investments in Europe will be frozen
 - **Full access to Emission Reduction Projects is needed;** projects in third countries allow CO2 reductions globally at low cost while facilitating technology dissemination
 - **Inclusion of importers: chemical industry welcomes the support meant for energy intensive industries;** but it is concerned about possible retaliatory measures by EU's trade partners and about the ineffectiveness of such trade policies; feasibility and effectiveness of border tax adjustments should be assessed first

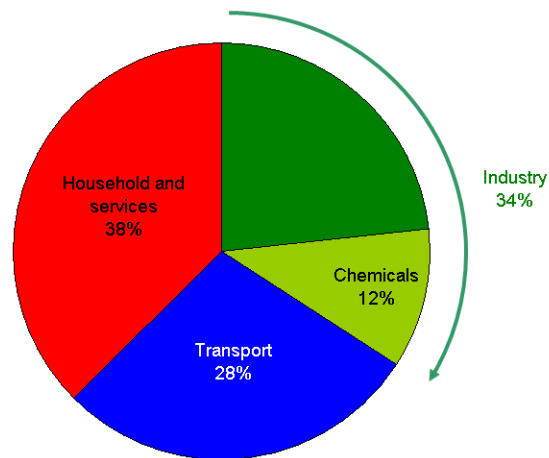


Backup Slides

Energy is a crucial factor for the European chemical industry



Energy consumption in the different economic sectors
(fuel and feedstock)



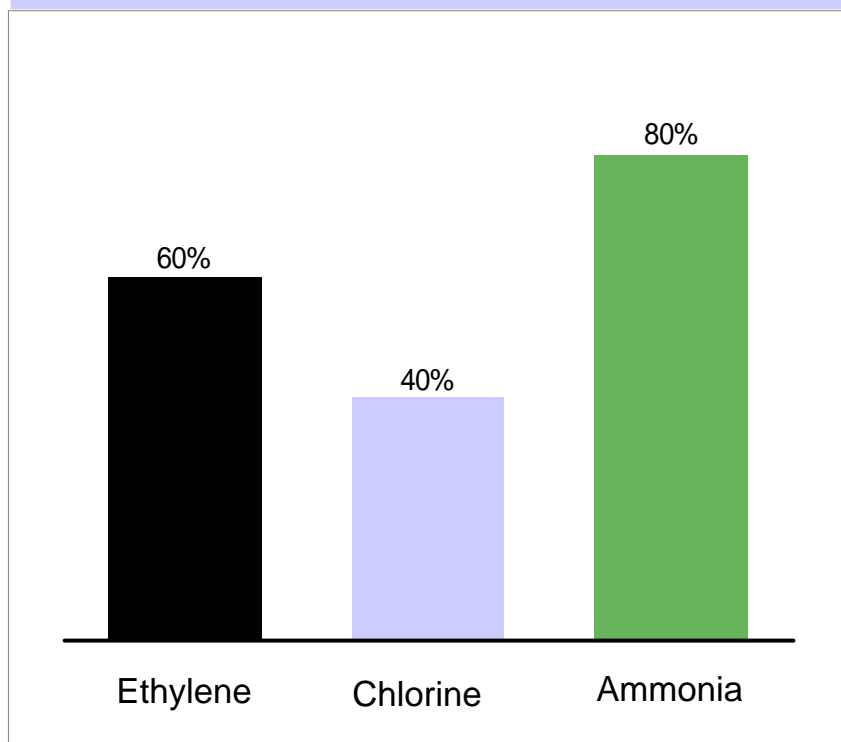
Source: Eurostat

- The cost of and access to energy is vital to the chemical industry – both as raw material and as fuel
- The chemical industry accounts for 12% of total EU energy consumption
- The chemical industry is based on highly energy intensive building blocks

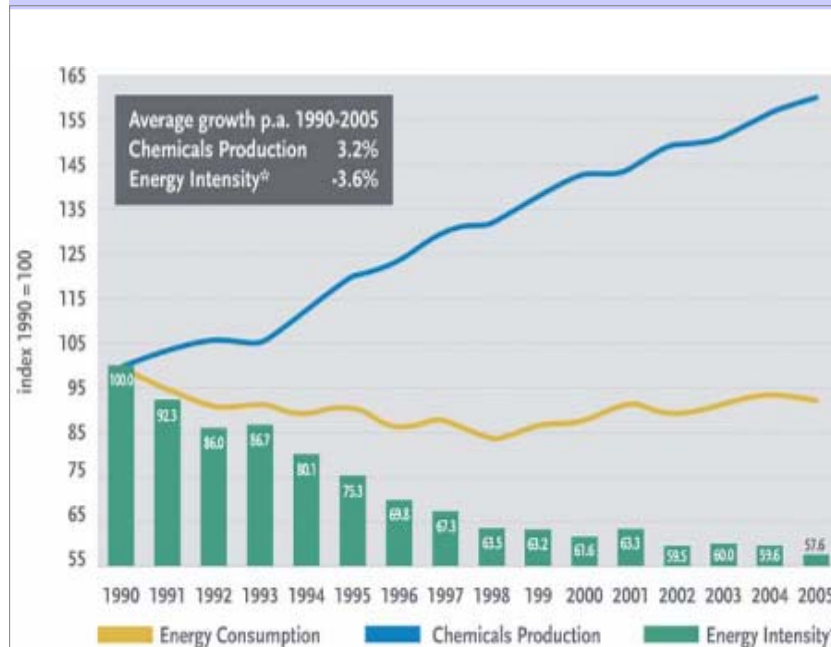


Despite efforts to improve energy efficiency, the chemical industry remains an energy-intensive industry

Energy costs as part of total production costs⁽¹⁾



Energy intensity of EU chemical industry⁽²⁾



* Energy intensity is measured by energy input per unit of chemicals production
** Including pharmaceuticals

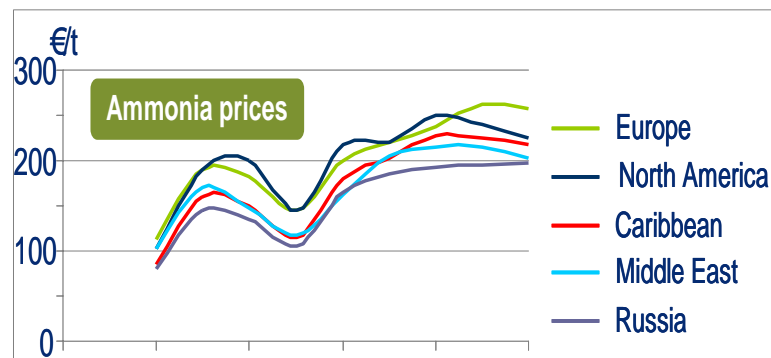
As such, special attention should be paid to the impact of the new ETS not only on emissions costs but also on energy costs



Exposure to international competition

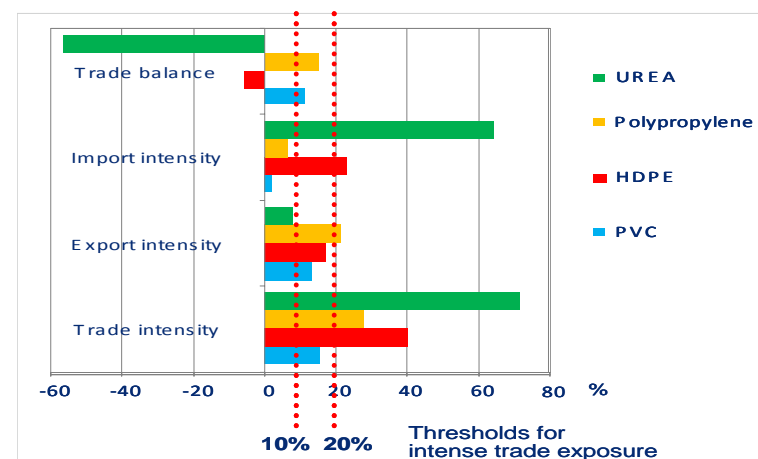
Base products are indirectly subject to international competition

- Base products exhibit global market prices
- There is a global market for all chemicals in which prices cannot be adapted asymmetrically in one region



Downstream products are exposed to international trade

- This exposure is revealed through intense trading (>20%) of downstream products which impacts markets for base products

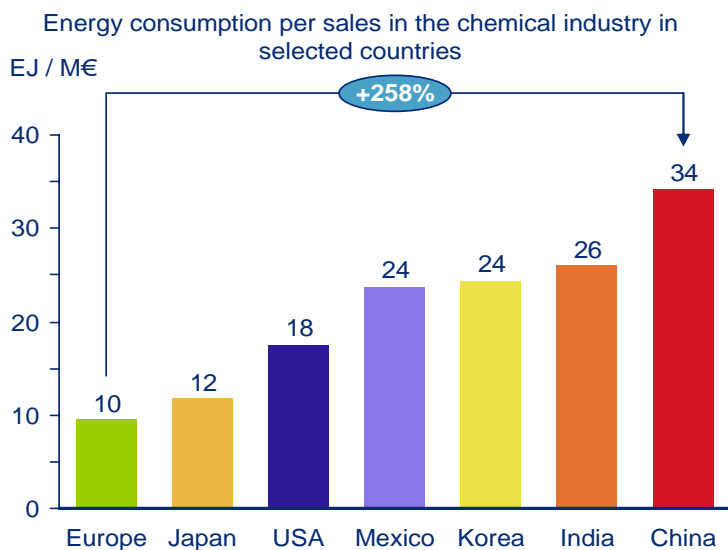


The EU chemical industry is exposed to a competitive global market in which prices cannot be changed asymmetrically



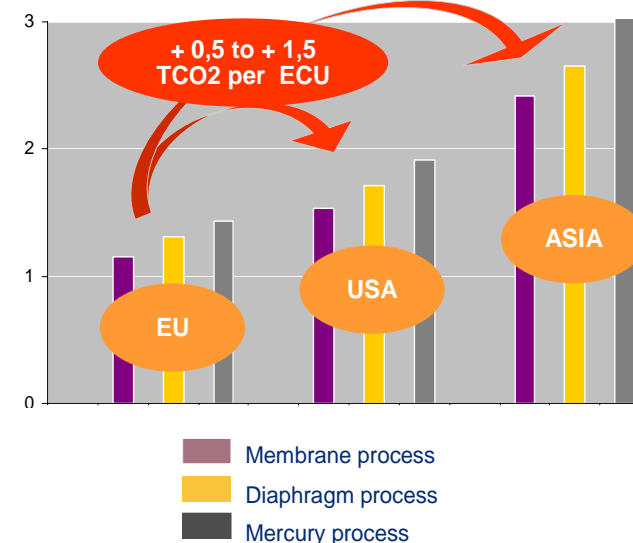
Environmental impact: Carbon leakage leads to increased emissions worldwide

The energy intensity of chemicals production is lowest in Europe



The CO2 intensity of electricity is better in Europe

Indirect CO2 emissions from chlorine production (t/ECU)



If chemicals are produced outside of Europe, carbon leakage will occur as a result of less efficient processes on the one hand and higher indirect CO2 emissions from electricity production on the other hand, leading to an increase in worldwide emissions

Expected costs of ETS for the German chemical industry

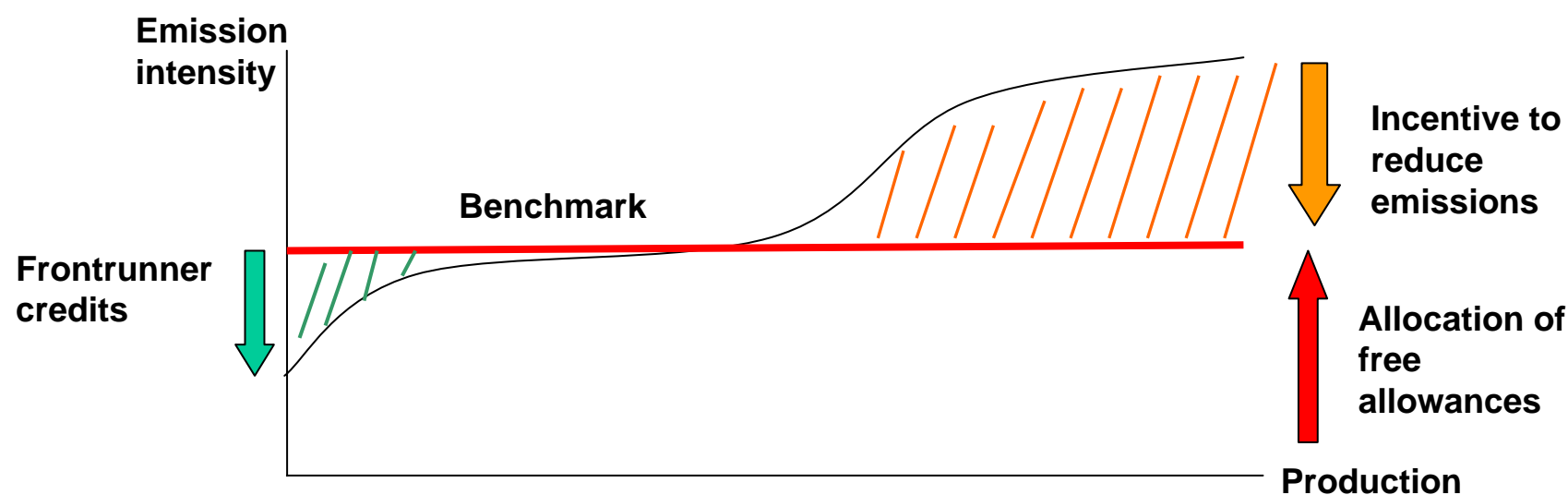


Expected costs of ETS for the German chemical industry Assumption : certificate price 30 €/t CO₂		
	From 2013	2020
Direct costs of the chemical production	Minimum 90 Mio. €/a	450 Mio. €/a
Direct costs of energy production of the chemical industry	Minimum 360 Mio. €/a	600 Mio. €/a
Indirect costs of the chemical industry for external electricity	720 Mio. €/a	720 Mio. €/a
Total	Over 1 billion €/a	Ca. 1,8 billion €/a



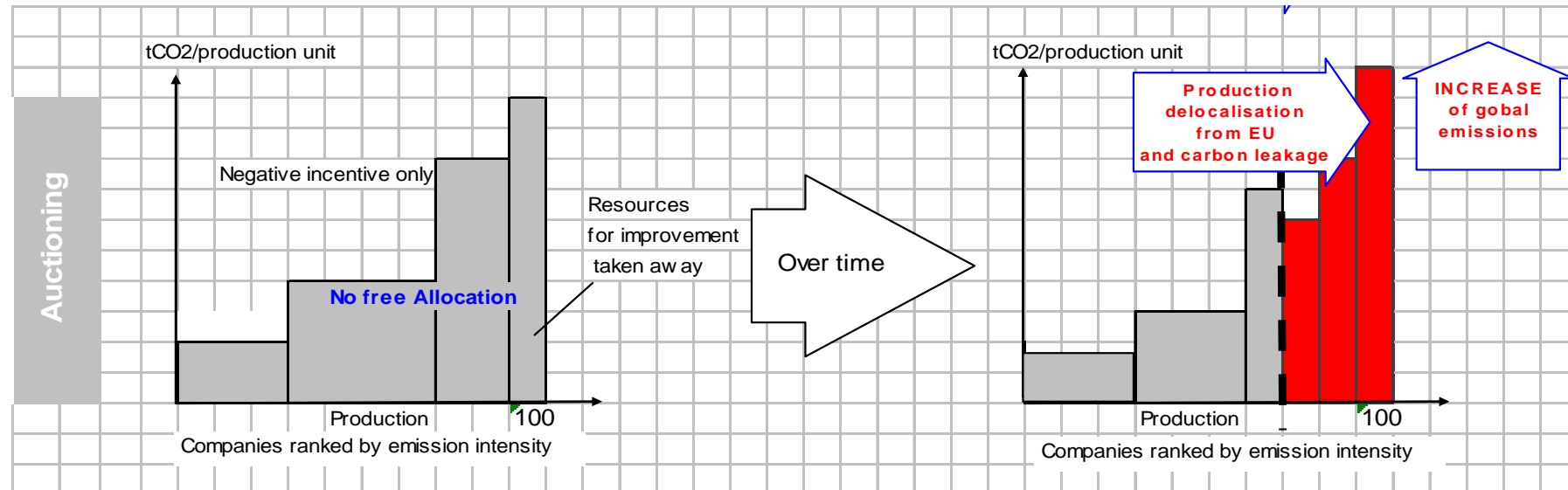
EU Energy and climate policy needs to enable the transition of our industries towards a low carbon economy

- EU industry endorses the objectives of the EU climate policy, but wants a workable and efficient implementation.
- Free allocation based on performance ensures the EU target is met whilst avoiding loss of competitiveness and carbon leakage.
- Funds remain within companies and will be available for investment and R&D in cleaner technologies and products.
- An ETS system that is workable and allows us to operate on an equal footing does not need border tax adjustments.
- A global agreement must establish equal rules and equal CO₂ costs in order to avoid competition distortion.





Paper on Benchmarking (1)



Auctioning creates huge, unknown **costs** – even for the best performers, but **only in the EU**. These costs and the uncertainty **impact on EU's international competitiveness**. Auctioning **removes resources from investment in R&D** and energy efficiency improvements. Relocation of production outside Europe will lead to **carbon leakage**, since manufacturing outside Europe often means higher ghg emissions due to lower energy efficiency and coal-based energy mix. **Carbon leakage also means loss of opportunity, jobs, knowledge and wealth.**



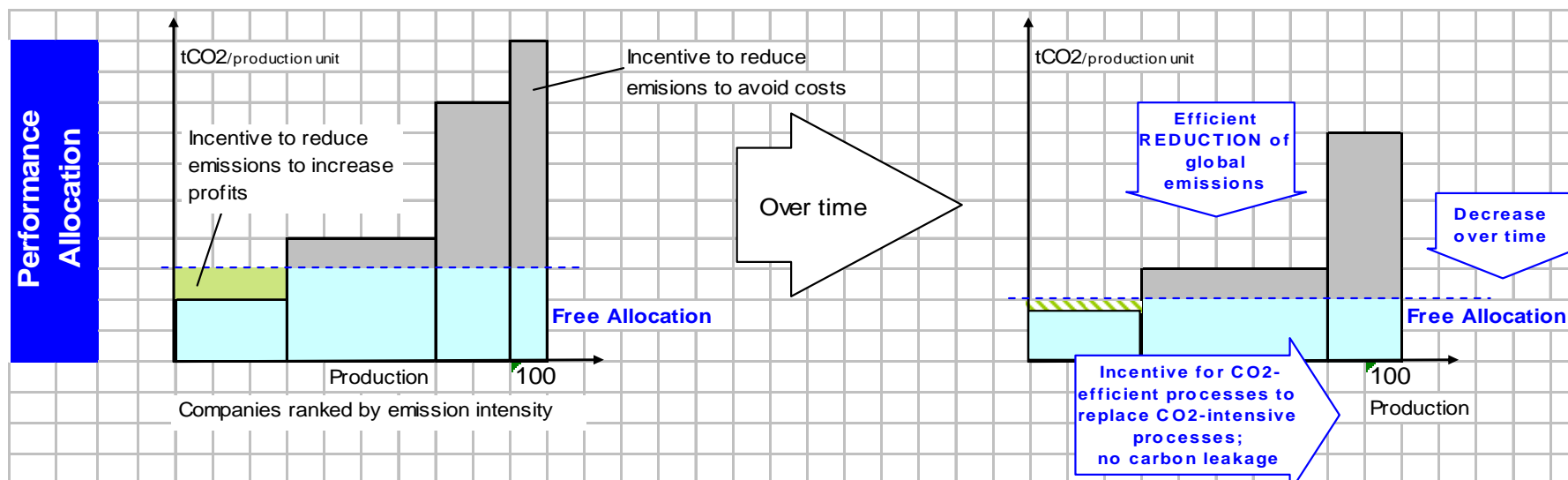
Paper on Benchmarking (2)

How Benchmarking works:

- ✓ Homogenous, large emitters are benchmarked: their performance is compared and rated by an independent auditor
- ✓ **From that rating or benchmarking, a performance reference of CO₂ emissions** per unit of production is derived
- ✓ If a company wants to compete without additional costs, without then paying CO₂ rights, it has to manufacture its products according processes meeting this **performance reference** (= creates incentive to perform)
- ✓ The performance reference is set by the regulator in close cooperation with the industry (safeguards technological feasibility and cost-efficiency)



Paper on Benchmarking (3)



- ✓ ETS is not meant to provide extra funds from auctioning (extra taxation), but to encourage emission reductions cost-efficiently.
- ✓ With benchmarking the same environmental goals will be achieved at lower costs to the European Industry.
- ✓ Benchmarking based on performance preserves EU competitiveness and provides climate change solutions.