

Revising the rules for free allocation in the EU Emissions Trading System

22 February 2019

Public Consultation on the Implementing act on free allocation adjustments due to activity level changes - Euromines Feedback -

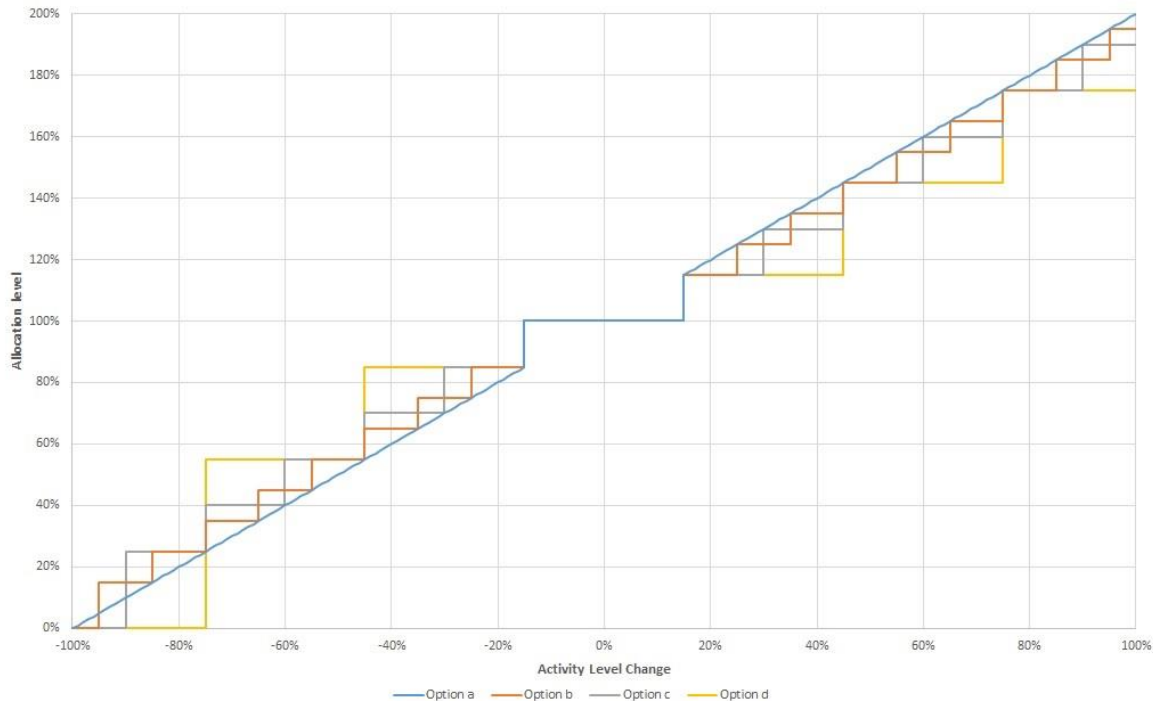
Questions

Article 10a of the revised ETS Directive establishes that the level of free allocations given to installations shall be adjusted in case the operations have increased or decreased by more than 15 % compared to the level initially used to determine the free allocation assessed on the basis of a rolling average of two years. In addition, other elements of the allocation adjustments need to be determined.

1. Which of the following options do you consider preferable for an adjustment to allocation due to activity level changes per sub-installation?

- a. **For changes in activity level of more than 15%, the allocation should be adjusted proportionally to the actual change; i.e. an increase/decrease of activity by 19% would lead to an adjustment of 19% of allocation;**
- b. A first allocation adjustment should be applied for a 15% increase or decrease in activity level. Subsequent allocation adjustments will be made within intervals of an amplitude of 10%; i.e. an increase/decrease of activity by 19% would lead to an adjustment of 15% of allocation; an increase/decrease in activity of 38% would lead to an adjustment of 35% of allocation; an increase of activity of 98% would lead to a 95% adjustment in allocation;
- c. A first allocation adjustment should be applied for a 15% increase or decrease in activity level. Subsequent allocation adjustments will be made within intervals of an amplitude of 15%; i.e. an increase/decrease of activity by 19% would lead to an adjustment of 15% of allocation, an increase/decrease of activity of 38% would lead to an adjustment of 30% of allocation; an increase of activity of 98% would lead to a 90% adjustment in allocation;
- d. A first allocation adjustment should be applied for a 15% increase or decrease in activity level. Subsequent allocation adjustments will be made within intervals of an amplitude of 30%; i.e. an increase/decrease of activity by 19% would lead to an adjustment of 15% of allocation, an increase/decrease of activity of 38% would lead to an adjustment of 15% of allocation; an increase of activity of 98% would lead to a 75% adjustment in allocation;
- e. No preference / Don't know.

Adjustments in options b, c and d are made at the level of the threshold already reached. The figure below illustrates the steps.



Argumentation for choosing option b (staged 15% with 10% interval changes)

Note: the argumentation will not be included in the formal Euromines response to the Public Consultation

The linear approach seems a better choice at a first sight because all changes in the activity level of more than 15% guarantee an adjustment in free allocation proportionally to the actual change. Also, smaller intervals seem to lead to a higher level of total free allocation during an economic expansion when activity levels increase. However, there are several other aspects to this approach that should also be considered before making a final decision:

- The proportional change applies not only to activity level increases but also to activity decreases. During a 10 year period, a company should assume both. In case of a recession, smaller intervals more quickly reflect activity reductions into allocation level changes.
- The historical activity level (HAL) which will constitute the basis for calculating the activity level changes will be calculated as an arithmetic mean and not the median as it was the case in ETS phase III. That means that the operators' maintenance periods, during which the activity will decrease will no longer be excluded.
- The linear approach will require a constant reporting, monitoring and verifying data leading to a huge administrative burden.

- Whether a staged or a linear approach is used, it will have no effect on the number of sub-installations that receive their first allocation adjustment in a given period. This is solely dependent on whether an activity level change of a sub-installation triggers the 15% threshold at least once in that period.

In this context the Euromines secretariat would like to suggest **option b (staged 15% with 10% interval changes)** as an option with a small enough interval guaranteeing that free allocation changes remain as close as possible to the activity level change but at the same time ensuring protection when the activity decreases. A stage approach also ensures a minimum level of administrative burden.

2. With the aim to reduce the administrative burden, do you consider that a minimum quantitative threshold should be introduced to determine whether the level of free allocation shall be adjusted? An adjustment would then take place only if the change would lead to an increase/decrease by a minimum of X EUAs.

- a. Yes, a minimum threshold of 100 allowances;**
- b. Yes, a minimum threshold of 500 allowances;
- c. No quantitative minimum threshold shall be established;
- d. No preference / Don't know;
- e. Yes, a minimum threshold shall be established but another value shall be used.

If your answer to question 2 is e, please specify the value preferred below and give a justification:

1000 character(s) maximum

XXX

Argumentation for choosing option a (a minimum threshold of 100 allowances)

Note: the argumentation will not be included in the formal Euromines response to the Public Consultation

The use of an absolute threshold is necessary to address the case of changes in production levels in large and complex installations that find it difficult to reach the relative threshold (+/- 15%). Applying such an absolute threshold will ensure that the level of free allocation for such installations is better aligned with their actual activity level changes.

The minimum threshold also seems necessary in order to reduce the administrative burden for operators. In several member States it would reduce the administrative fees that the operators applying for free allocation are obliged to pay, as they will only have to pay a fixed-sum fee for each decision made by the competent authority to change allocation level. Without a minimum threshold, a minor increase of allocation level would mean bigger net costs for the operator.

However, the minimum level for the threshold should not be too high as to ensure the equal treatment of all operators (Euromines members included), big and small.

3. In your opinion, when should activity level data start to be collected and when do you consider that allocation adjustments shall begin in the first allocation period 2021-2025:

- a. Allocation changes shall start in 2023 based on the activity level data collected from the years 2022 and 2021;
- b. Allocation changes shall start in 2022 based on the activity level data collected from the years 2021 and 2020;
- c. Allocation changes shall start in 2021 based on the activity level data collected from the years 2020 and 2019;**
- d. No preference / Don't know.

Argumentation for choosing **option c**

Note: the argumentation will not be included in the formal Euromines response to the Public Consultation

Allocation changes should start in 2021 based on 2019 and 2020. This enables inclusion of activity changes in between reference years and start of the trading period.

4. In phase 4 of the EU ETS, activity level data will be collected for each installation at sub-installation level on an annual basis. This data will need to be verified and reported. In your opinion, how can the administrative burden be minimised while the robustness of collected data is ensured?

1000 character(s) maximum

5. If, in your opinion, there are other aspects which should be considered when developing detailed rules on free allocation adjustments due to production level changes, please describe them:

3000 character(s) maximum

6. Do you see a need for further safeguards to prevent manipulation or abuse of the system?

No. If the rules on free allocation adjustments due to production level changes ensure a tradeoff between lowering administrative burden and equal treatment of operators covered by ETS and if data is correctly reported, verified and monitored, Euromines believes that the chance of system manipulation and abuse would be reduced to a minimum and there is no need for further safeguards.

About Euromines

Euromines, the European Association of Mining Industries, Metal Ores & Industrial Minerals, represents large and small companies and subsidiaries in Europe and in other parts of the world which provide jobs to more than 350,000 people. Through the activities and operations of these members, more than 42 different metals and minerals are produced. Their sustainable exploitation can increase Europe's supply of mineral resources, help ease imports from third countries usually applying lower environmental, corporate and social standards and foster the socio-economic growth of Europe's Regions. Linked to all industries across all supply chain stages, raw materials are essential to numerous industrial sectors covering over 30 million jobs in Europe.

A strong industrial base, securing a reliable fair international and regional playing field and unhindered access to raw materials is of key importance for Europe's prosperity and growth and, in this context, the design of the Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading system post-2020 should not undermine the competitiveness of industry.
