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Fertilizers Europe's comments to the Commission's EU ETS reform proposal of 15 July 2015

In general Fertilizer Europe agrees to the positions as developed by the manufacturing industries, calling for full protection of industrial best performers. In this submission Fertilizers Europe will highlight two specific vital issues for the fertilizer industry.

The EU Commission's proposal of 15 July 2015 for a revised ETS Directive falls short in maintaining the competitiveness of the European fertilizer industry. We refer to the Council Conclusions of October 2014 which states that the best performers in a sector which is exposed to carbon leakage "should not bear any undue costs". The fertilizer sector is highly exposed due to both high emission intensity and high trade intensity. The high emission intensity is predominantly caused by the high share of process emissions which are by definition unavoidable. The proposed reforms should result in zero carbon costs for the best performers in the fertilizer sector in the years to come.

More specifically Fertilizers Europe draws attention to two crucial and vital issues for the fertilizer industry, for which the proposal should be improved:

1. In 2021 and in the years thereafter, the benchmark reassessments should reflect actual and achievable technological progress, expressed by the average of 10% best performers. Process emissions and the fact that they are unavoidable should be part of that reassessment[1]. The proposed arbitrary scheme to tighten the benchmark with -0.5, -1 or -1.5% per year shall thus only be applied if it is in line with actual achievable technological progress. An additional factor of 0% per year needs to be part of the scheme if the actual progress of the best performers is significantly below -0.5% per year.

2. For industry sectors at very high risk of carbon leakage it is logical that there should be no further reduction of free allocations below the benchmark based figure. Any reduction factor should be set at 0 for sectors at very high risk (e.g. Trade Intensity x Emission Intensity > [0.75]).

The fertilizer industry is striving to continue to contribute to European food security and to European economic growth. Industries that face high carbon costs and are unable to pass them on to customers, like the fertilizer industry (*Cost past through study from Copenhagen Economics, September 2015*), will face a high risk of carbon leakage. This high emission intensity is predominantly caused by the high share of process emissions which by definition is unavoidable even in the longer term perspective (*Fertilizer Roadmap 2050 : Ecofys study, September 2015*). The proposed reforms should not bear any undue costs for the best performers in the fertilizer sector.

[1] These realistic benchmarks that reflect the fact that there are unavoidable process emissions should be re-evaluated in case carbon capture and storage becomes available at feasible costs.

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