Total 08 September 2015

Feedback on the European Commission's legislative proposal to revise the EU emissions trading system for the period after 2020

Total very much supports the Commission approach making the Emission Trading Scheme (ETS) the cornerstone of the EU climate policy.

The focus of the Commission on carbon leakage protection and the recognition of the key role of Energy Intensive Industries in the European economy is also very much appreciated at the same time. In line with the October conclusions from the EU Council for the industry not to support any undue cost as long as the same kind of regulation is not in place with Europe's main economic partners, the **Energy Intensive Industries should receive 100% of free allowances for direct emissions and a full compensation for indirect costs at the level of realistic benchmarks**. This is the only clever way already embedded in the Directive to preserve the competitiveness of our industry versus international competition that still does not face similar carbon cost, while fully maintaining the incentive for continuous improvement of its carbon efficiency.

On a more detailed basis:

- Carbon leakage list: Total suggests keeping the refining industry and other industries directly associated into its value chain (such as the production of hydrogen) on the Carbon Leakage list, with 100% of free allowances each year for the best performers.
  - ➔ In order to allow a fair evaluation of each sector, the data used for the calculation of the criteria should cover ETS installations only.
  - ➔ We understand that the criteria are based on direct + indirect emissions, but this could better explicitly be confirmed in the proposal.
  - ➔ The possibility for a qualitative assessment should be open for all sectors (also when below 0.18). This would allow to take into account for instance sectors of major importance for the security of energy supply in Europe, like the extraction of gas, which also contributes to the transition to a lower carbon economy.

- Quantification of the industry cap for phase 4: Total suggests re-assessing the share of the EU ETS cap to free allowances. In the proposal, the share of free allowances is fixed at 43%, including 400M allowances for an Innovation Fund (which leaves only 40.4% for free allowances).
  - ➔ In our assessment, the free allowances share for the 4th period should be at least 47% and not amputated by the Innovation Fund :
    - +2% because of an incorrect calculation in phase 3 : The proposal uses the situation in phase 3 as basis for phase 4 whereas industry demonstrated that the calculations made for phase 3 were inaccurate and biased.
    - +2% because of unused free allowances removed from industry to auctions: The figure of 57% for the auction share also includes unallocated allowances from the Phase 3 new entrants' reserve. These allowances, once destined for industrial growth but unused because of the economic crisis, now unrightfully further reduce the amount available for industry in phase 4.
    - Furthermore, in the current proposal, the innovation fund reduces further the part of free allowances, whereas it should be taken from the auctioning share.
  - ➔ Keeping all non-allocated free allowances of phase 3 for carbon leakage sectors, new entrants and new investments, should allow maintaining 100% of free allowances each year for the best

performers at their actual activity level throughout the 4th trading period without the need for a correction factor.

➔ Being more cautious in the setting of a fixed share between allowances and auctions as long as the methodology for assessing the cross sectoral correction factor in Phase 3 is not clarified and the legal case resolved.

- Benchmark update: Total suggests updating the benchmarks once before the start of the 4th trading period based on actual and verified performances over a representative period (2013-2017).
  - ➔ The benchmarks should reflect the real technological improvement of a sector. We therefore propose that sectors be given the option to calculate a real update of the product benchmarks once before the start of the 4th trading period, based on actual and verified performances over a representative period (2013-2017).
  - ➔ The current benchmarks never addressed the problem of the wide discrepancy of distribution around the top 10% between sectors. The refining sector is characterized by a very steep benchmark curve, as a consequence of its wide variety in configurations and feedstock. As a pragmatic and easy solution to overcome part of this discrepancy, we propose to calculate the benchmark on the average of the top 25%.
  - ➔ Our industrial sector has access to all the data, knowledge and resources to perform this real benchmark update.

- Production levels used for allocation Total suggests installing an activity based allocation mechanism.
  - ➔ The proposed new ex-ante system already constitutes a good step towards a more dynamic allocation system. We propose to go further using the rolling median of the 3 last years as reference activity. This would eliminate the possibility to obtain windfall profits, which harm the credibility of the system and its participants.

- Indirect costs: Total suggests installing a harmonised mandatory system of financial compensation for indirect emission cost, as suggested by the EU Council.
  - ➔ We advise that this compensation be made mandatory, according to EU-wide rules and with eligibility criteria to be harmonized with the EEAG rules.
  - ➔ We also draw the attention to the particular situation of off-shore oil and gas platforms, where auto-production of electricity is an inherent part of the production process and not in competition with on-shore electricity generation. These platforms should be entitled either to free allowances for their electricity production or be compensated for the associated carbon cost.

- Delegated acts : Total suggests providing sufficient definition in the Directive proposal for “technical details” that are of vital importance for our industry (benchmark update rules, reference activity definition, carbon leakage criteria, ...) and not leave uncertainty until the publication of delegated or implementing acts.

- Flexibility mechanisms:
  - ➔ Total suggests reopening the possibility to use carbon offset credits from developing countries in order to aim for the most cost effective path to limit climate change.
  - ➔ Total suggests including in the proposal the flexibility between ETS and non-ETS foreseen in the European Council conclusions of October 2014 to bridge a potential limited gap between a NON-ETS target and real emissions.