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Interview of William Garcia, Executive Director HSSE, Energy and Climate Change, on the Commission ETS reform proposals

Q: What does ETS reform in itself mean to the European chemical industry??

ETS is a very strong element of our competitiveness – not so much because of the instrument itself but because of the signal it gives to investors, to the investing community, and to the chemical industry in particular, to come back to Europe very soon – or not.

Q : The complaint frequently heard on the ETS is that the price signal is too low to drive innovation. What is your take on that?

We hear lots of complaints around ETS, like ETS is broken, or how much of it is actually broken. Our take is more nuanced. Of course the ETS does have flaws that require fixes. The flaws range from the way free allowances are currently allocated to businesses – based on historical pre-defined/pre-existing production levels – to the way benchmarks would be revisited on a regular basis.

The current carbon price is actually low – seven euros or close to that level. This just follows market dynamics, which are marked by low demand – and we know why. We have not yet fully recovered from the toughest crisis for years. In particular, the chemical industry is still few percentage points lower in production levels compared to pre-crisis levels. And facing fierce competition from regions like the USA.

Q: Now we have a proposal from the Commission on long-term ETS reform. From the chemical industry perspective, what are you most concerned about in this proposal?

What really matters is to make sure that the ETS remains a market-based mechanism, a system that give incentives to energy-efficient technology deployment, and not a mechanism that is politically influenced, tweaked or a cash-cow for national budgets.

The European chemical industry is also looking very closely at the way the so-called market stability reserve would be used.

We support what we call the dynamic reserve for growth. That's very much our call to the institutions: to really use the market stability reserve as a reserve for growth .This growth would be enabled based on economically and technically sound benchmarks. It would allow industrial undertakings operating at their benchmarks to grow at zero net cost of carbon beyond 2020.

The fact is that in the newly proposed ETS reform, by 2025, even the most efficient undertakings would have to buy allowances for their own growth. It is vital for our competitiveness to reverse the tide and acknowledge the critical importance of a thriving efficient industrial sector in Europe.
Would that really be a sound system to penalise best performers? It would not make sense.

Q: Representing the chemical industry, what do you think is the best course of action for the EU in making sure those investments in low carbon technologies are encouraged?

Energy- intensive sectors are also capital-intensive. For years, a large part of their investments in Europe have been geared towards energy efficiency improvement and emission reduction efforts, in full support of the Climate and Energy Package 2030. And also, towards staying afloat amid increasing competition with the low-cost energy regions like the Middle East and the USA.

However, securing these investments and preventing them from leaking outside of the EU requires stronger carbon leakage provisions. The current Commission proposals fall short on this requirement. They reduce the amount of free allowances, the number of sectors eligible and the level of coverage for those still eligible.

In the context of open market and global competition, energy- intensive industries cannot pass through their carbon costs to consumers without losing market share to their non-EU competitors. This would make non EU-countries a more attractive place to invest. That is why, in the absence of an effective global carbon pricing mechanism, Cefic and the Alliance of Energy-Intensive Industries call on the EU institutions to maintain effective safeguarding measures after 2020.

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About Cefic

Cefic, the European Chemical Industry Council, founded in 1972, is the voice of 29,000 large, medium and small chemical companies in Europe, which provide 1.2 million jobs and account for 17% of world chemicals production.