

The EU ETS Reform

A revision to accompany the glass industry transition

Position paper

May 2022

The European glass industry is an innovative and highly strategic sector from which the EU benefits greatly. Glass products are indispensable to the transition towards a climate-neutral circular economy: for renovating buildings, producing more renewable electricity, decarbonising means of transport and making sustainable packaging. Glass also contributes to Europe's digitalisation revolution.

Glass Alliance Europe fully supports the decarbonisation objectives set out 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.

Glass Alliance Europe members are committed to playing their part in the EU's decarbonisation journey. Several technologies exist or are under development to make headway: 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 some solutions.

All these new technologies come yet with significant additional costs and the glass industry will have to invest massively to implement them. This represents a tremendous challenge not to be underestimated, especially in 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 make the legislative framework conducive to the industry transformation while preserving its capacity to innovate and invest. The contribution of glass 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 preserve the stability and integrity of the EU ETS.**
- 3. To further support innovation in hard to abate sectors thanks to the EU ETS reform.**

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 characterised by their long investment cycles. Measures against carbon leakage providing full protection at the level of the benchmark are essential until competitors outside the EU meet the same conditions and obligations.

Therefore, the glass industry recommends to:

- **Maintain the ETS cap decrease as proposed by the Commission and without rebasing** to avoid further increasing the pressure on European industry with no effect on the overall

reduction target. In our view, 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).** To preserve the stability and predictability of the EU ETS, the 3% buffer between the auctioning and free allocation shares should be at minimum maintained and ideally increased to avoid the application of the CSCF. Similarly, the allowances in the Market Stability Reserve could be used to avoid the CSCF.
- **Update the sectors' benchmarks according to the rules agreed at the beginning of the 4th trading period** (max 1.6% per year and min 0.2% per year). Several factors limit the options to upgrade the glass industrial manufacturing equipment in the short term. These limits include the long-term investment cycles and continuous manufacturing process (which cannot be interrupted for 10 to 20 years), and the unavailability of certain energy sources, like hydropower or biomass, in some European regions. It results from these considerations that increasing the benchmarks' reduction rate would only generate costs to some glass installations and reduce their financial capacity for upgrades at the time of investing.
- **Exclude the COVID year 2020 from the calculation of free allocations for the period 2026-2030** 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 free allocations at benchmark level to a CBAM sector as long as the efficiency of the CBAM has not been demonstrated for that specific sector.
- To **abstain** from introducing further reductions to sectors' free allowances by way of a **tiered approach**. The tiered approach is an old concept that has been rejected notably for its flawed assumptions on cost-pass through capacity, lack of reliability and uncertainties on its compatibility with the market rules (e.g. competing materials being treated differently).

2. 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 from other non-market-based EU regulations. Creating bridges between this market-based mechanism and the non-market legislations (such as the Energy Efficiency Directive, EED) 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 not be linked to other existing or new legislative instruments:

- **Maintain the free allocation to an installation with no additional condition than the ones defined in the current directive.** Free allocation protects the European installations against the risk of carbon leakage and the industry is already incentivised to reduce its CO₂ emissions by the benchmark system. Additional conditions, such as implementing recommendations from energy audits (EED) or decarbonisation plans, are unnecessary and could endanger the system.
- To keep the EU ETS completely separated from the **ETS for buildings and transport**. 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.

3. 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 glass¹). However, additional reductions since 1990 were achieved at a slower pace as marginal gains become more difficult. The glass sector is a hard to abate sector due, among other, to its long investment cycles, the technical challenges linked with new technologies (e.g. hydrogen or electric melting) and its process emissions. This is why innovation will be key for its transition.

The industry has identified several theoretical potentials for emissions' savings as presented in a position paper recently updated². 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** linked to electricity prices should be revised to allow the compensation of **the glass industries**. The switch to carbon neutral electricity source is one of the most important pathways identified by the industry for its future manufacturing. The inclusion of the glass sector in the list of sectors to be compensated would support 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 considered to remove 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 accounting of captured emissions (CCU/S) are unclear and the development and uptake of these technologies would benefit from a revised framework.

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 Institut du Verre. This figure presents the reduction of emissions per tonne of melted glass in France which can be considered as a good illustration of the general trend in the sector in the European Union.

² Glass Alliance Europe, The European glass sector contribution to a climate neutral economy, May 2021.