EuSalt
European Salt Producers' Association

For a Fair EU Emissions Trading Scheme Post-2020

Position Paper
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The European salt industry welcomes the EU integrated approach to emissions trading post-2020, linking climate ambitions to innovation and industrial competitiveness. Good balance between those three components is crucial for a fair and cost-effective ETS. In this view, some distortions inherent to the system as conceived in the previous phases need to be corrected.

Maintaining carbon leakage protection in Phase 4 (2021-2030) attests to policy coherence and is essential to support long-term efforts towards a low-carbon, circular economy. For that risk to be properly assessed, we need to address the current asymmetry in dealing with direct and indirect carbon costs for that has already caused significant **distortions on the internal market and within industrial sectors.** Carbon leakage provisions need to ensure a **correct, targeted risk assessment** that supports the EU ETS objectives.

SUMMARY

1. A rightful and targeted approach to assessing the risk of carbon leakage

The carbon leakage risk assessment should be based on rightful, scientific evaluation that leads to neither over- nor under-estimate the exposure of industry. Those are two extremes that should be avoided to ensure a cost-effective EU ETS and the achievement of our climate objectives.

Solution: EuSalt supports an assessment at technology level rather than sector level (NACE). That would allow for a more targeted approach to carbon leakage. In addition, it would take due account of technological diversity and complexity within a sector. Within a same sector, only certain technologies are energy intensive and sensitive to international competition, especially from close EU neighbouring countries.

2. Equal treatment of direct and indirect ETS-related costs

The EU ETS deals with direct and indirect carbon costs separately. Thus, some sectors were recognised at risk of carbon leakage for direct emission costs – being granted free emission allocations, but not for indirect costs – thus not receiving financial compensations for higher ETS-related electricity prices. This approach misses out on the technological diversity in a same sector. Within a mixed sector such as salt, certain installations are powered by heat, while others are electricity-intensive. Yet, only the former is effectively protected from carbon leakage. That distortion is detrimental not only to the sector, but to the EU industrial competitiveness.

Solution: The same methodology should be applied to measure direct and indirect costs, according to relevant scopes. In addition, the same Directorate-Generals need to be involved in drafting both lists.

1. A rightful and targeted approach to assessing the risk of carbon leakage

The EU recognises the risk that some industries might be exposed to significant increases in production costs as a result of the ETS, thus thwarting their global competitiveness and encouraging them to relocate outside Europe. In addressing this issue, the ETS must avoid two pitfalls: over-protection and overlooking the carbon leakage risk. Yet, the very level of the risk assessment, i.e. at sector level (Nace-4 code) is a problem for it neglects the complexity and more nuanced picture of some industries.

Different production methods that vary in resource use, energy consumption and environmental impacts may be used to manufacture the same product. In this respect, all technologies within a sector may not be exposed to carbon leakage. Yet, carrying the risk assessment at sector level will elude such diversity and miss out on those technologies that are exposed.

One may think that substituting energy-intensive technologies could be solution. However, and especially in the salt sector, such substitution cannot take place due to geographic, geological, climate, and market characteristics and specifics. For instance, although emitting little, sea salt production would neither be viable, nor could it answer market demands of Northern European countries, where an energy-intensive production method is used, namely solution mining. Diversity in technology also contributes to knowledge and expertise available on the EU territory.

Consequently, EuSalt requests the **possibility to carry out the carbon leakage risk assessment at technology level, instead of sector level** (NACE-4), where relevant. In so doing, the EU ETS would encourage more targeted free allocations of emission allowances and would address the specificities of industries similar to salt that are not identified at PRODCOM level.

2. Equal treatment of direct and indirect ETS-related costs

Upon assessing the risk of carbon leakage, the current EU ETS does not provide for equal treatment of the different costs proportionally to their impact on businesses:

- Direct costs (related to the obligation to buy emission allowances) are dealt with at EU-level and calculated based on both direct and indirect emissions (i.e. CO_2 emissions related to electricity production), and
- Indirect costs (related to increased electricity prices as a consequence of the EU ETS) are dealt with at national level, through financial compensation – state aid – to specific industries, and is based on the sole consideration of indirect emissions.

While some industries can be at risk of carbon leakage because of direct carbon costs, e.g. heat generation, others will be because of a mix of direct and indirect costs, namely increased electricity costs that cannot be passed on to the consumer. Such diversity applies within sectors in a very similar way. For instance, **some technologies in the salt industry are heat-intensive whilst others are electricity-intensive. Yet, only the former is effectively protected from carbon leakage**[1] under the current system.

The induced bias turns the EU ETS into a punitive system towards technologies that yet contribute to low-carbon objectives. We need to avoid penalising investments that go in the right direction. For

[1] Commission Decision 2014/746/EU.

instance, responding to the incentive of the EU ETS, some businesses have switched to zero-carbon technologies drastically reducing their direct emissions. Yet, those technologies being electricity-intensive, they are confronted with production costs higher than before.

This is detrimental not only to sectoral diversity, but also to the EU industrial competitiveness. It is further reinforced by non-harmonised electricity prices across the 28 Member States, which will expose some companies to higher indirect costs, depending on their country's energy mix.

Conclusion: A case for innovation and value chains

The EU ETS aims to foster investments in low-carbon technologies to reach our 43% emission reduction target by 2030. Far from being a derogation, the carbon leakage status is meant to allow vulnerable industries to contribute to EU climate and circular economy objectives by preserving their investment capacity. The salt industry is taking part in the transition, investing in energy efficiency and clean energy sources (e.g. biomass). Thus, the life cycle of such investments needs to be taken into account for return on investments is never immediate.

The impact of all carbon costs on production and competitiveness should be assessed from a **value chain perspective** for they are complex ecosystems: changes to one or more component(s) (sectors) of the industrial ecosystem (the value chain) has repercussions on its entirety. The cumulative effect of seemingly small changes (e.g. increased costs) will affect the system and its parts.

Such cascading effect can be either positive, supporting more resilient and sustainable value chains based on innovation and circular thinking; or negative, weakening competitiveness within the EU and at global level and threatening the EU industrial basis.

Value chains and enabling effects

Salt (sodium chloride) is at the basis of a long value chain as it provides an essential raw material to the chemical industry and thousands of different chemical applications.

Emissions reduction within the salt industry has an enabling effect on the rest of the value chain, allowing for lower carbon footprint of downstream products and more energy efficient processes.

Enabling effects also provide for solutions for a circular economy. For instance, salt powered batteries can be used for grid energy storage.