

Product benchmarking

A new proposal regarding use of the so-called product benchmarking method, presented by the IFIEC and co-referred by Ecofys, has arisen on the market of concepts relating to the ETS. A similar proposal was also put forward by VIK - Energie für die Industrie.

This method is based on proportionate allocation of allowances for emission of GHGs in accordance with actual production in a given year in the unit amount resulting from the historic benchmark for the previous period (e.g. from two years before).

The benchmark is nothing other than an average calculated on the basis of historical statistical data. This average can be lowered upon the decision of the Commission (which is, in essence, a political one).

Producers that use worse technologies (i.e. ones that produce more emissions) must buy allowances on the market. Producers that use cleaner technologies can sell their surplus allowances.

Allowances are allocated for production, and can therefore not be gotten rid of through cessation of production (as in the case of grandfathering). One also cannot receive allowances for speculative aims.

The price of allowances should be formed on the basis of the costs of a given technology-improving investment – allowances should be bought, or the level of emissions lowered. Outbidding activates new resources of innovation. Thus, end costs should be significantly lower than in the auctioning system.

The way in which the benchmark is built is of great importance for Poland, and in particular its energy and heating sectors.

The worst solution from the Polish perspective is the pan-European homogenous benchmark, i.e. the multi-fuel benchmark – the emission-intensity of the EU-27 is approx. 0,41 tCO₂/MWh, of Poland 0,95 tCO₂/MWh, which means that we will have to pay (on average) 2.3 times more than Europe and 2.6 times more than the EU-15.

The best solution for Poland is the local (national) fuel-dependent benchmark, which is established separately for coal and for gas (it will probably be difficult to introduce two coal benchmarks – for lignite and coal).

Application of a homogenous national benchmark and a pan-European fuel-dependent benchmark is the second-best option acceptable for Poland.

The homogenous benchmark will significantly increase the participation of gas in the energy (fuel) mix.

This method can be applied for the energy and heating sectors, as well as for all industries that have a relatively homogenous structure of manufactured products.

Organisation of such a system does not require political decisions to be made with respect to allocation of allowances, as this results from the data and algorithm. Control over maintenance of production would be required.

According to the Commission, this method has two faults:

- 1) It does not generate the super-high prices (sic) necessary for production of new, market-immature technologies.
- 2) It does not generate any funds that the Commission (or member states) could use outside of the EU.

It is technically easy to eliminate both faults, but this would cause the true intentions of the Commission to be unveiled – impatience as to development of technologies and execution of large social programmes – these aims aren't necessarily supported by the citizens of the EU, especially those that come from developing member states. .

It is the author's opinion that the product benchmarking system could be flexibly connected to the auctioning system, which would solve the problem of generation of funds in the budgets of the member states.