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**PRESS RELEASE**

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# Discharging a political storm: Supporting EU competitiveness and innovation in the ETS

**On Wednesday, the EU Commission will release new legislation to reform Europe's key climate policy, the EU Emissions Trading Scheme (EU ETS). This will kick off a year-long debate about how best to marry low carbon ambitions with economic competitiveness.**

**In today's new briefing[i], Sandbag explains how the current rules are not sufficiently encouraging major industrial emitters to invest in decarbonisation, and shares its recommendations for reform. Sandbag also launches a new interactive data tool[ii] illustrating how many spare free emissions rights industry has built up over time, and forecasting future supply balances[iii].**

The total picture remains one of an enormous oversupply of permits. As a whole group, European industry receives enough free permits to cover current activity levels up to 2023, and certain sectors, such as cement sector, well beyond 2030[iv]. There is currently almost no carbon price stimulus for innovation. However, due to different trends in industrial sectors and how the rules apply, oversupply varies widely between different industry sectors and countries. Almost nobody will receive full exemption from paying a carbon price in the future. There is also currently insufficient support for industrial innovation using any technologies other than renewables.

More industrial installations are closing or reducing production in Europe than are opening[v]. This is not due to the carbon price, but in the future tightening caps could exacerbate this trend, unless policies are introduced to properly reward investment in modernisation[vi].

Sandbag's key recommendations include:

- More targeted distribution of free permits in the future, so those genuinely in need of protection against carbon leakage receive it;
- Less punitive application of the rules which reduce the total volume of allowances available to industry (i.e. the so-called 'cross-sector correction factor');
- A bigger focus on providing support for investments in deep decarbonisation options in industry (e.g. CCS and electrification);
- A rejection of the idea that industries with big electricity bills should receive new kinds of compensation.

**Sandbag's Policy Director, Damien Morris, comments:**

**"New technologies and approaches that can reduce greenhouse gas emissions can also boost the EU's productivity and secure inward investment. But, to achieve this, the policy framework needs to be carefully balanced. We do not believe the rules for industrial sectors are balanced at the moment – they are too lax in some respects and too harsh in others. The political storm that is brewing as caps on emissions tighten needs to be discharged. Policymakers need to look carefully at the evidence, step up to the challenge and introduce the necessary changes.**

*****ENDS*****

Sandbag is a UK-based not-for-profit think tank conducting research and campaigning for environmentally effective climate policies. Our research focus includes the phase-out of old coal in Europe; deep decarbonisation of industry through technologies including Carbon Capture Utilisation & Storage; reform of the EU Emissions Trading Scheme; and increasing ambition in the EU 2020 and 2030 climate & energy packages.

For more details please contact:

**Damien Morris on damien@sandbag.org.uk, or (+44) 0207 148 6377 or Ola Mirowicz on (+44) 0790 1230 984.**

**Notes to Editors:**

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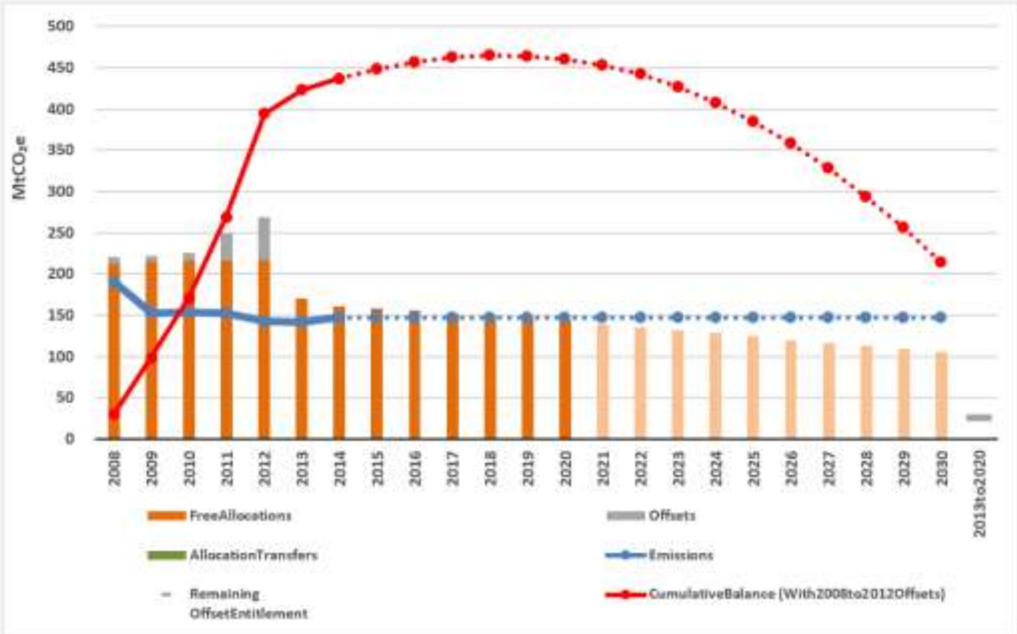
i Sandbag's new briefing is available here: https://sandbag.org.uk/site_media/uploads/Discharging_a_political_storm.pdf

ii The data tool can be found here: https://sandbag.org.uk/site_media/uploads/20150710_BalanceProjections.xlsm.

iii This tool illustrates how surpluses have built up in industrial sectors and what is likely to happen to these surpluses over time if current rules for industrial allocation remain unchanged. Users can select sectors, countries and different growth parameters for future emissions. Many sectors continue to enjoy large surpluses, but this is far from uniform.

iv **Figure 1** illustrates the extent to which the cement sector has been oversupplied by carbon allowances to date. Cumulative surpluses currently stand at about 450[1] million allowances. If current carbon leakage rules are carried forward and emissions continued at 2014 levels, the sector would likely remain in surplus until beyond 2030.

***Figure** Error! Main Document Only.: Projected carbon allowance surpluses for the ETS cement sector in all countries*




v **Figures 2** and **3** below illustrate how installations have been joining and leaving the scheme between 2008 and 2014. In total, just under 2,000 installations have registered as closed between 2008 and 2014. The number of emitting installations significantly declined during Phase 2. The uptick in emitting installations in 2013 is principally an artefact of scope change (more sectors and gases included).

***Figure 2:*** *Number of industrial installations first emitting in each year since 2008, and registered as closed in each year; all sectors and all countries except Croatia and Iceland.*

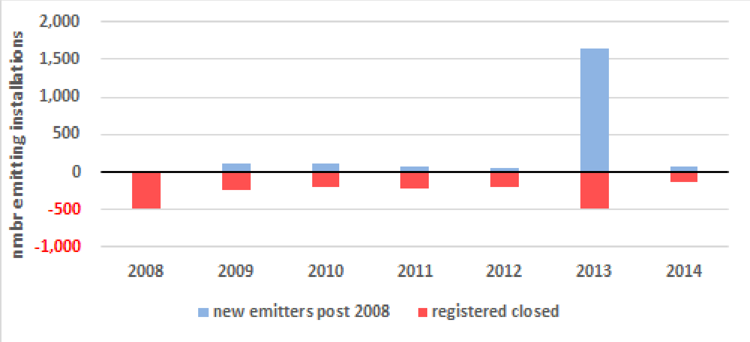
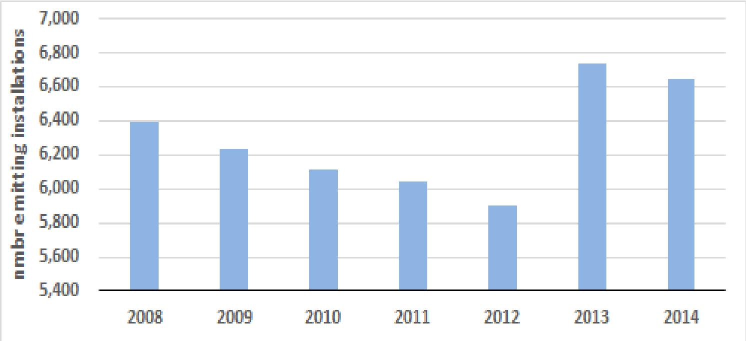



***Figure 3:*** *Number of industrial installations emitting in each year; all sectors and all countries except Croatia and Iceland.*




[vi] An additional briefing on using Contracts for Difference for industrial decarbonisation is also available here: https://sandbag.org.uk/site_media/pdfs/reports/Financing_deep_decarbonisation_in_industry.pdf.