The Vital Link in the Food Chain

Brussels, April 2016

Position Paper on post-2020 EU ETS

Key messages

- **Carbon Leakage List:** PFP favors the Commission's "in and out" approach rather than other considered approaches (e.g. tiered approaches). PFP also supports the Commission's proposal for the assessment of the risk of Carbon Leakage, based on the ratio "emission intensity x trade intensity" with a threshold of 0.2 to pass for a sector to be considered at a significant risk of carbon leakage.

- **Compensation of indirect ETS costs for sectors at risk of carbon leakage:** PFP believes that such compensation should be harmonized at EU level – contrary to what is done today – and calls for the revision of the Commission's guidelines[1] for Member States compensations of ETS indirect costs.

- **ETS Benchmarks and their revision:** PFP calls for benchmarks to be set based on technically and scientifically achievable efficiency levels for the entire period 2021-2030. This is to reward best performers and keep an incentive for others to invest in emissions reduction measures. Heat benchmarking should remain available.

- **Combined Heat and Power (CHP) generation and emissions reduction:** PFP believes that the use of CHP installations is not rewarded properly under the EU ETS, despite the fact that it is recognized by other pieces of EU legislation (primarily the Energy Efficiency Directive[2]) as a way to increase energy efficiency and hence to decrease carbon intensity. PFP suggests to re-open discussions on how to further incentivise investments in high efficiency CHP systems under the EU ETS.

- **New Innovation Fund to be set up:** PFP advocates for an ambitious scope for the new Innovation Fund to decarbonise the EU economy. This fund should be used to help ETS installations decrease their carbon intensity or substitute fossil fuels when possible in addition to developing new low-carbon technologies. The innovation fund could also be directed towards the development of biobased materials with a view to decarbonise the EU economy.

[1] Commission Communication 2012/C 158/04 "Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012"
[2] Directive 2012/27/EU on Energy Efficiency

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Introduction

In July 2015 the European Commission presented a legislative proposal to revise the EU Emission Trading System (ETS) for the period 2021-2030. The EU ETS has an important impact on Primary Food Processors, due to the energy intensity of most PFP plants. Therefore, PFP calls for the following points to be taken into account when revising the EU ETS.

1. Protecting primary food processing in the EU

Primary Food Production in Europe is being confronted with policy changes and international competition that significantly affect the competitiveness of this industry. More specifically, at the COP21 in Paris in December 2015, there was no agreement on an international carbon market. Until such an international carbon market is agreed upon and implemented, proper carbon leakage measures must remain in place to protect the EU industry. PFP sectors are processing around 220 millions tons of agriculture raw materials per year, most of them EU grown. PFP industries represent 120 000 direct jobs in the EU, while offering a stable outlet for at least 1 million EU farmers[3], often offering a stable economic activity in remote rural areas. Proper carbon leakage protection would not only avoid carbon leakage taking place but would also contribute to the Commission's ambition for a European Industrial Renaissance[4]. It would also have additional benefits, such as stabilising and hence not increasing the price of EU-produced food therefore contributing to EU food security.

2. Carbon Leakage and post-2020 Carbon Leakage List

PFP believes that the Commission's proposal ensures better protection against carbon leakage, compared to other options considered in the impact assessment performed prior to the preparation of the ETS revision proposal. The proposed "in or out" approach, as opposed to a tiered approach, has the least administrative burden and the least room for arbitrary decisions affecting this important matter, with a lesser need for qualitative assessments of sectors that are bordering a particular category.

3. Compensation for indirect ETS costs

Currently, the compensation for indirect ETS costs (passed on by electricity producers) is not harmonized at EU level, but left to Member States' discretion. The

[3] Figures taken from the LEI Wageningen UR Report « Primary Foot Processing, cornerstone of plant-based food production and the bio-economy for Europe »
[4] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014DC0014

Commission proposal does not foresee the harmonization of such compensations. This creates a distortion of competition within the EU for ETS installations. In addition, the current Commission guidelines for the compensation of indirect ETS costs do not reflect the assessment of carbon leakage risks for sectors under the EU ETS. No PFP sector is currently eligible for compensation of indirect costs, although some PFP sectors are recognized as sectors at risk of carbon leakage. For these reasons, PFP calls for a revision of the rules for ETS indirect costs compensation and a harmonization of the compensation at EU level.

4. Benchmarks revision

The EU ETS benchmarks, including the horizontal "heat" benchmarks, are meant to determine the best performance levels of the EU ETS installations. The purpose is to make sure that best performers are rewarded for their efforts and to create an incentive for other installations to invest in energy/carbon efficiency measures. These benchmarks should be set/revised at a technically achievable level and for a period of time that is sufficient to have a return on investments for ETS installations. Benchmarks should be science/technology based, and should not be the tools to decrease the total number of free emission allowances granted to installations from sectors deemed at risk of carbon leakage.

5. An ambitious Innovation Fund

The scope and use of the Innovation Fund remains to be developed. This Fund could be a tool to both achieve EU climate change targets and secure the competitiveness of the efficient EU industry to prevent Carbon Leakage. Therefore, great attention should be put in the design of the Innovation Fund. The scope of the Fund should be extended beyond break-through renewable energies and Carbon Capture and Storage. It should also cover industrial technologies meant to decrease processing emissions and it could also cover other ways to decrease the EU economy global carbon footprint (e.g. the development of biobased materials).

6. Impacts of the EU ETS on PFP sectors

PFP is representing an approximate 20 million tons of CO2 emissions of the 2000 million tons of CO2 emissions covered by the EU ETS on a yearly basis. If considering an average price of CO2 of 30 euros/ton for the period 2020-2030 (as estimated by the EU Commission), the total cost of CO2 emission allowances would rise up to an estimated[5] 350 million euros per year for PFP sectors under the best Carbon Leakage protection foreseen in the EU ETS Directive (and an estimated 810 millions euros per

[5] Analysis based on data from the Commission's impact assessment for the 2015-2019 CL list

year with no Carbon Leakage protection).

Self-produced electricity in CHP plants receives no free allocation. PFP sectors, having heavily invested in CHP, will not be able to invest in low carbon technologies (both breakthrough low carbon process technologies and innovative products reducing the carbon intensity of Europe) or in energy/emission intensity reduction while having to fully bear the cost of the EU ETS if no Carbon Leakage protection measures are in place. This will remain valid as long as there is no worldwide level playing field on carbon pricing.

Conclusions

Therefore it is a key requirement that the PFP sectors are recognised to be at significant risk of carbon leakage and receive free allocation close to the real demand, hence receiving 100% free emission allowances up to the benchmark.

It is important that the carbon leakage protection is set at the highest level, pending an international agreement on carbon pricing that would allow PFP industries in the EU to compete within a level-playing field with regards to climate change mitigation measures.

This would ensure a fair protection for PFP industries and their 120 000 direct jobs, but also for the roughly 1 million farmers whose activity depends on PFP industries in the EU[6].

The **Primary Food Processors of the EU (PFP)** consists of six trade associations:

European Starch Industry Association (Starch Europe)
European Committee of Sugar Manufacturers (CEFS)
European Cocoa Association (ECA)
European Flour Milling Association (European Flour Millers)
European Vegetable Protein Federation (EUVEPRO)
European Vegetable Oil and Proteinmeal Industry (FEDIOL)

PFP represents the European primary food processing industries. It provides the link between agricultural raw materials and final products (secondary processors in the food, feed and non-food sectors). PFP members process approximately **220 million tons of raw materials** (cereals, sugar beet, rapeseeds, soybeans, sunflower seeds, cocoa beans, crude vegetable oil, starch potatoes…) **employing over 120 000 people** in the European Union. **Their economic contribution was recently assessed by the LEI Wageningen UR Report:** "Primary Food Processing, cornerstone of plant-based food production and the bio-economy in Europe"

[6] Figures taken from the LEI Wageningen UR Report « Primary Foot Processing, cornestone of plant-based food production and the bio-economy for Europe » http://www.pfp-eu.org/data/LEI%20key%20findings.pdf