Stakeholder consultation analysis: Emission Trading System (ETS) post-2020 carbon leakage provisions

Please note that the views presented can only be associated to respondents to this specific consultation (http://ec.europa.eu/clima/consultations/articles/0023_en.htm) and may not be considered representative of the views of all or specific groups of stakeholders.

The written consultation was conducted for 12 weeks from May 8th to July 31st 2014 by means of a questionnaire using an Interactive Policy Making tool.[1] The questionnaire consisted of 23 multiple choice questions (i.e. a/b/c choice) alongside the possibility to provide motivation/comments. The submissions have a quantifiable part (the selection of one among the multiple choice answers) and a text part that cannot be quantified in the same way, notably since it was optional and therefore has large variation of content and number of respondents.

Therefore, the quantitative analysis (i.e. percentages) differs in representativeness compared to the comments expressed. The aim has been to provide as broad a picture as possible of what was stated[2]. It is of course not possible in a summary to mention each and every view, but the replies are accessible on the website mentioned above.

I. Respondents' profile

The stakeholder consultation gathered a total of 440 responses. Multiple submissions from the same respondent were treated as a single reply. Taking such situations in consideration, 427 replies are considered. In case a respondent did not agree to making their answer public, they were not referred to by name in this document but their views were analysed and taken into account.

The submissions were analysed by clustering them into three groups: business and trade associations representing business interest, public authorities and civil society. This division was done based on the fact that each group has different stakes and will be affected by the future system.

The prevailing majority of replies came from businesses (52%) or trade associations representing businesses (37%), including a wide variety of industries and companies. Therefore, approximately 89% of the respondents are directly concerned by the future system of allocation.

The future system also has important implications for Member States: on the one hand, the rules and provisions will have to be implemented by them and the issue of complexity is a key concern; on the other hand, allowances which are not given for free are auctioned with the revenues going to their budgets. Therefore replies from governments (8 Member States) and regulatory regional/local authorities will be analysed separately.

Replies from academic and research institutions[3], NGOs, citizens and trade unions will be analysed in a third section under the common heading of 'civil society'.

[1] Several replies received after the closure date were also taken into account.
[2] There were six submissions in the form of a narrative, which were treated accordingly.
[3] Of which one is industry-funded.

Table 1: Stakeholder consultation responses[4]

Profile	Number	% of total
Business	224	52%
Trade association representing business	158	37%
Government/regulatory authority	16	4%
Academic/ research institution	4	1%
NGO	9	2%
Citizen	14	3%
Other (trade union)	2	1%
Total business related	382	89%
Total non-business	45	11%

II. Business and trade representations of business interests

Contributions to the public consultation came from individual companies, and European and national sector associations from a wide range of sectors.

Sector	Companies	National Associations	European Associations
Steel	16	5	2
Cement	21	7	1
Chemicals (including fertilisers)	22	8	6
Refineries and petroleum products	6	6	1
Paper and pulp	4	4	1
Power and electricity	23	5	3
Lime	17	6	1
Nonferrous metals	9	3	4
Metals (including foundries; ferroalloys)	12	3	1
Glass	10	12	3
Ceramics	55	12	1
Wood-based products	5	4	2
Other sectors/associations[5]	24	33	
Horizontal associations		21	
Total	224	155	

Due to the considerable number of replies (382), percentages have to be carefully interpreted - a look at the options supported by different respondents shows that sometimes different sectors have different perceptions on the issues for discussion, while at other times there are mixed views coming from the same sector. It can also be noted that out of the business related replies, ca 8% were from the power sector and the rest from mainly energy intensive industry sectors.

[4] There were some answers that seemed incorrectly classified and that were re-classified according to the nature of the respondent. The multiple identical replies submitted by the same respondents were disregarded and one reply was taken into account. Out of the 14 replies as 'citizens', 2 can be attributed to business as well, since the respondents are employees in companies with a vested interest in the result of the consultation.

[5] e.g. foods and drinks industries, carbon and graphite, industrial gases, car and motor manufacturers, gypsum etc.

a. General: competitiveness, carbon leakage and present free allocation rules

Industry stakeholders treated the first two questions of this section (i.e. a question on the potential for industry to further reduce emissions and a second on the role of EU ETS in helping industry become more efficient) as an opportunity to make general comments on many aspects of the system. Therefore the following three paragraphs reflect their broader views.

Some 47% of industry stakeholders believe there is still potential for reducing emissions while 42% do not share this view (11% showed no preference for either opinion). Regarding the role of the EU ETS in helping industry become more efficient and thus contributing to competitiveness, industry stakeholders underlined a number of concerns related to this point: improvements (both in terms of energy efficiency and in terms of reducing emissions) have already been achieved; process emissions are unavoidable and existing technologies have limits – breakthrough technologies are needed (but they require investments and thus a stable, predictable, innovation-supportive framework). Industry stakeholders further stressed the relatively high energy prices, inability to pass on costs and issues resulting from the fact that competitors are not exposed to same constraints, linked with the call for an international agreement to ensure a level playing field.

Other issues mentioned in relation to the system as a whole include the problematic acceptance and development of CCS; the low carbon price; switching to renewable sources of energy depends on availability of supply, efficiency, the impact on the quality of the products; ETS design does not give additional allocation for increases in production other than those linked to capacity extensions; non-ETS sectors should contribute more to overall reduction targets; problematic access and/or prices of raw materials; the EU reduction target of 40%; need for coherence between EU policies. Several views bring emphasis to the fact that there are differences between sectors: different reduction potentials, specific issues and objectives.

The answers also stress the fact that innovation and technological development are essential for Europe's industry to remain globally competitive, especially given the potential international market for resource efficient products. Some industry stakeholders (glass sector and refineries) state that EU ETS and carbon prices are less significant relative to other costs (e.g. energy or fuel) that have a bigger impact on company decision-making.

Given the issues underlined, industry stakeholders almost all (98%) support measures meant to protect EU industry and strongly believe (88%) free allocation to be an adequate instrument in this sense. Some concerns were expressed concerning the cross sectoral correction factor (CSCF) that is considered as more significant than the rate of improvements in carbon efficiency. Most stakeholders from the glass sector argue that a more frequent update of the benchmarks could be the counterpart for abolishing the cap on free allocation to industry. Other concerns expressed refer to the production data used as basis for allocation, with many views advocating for the use of actual or more recent production data. It is important, in the view of industry stakeholders, to ensure that the best performers receive adequate allocation.

Almost all (93%) industry stakeholders believe free allocation keeps the incentive to innovate, but underline their concerns regarding the fact that best performers may not get 100% free allocation. Some industry stakeholders (mostly refining sector) say that the biggest incentive to improve their performance is not carbon costs but rather energy costs.

Some 52% of industry stakeholders are of the opinion that the administrative burden for companies involved in ensuring free allocation through the implementation of the benchmarking provisions are proportionate to the objectives. Those who consider the burden disproportionate expressed concerns regarding the burden for smaller firms, the additional burden from having to apply several policies at the same time, and the need to simplify rules wherever possible while ensuring that the system is accurate and fair. It was also underlined that specificities of national implementation also lead to considerable administrative burden.

b. Options for post-2020 – Strategic Choices

Concerning the future share of allowances that should be dedicated to carbon leakage and competitiveness, considerable support (73% of industry stakeholders) was expressed for having no limit to free allocation for industry. A concern was the view that the current system with the application of an ever-steeper CSCF reduction is incompatible with industry stakeholders' strong support for the idea that the best performers should be fully compensated through free allocation and that growth in production beyond capacity expansion should be accommodated.

There are mixed views on the continuation of the NER300: 26% are against such future support (almost all ceramics and a few from other sectors such as chemicals and non-ferrous metals) as there are some concerns regarding CCS (seen as problematic in terms of cost, reliability, public acceptance and applicability to all sectors). By contrast, there is wide support (81%) for an instrument of funding manufacturing industrial low carbon innovation as many industry stakeholders emphasise the need for investments, notably in innovation and deployment. According to some industry stakeholders, such support would have to be more technology neutral and more flexibly managed than the current NER300.

Industry stakeholders accentuated some issues regarding the funding of such an instrument, as follows: the amount of funding depends on the price of allowances and is therefore not reliable; other instruments already support innovation (e.g. Horizon 2020) and they should be enhanced; the importance of ensuring Member States use at least 50% of the auctioning revenues for decarbonisation measures; there might be a need for a mix of public and private funding sources to ensure that low carbon innovation has the necessary support to happen; some underlined that these funds could be used to ensure cheaper loans for industry.

On the question of whether industry should have additional safeguards beyond free allocation and EU-level innovation support, most (89%) industry stakeholders answered in the positive. Suggestions point in particular towards possible adjustments/improvements of the current system rather than radical changes (e.g. improved coherence between EU policies, ensuring protection in the absence of an international agreement, removing the CSCF, indirect cost compensation, need for long-term stable regulatory framework, ensuring allocation is closer to real production etc.).

c. Options for post-2020 - Allocation modalities

On the more technical aspects of the allocation modalities there was considerable support for maintaining some of the existing features: 56% of industry stakeholders are in favour of maintaining the current two categories for sectors in terms of exposure to the risk of carbon leakage (i.e. deemed exposed or not) in order to ensure predictability, to avoid additional uncertainty and complexity. Those who believe more differentiation is needed (15%) argue that the degree of exposure is different and the rules should reflect that. Those who believe all installations should be treated as exposed (21%) highlight the fact that there is a global economy and that there are interconnections, including in terms of value chains (downstream and upstream links).

Similarly, 39% of industry stakeholders are in favour of maintaining the current carbon leakage criteria for the sake of predictability, simplicity and consistency. There are many different opinions in the case of those who argue for additional criteria: taking into account cumulative costs (indirect costs, RES-related, environmental taxes etc.), fuel mix (as well as accessibility and relative costs thereof), the impact of value chain effects, export and import competition and the possibility of using Gross Operating Surplus instead of Gross Value Added (GVA) in the calculations because of the labour costs included in the latter, which they argue penalises labour-intensive sectors. Some industry stakeholders also claim that they have an overall positive carbon footprint (in terms of their life-cycle assessment: saving more energy and GHG emissions than used in the manufacturing phase) and that this should be taken into account.

On the subject of thresholds for the carbon leakage criteria there is considerable support (57%) for maintaining the existing ones. Some industry stakeholders are concerned that stricter thresholds would lead to some sectors being removed from the carbon leakage list.

There is wide support (87%) for having a qualitative assessment to complement the quantitative assessment: industry stakeholders argue that some products are unlike the others in the same sector, that statistical data does not always accurately reflect the reality of the exposure of some sectors and that it is important when determining exposure to consider certain factors such as ability to pass on costs, value chain analysis, different levels of aggregation/disaggregation of data analysed and the positive contribution of some sectors to EU economy. There are some (7%) who believe the assessment should be based on simple metrics linked to clearly defined thresholds.

Regarding the validity of the carbon leakage list, there is considerable (68%) support among industry stakeholders to align it to the duration of the next trading phase based on the argument that it would ensure consistency and predictability for industry, taking into account the long-term investment planning. The other respondents have mixed views and expressed preferences for different timeframes (e.g. 10 years of a validity expiring only at the conclusion of an international agreement to ensure a level playing field).

Over a third (37%) of industry stakeholders want "the 10% best approach" for determining benchmarks to remain with a view to ensuring stability and predictability. 53% of the views advocate for a less stringent approach, by underlining a number of concerns: requests that the installations that comply with the benchmarks should be ensured no carbon costs, request for less strict, or so called "technically achievable" benchmarks (in this context it can be noted that benchmarks were set based on 10% best existing installations in 2007/08); that when applied together with the CSCF the allocation is too strict, and that progress happens at different pace in different sectors.

There are mixed views (44% in favour and 50% not in favour) on the updating of benchmarks in line with technological state of the art. Those in favour view this as a necessary exercise in order to reflect GHG improvements over time and they emphasise that the update should be in line with technological developments and uptake of new technologies. On the other hand, the latter point is a reason for concern by most of those against the updating: state of the art could be difficult to determine, may be possible to implement only in new plants, might not be achievable or financially viable, may punish early movers. Stakeholders from the glass sector underline that periodically updated benchmarks could remove the need for the CSCF.

There is wide support (75%) for using more recent data to determine allocation to industry: many stakeholders would like to see *ex-post* allocation with an allocation supply reserve, i.e. a reserve that is filled up by those that produce less, and is used to provide allocation to those that produce more. The main argument in favour of this or using more recent years (e.g. previous year, previous two or three, or a rolling average thereof) is that such an approach reflects economic reality and as such would ensure flexibility and allow for production increases. Industry stakeholders also acknowledge the problematic aspects such an approach would entail, namely considerable administrative burden, ensuring the quality of data (i.e. production reported) and confidentiality of commercially sensitive information.

On the topic of possible deviations from the general harmonised allocation rules in case of particular hardship or too favourable a situation, most industry stakeholders (75%) are against such a possibility since they consider this would lead to distortions of competition. Some, however, argue that exceptional cases should be assessed individually.

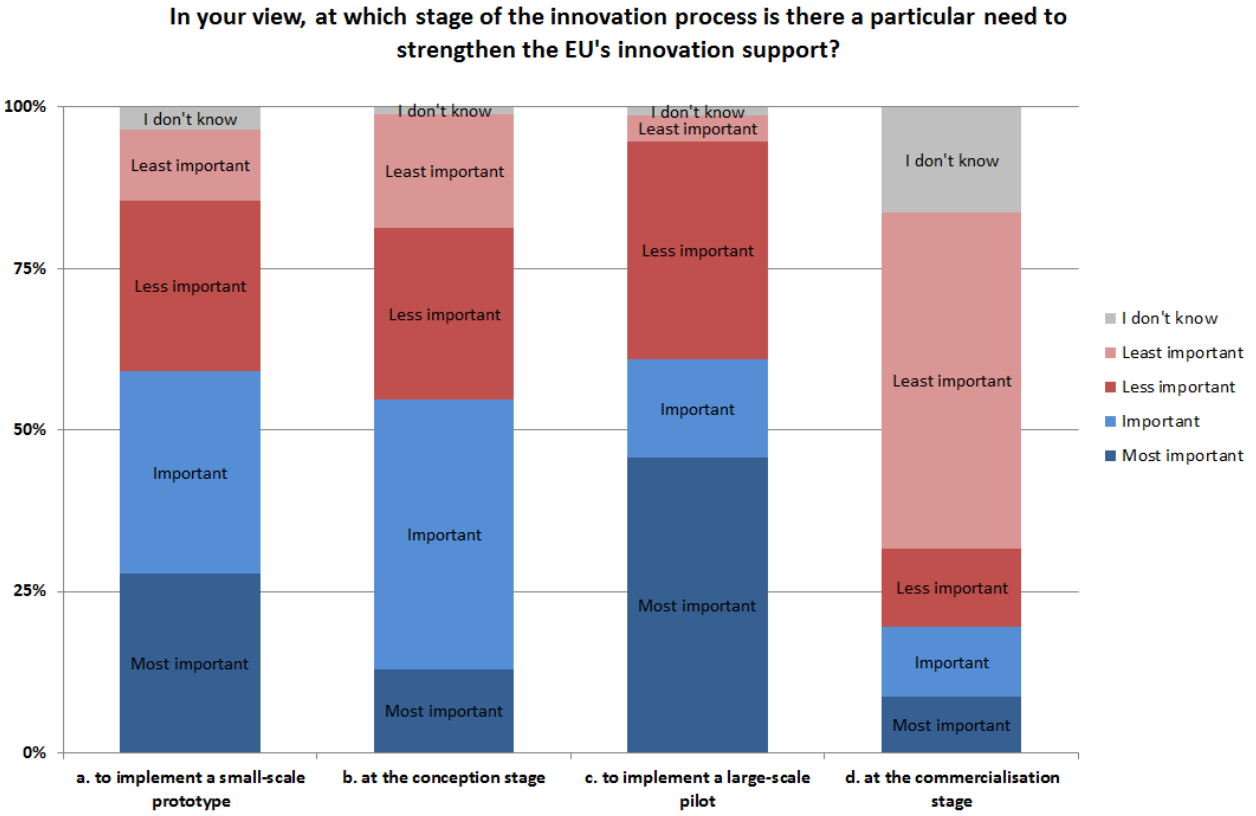
Industry stakeholders prefer (87%) indirect cost compensation taking place at EU level (either in the form of financial compensation - 51% or free allowances - 36%) in order to ensure equal competition and predictability. Those who advocate maintaining the current system argue that

guidelines are already in place ensuring transparency and certainty and that there are different energy prices (which give certain signals to the market) and different fuel mixes across the EU.

d. Options for post-2020 - Innovation support

As shown above, while industry stakeholders are widely in favour of low carbon innovation support, there are some mixed views on the subject of funding sources. Many (63%) believe it should come from auctioning revenues, while others underline that both public and private sources for funding must be considered and mobilised.

Concerning the stage of the process at which innovation support is considered most important, most industry stakeholders believe this to be the stage of implementing a large-scale pilot as shown below by the graph:



e. Other issues

Some 63% of industry stakeholders brought up a number of other issues they wished to underline including: importance of research and supporting legislation; the need for a clear price signal and for a clear industrial policy; taking into account the whole value chain; looking into the risk of investment leakage; need for an international agreement; call to ensure distortions are avoided when designing policies; ensuring consistency between policies. It is noteworthy that there was also an explicit call to make not only a statistical analysis of the questionnaire that served as basis for this analysis but also a qualitative one.

III. Government and regulatory authorities

Responses were received from the following governments and regulatory national or regional authorities: Czech Republic, Denmark, Estonia, Finland, Hungary, Malta, Poland, United

Kingdom, Bavaria, Thüringer State, Canary Islands, City of Vienna, Flemish Region, Walloon Region, and a local authority from Spain.

a. General: competitiveness, carbon leakage and present free allocation rules

Most authorities believe there is still potential for industry to reduce emissions but underline a number of issues that must be addressed including the need to tackle the carbon price issue, the need to consider international negotiations and developments, the potential of using biomass, the need for an ambitious innovation strategy to support the development of new breakthrough technologies. Estonia emphasised the decoupling that has taken place there: a 50% decrease in GHG emissions compared to 1990 levels happened alongside a 5 times increase in GDP. Reduction potential is different depending on industry (Poland). It is also important to limit administrative burden (Denmark).

There is an overall positive view on the role of the ETS: the system needs some improvement, and it should be stressed that energy efficiency represents a benefit for companies. The UK stresses that the system is flexible in that it allows businesses to decide whether and when to invest in carbon abatement or to buy allowances.

All agree on the need to protect industry against potential competitiveness disadvantages relative to third countries with less ambitious climate policies. Measures are needed to provide focused and targeted protection to those sectors most exposed to the risk in the absence of an international agreement.

Regarding the adequacy of free allocation as a policy instrument, the general perception is a favourable one – it is seen as a good instrument for protecting industry in the absence of comparable measures by other major economies. A number of elements of the system as a whole need to be addressed: ensuring that protection is well-targeted (UK, Denmark), taking into account the ability of some sectors to pass on the carbon costs to their customers (Walloon Region).

The impact of free allocation on the incentive to innovate is considered positive by many since benchmarks provide an incentive to installations. The concern is that it may shield operators partially from the price signal (Walloon Region).

Most see the administrative burden linked to the implementation of the benchmarking provisions proportionate to the objectives. Simplification should happen wherever possible (UK, Canary Islands) to ensure the system runs appropriately.

b. Options for post-2020 – Strategic Choices

National and regional authorities had mixed views on the share of allowances that should be dedicated to carbon leakage and competitiveness. This should depend largely on international developments in terms of climate policies (Czech Republic). Poland underlined the importance of ensuring protection considering international competition and differences in energy prices. This protection however cannot be guaranteed as the free allocation available is declining unless it is targeted to those most at risk (UK).

Low carbon innovation support is seen as very important by most authorities, with a broader scope to include industry beyond CCS preferred by several. There were mixed views on the sources of such funding.

Regarding the need for additional safeguards against the risk of carbon leakage, some expressed concern at the differences in energy prices, while others stressed the importance of an international agreement to ensure a level playing field.

c. Options for post-2020 - Allocation modalities

There were mixed views on the number of carbon leakage groups (carbon leakage and non-carbon leakage as opposed to several groups differentiated based on level of exposure) with some preferring either the continuation of the current system (Czech Republic, Finland, Thüringer, Vienna) while others expressing a preference for the development of more categories (Poland, Hungary, Walloon Region, Bavaria, Canary Islands). The aspects to consider include: assessing the risk based among others on geographical location and the possibility of having risk defined as low, medium or high. A differentiated system might ensure protection to those most at risk but would require careful consideration (UK).

Regarding the criteria for determining the carbon leakage status of sectors, many indicated that they were against the rule that allow sectors to be on the carbon leakage list by complying with only one of the two criteria (carbon costs in GVA and trade intensity). Criteria should take into account a realistic carbon price, the emission abatement potential, the ability to pass on costs to customers, trade patterns (possibly linked to geographic location) and also availability of data, as well as (according to Denmark) the fact that risk varies across EU depending on extent installations compete with companies in third countries.

There were mixed views on maintaining the qualitative assessment: some expressed a preference for having criteria based on simple metrics (Hungary, Bavaria, Vienna, Canary Islands), whereas others are of the opinion that some factors may be difficult to assess/take into account otherwise. As for the validity of the carbon leakage list, quite a few expressed support for a correlation between the validity of the list and the duration of the ETS phase (predictability, transparency, long-term investment planning) with the possibility to revise the assessment in case of comparable international climate policies or a considerably lower/higher carbon price.

On the issue of benchmark revision, some are in favour of maintaining the current "10% best approach" as it rewards the most efficient and provides incentive for the others. At the same time, most agree that benchmarks should be revised in line with technological advances (with mixed views on frequency of updating).

When it comes to updating the production data used for allocation, some would opt for 2016-2018 as the updated reference period. The Walloon Region cautions on extra administrative efforts and extra verification costs that an ex-post approach would engender. The UK indicates that more recent data would be good but only balanced with the need for manageability.

Some among the authorities are in favour of deviations from the general harmonised allocation rules, in case of hardship or too favourable a situation. At the same time, the UK expressed its concern about such deviations, stressing that a uniform system ensures certainty and that there was a risk of distortions and added complexity.

Concerning the compensation for indirect costs, maintaining the present approach based on Community state aid guidelines has support from some, while others express concerns on possible distortions in the market. On the latter, the UK stressed that compensation done at EU level would be problematic and would create considerable complexity as there are differences in electricity markets between Member States.

d. Options for post-2020 - Innovation support

There were mixed views on the stage that would most benefit from support in the innovation process, as well as on where the funding should come from (auctioning revenues or free allowances). Support should depend on the risk of the project (Poland). Some stressed the need to support large scale deployment, bringing technologies to the market.

IV. Academic and research organisations, NGOs, citizens, trade unions (civil society)

a. General: competitiveness, carbon leakage and present free allocation rules

Academic and research organisations, NGOs, citizens, trade unions are generally positive (75%) about industry's ability to further reduce emissions. In order for this to happen there is a need for support from policies which should among other things protect against carbon leakage. Studies have been quoted in support of the view that industry can further improve (through changes in technologies and practices) and it was stressed they would benefit from being more energy efficient and innovative.

The ETS is perceived as an important instrument that nevertheless requires improvement: need for a strong price signal, addressing the issue of surplus of allowances, taking into account the ability to pass on costs. It was further stressed that ambitious goals require strong incentives. In the absence of an international agreement and/or comparable climate policies/efforts, 82% of civil society respondents are in favour of measures to protect EU industry. Such measures should focus on innovation support and should be linked to the international developments (i.e. more and more countries/regions are implementing climate policies). Free allocation is seen as problematic (61%) and there are concerns about its impact on the incentive to innovate. The main reason for this is the surplus of allowances that the system led to, which in turn negatively affected the carbon price. The incentive is therefore not strong enough and the system needs to be improved.

There were no strong opinions on the proportionality of administrative burden for companies, though some respondents expressed concern for the possible issues that small companies deal with.

b. Options for post-2020 – Strategic Choices

Some 29% of civil society respondents expressed their preference for no more free allocation after 2020, while 25% believe the share of allowances dedicated to carbon leakage and competitiveness should be lower than in 2013-2020. Measures after 2020 should focus on innovation support, rewarding efficiency investments, bringing the focus to clean products/technologies – all this will provide a comparative advantage to EU industry (one stakeholder noted that EU ETS provides the opportunity to mainstream both the climate and industrial policy).

When it comes to the future financial support for innovation similar to NER300, most (79%) are in favour of it. Some respondents (20%) expressed concerns about the feasibility and acceptance of CCS. There seems to be however wide support for low carbon innovation funding that is not restricted to one technology. 50% of civil society respondents are of the opinion that the support should come in the form of a specific instrument with auctioning revenues as the funding source.

There seems to be wide support (68%) for having additional measures in place to protect against carbon leakage. Measures should be linked with an assessment of whether carbon leakage has occurred and should mainly relate to improvements of the system to ensure it prevents such risk, that it provides incentive to be climate efficient, that it supports innovation. One view put forward the possibility of developing carbon leakage measures jointly with international partners even in the absence of a global agreement, while another underlined the need to provide incentives to switch to lower carbon products.

c. Options for post-2020 - Allocation modalities

There were mixed views on the number of carbon leakage groups (carbon leakage and non-carbon leakage as opposed to several groups differentiated based on level of exposure), criteria underlying the groups and associated thresholds. 38% of civil society respondents expressed a

preference for maintaining the two groups, while 24% are of the opinion that more categories should be developed. On the issue of criteria for determining the carbon leakage status, 28% of civil society stakeholders would like the current ones to be maintained, whereas 34% think additional criteria could be developed. Those who advocate for maintaining the current system call for certainty and less administrative burden. If more carbon leakage categories are developed (i.e. high, medium, low exposure status), one proposal is for a risk factor to be determined that could then be used to establish the right to access innovation support funding.

Some views ask for the elimination of the stand-alone criteria and the associated 30% threshold, with others quoting research to underline trade exposure is not a good predictor of carbon leakage vulnerability. Several civil society stakeholders underlined that what should be considered in determining carbon leakage status is ability to pass on costs, the potential to increase efficiency and room for products substitution, as well as trade patterns (e.g. excluding third countries with comparable climate policies from the assessment).

Views expressed are also mixed when it comes to the need for a qualitative component as part of the assessment of carbon leakage status. Several NGOs indicated it could be applied in addition to the quantitative assessment to ensure that only those most in need are on the list. The assessment should therefore take into account the ability to pass on costs, profit margins, abatement potential. About a third of civil society respondents believe the assessment should be based on simple metrics. No clear view emerged on the validity of the carbon leakage list however a few respondents stressed that it could be correlated with the duration of the trading period and that it could be reviewed based on international developments.

When it comes to the updating of benchmarks, some NGOs call for a revision based on worldwide best performance and almost all civil society stakeholders (82%) agree that updates should reflect technological advances.

Concerns were expressed about the production data on which allocation is based. While some believe more recent data would perhaps allow for a better picture, NGOs stress that a 'dynamic' ex-post allocation system poses numerous problems including administrative complexity and the challenge of obtaining timely and accurate confidential information from firms.

61% of civil society respondents believe there should be no deviations from the general harmonised rules in order to avoid distortions. Views are mixed on the matter of indirect cost: 10% advocate for maintaining the present approach of state aid, 41% asked for compensation at EU level, while 38% think no compensation is necessary. NGOs stress that there is no single European energy market to have compensation harmonised across the EU.

d. Options for post-2020 - Innovation support

There were mixed views on the stage that would most benefit from support in the innovation process, as well as on where the funding should come from (auctioning revenues or free allowances). Some highlighted that such support should remain complementary to private support as improvements of any kind would represent benefits for the operator.

e. Other issues

Some civil society respondents (chiefly NGOs) underlined a number of other issues including: the need to reward best low-carbon performers, the need to address allowances surplus, the possibility of linking free allocation to efficiency and innovation requirements. Some expressed concern related to 'dynamic' allocation: in addition to confidentiality issues, complexity and the administrative burden required, the approach would negatively impact the incentive to reduce emissions.

V. Conclusions

For the analysis of the stakeholder consultation, 427 replies are taken into account.[6] The table below illustrates the participation of stakeholders by group.

Table 2: Summary of stakeholder consultation responses

	Number	% of total
Total business related	382	89%
Government/regulatory authority	16	4%
Civil society	29	7%
Total non-business	45	11%

Given the preponderance of business oriented stakeholders (89%), the analysis of the submissions was done by keeping in mind the need to ensure that all views (business, authorities, civil society) are presented in a balanced manner. Out of the business related replies, ca 8% were from the power sector and the rest from mainly energy intensive industry sectors.

Many stakeholders believe industry still has the ability to reduce emissions, even though this view is more mixed amongst business stakeholders than the other groups. Stakeholders underline a number of issues that need to be addressed e.g. to take into account the differences between industries, the need to consider international negotiations and developments, the importance of ensuring carbon leakage protection. In this context, the role of EU ETS is seen as an important instrument that can, however, in certain aspects be improved: civil society believes it should be improved especially in terms of ensuring a strong price signal, addressing the surplus of allowances, and taking into account the ability to pass on costs.

Authorities have stressed the fact that efficiency improvements are to the benefit of industry. Industry stakeholders expressed some concerns e.g. on the issue of the uncertain carbon price, the need for breakthrough technologies linked with the view that innovation is crucial for Europe, the differences between sectors, as well as the fact that there are many other factors (e.g. energy or fuel costs) affecting companies, besides the EU ETS.

There is considerable support from all stakeholders concerning the need for measures to support EU industry in the absence of an international agreement to ensure a level playing field and/or comparable climate-related efforts. Authorities emphasised the need to ensure focused support to those sectors most exposed to the risk. As a measure of protection in this sense, free allocation is seen as adequate by authorities and industry stakeholders, and as problematic by civil society.

All stakeholders expressed the opinion that certain aspects of the system need to be improved: surplus of allowances and carbon price are mentioned by civil society and authorities; ensuring that protection is well-targeted was emphasised by authorities; industry stakeholders notably referred to the concerns with the cross sectoral correction factor (CSCF) and the production data used as basis for allocation.

All stakeholders are generally in favour of innovation support and many agree that the scope for future ETS-financed innovation funding should go beyond CCS to include support for low-carbon technologies in industry. Concerning the funding sources (choices: an instrument similar

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to NER300, a new scheme using auctioning revenues, other types of funding), there were mixed views from the different stakeholders and within each stakeholder category.

On the subject of the technical aspects of the system, views were also mixed: many industry stakeholders argue for maintaining many of the existing parameters in order to ensure predictability; several NGOs argue in favour of revising benchmarks in line with 10% best at global level, while most civil society stakeholders in general support a revision of benchmarks in line with technological developments.

Regarding the production data on the basis of which free allocation is determined, most stakeholders believe using more recent data would be more relevant. When it comes to the details, however, there are mixed views: industry stakeholders advocate for a more output-based allocation to support increased production, while civil society cautions against the shortcomings of such an approach notably as regards administrative complexity and the challenge of obtaining timely and accurate confidential information from companies, and possible distortions of the economic incentives.

There are different opinions on the approach to take on indirect cost (CO2 costs in electricity prices): there is a marked preference for indirect cost compensation to be the same across Member States shown by industry stakeholders in order to ensure fair competition. Many NGOs underline in this context that there is no single European energy market. Around 41% of civil society stakeholders think the solution is EU-level compensation, while 38% are of the opinion that no such compensation is needed. Authorities (of which 8 Member States) have mixed views, with similar shares of those supporting EU-wide compensation and those seeing it as problematic given the differences in electricity market and advocating instead for the continuation of a state aid system.