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Consultation Response

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The European Union Emissions Trading Scheme - The Risk of Carbon Leakage of Energy Intensive Industry

Response to the European Commission consultation on the analytical report in the light of the international negotiations

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The European Union Emissions Trading Scheme - The Risk of Carbon Leakage of Energy Intensive Industries

The European Commission has launched a public consultation in the preparation of an analytical report assessing the risk of carbon leakage in energy-intensive sectors or sub-sectors under the European Union Emissions Trading Scheme (EU ETS). EUROCHAMBRES considers that the adequate climate action measures should be applied in the context of the economic crisis.

For the successful impact of the implementing measures, EUROCHAMBRES calls on the Commission to:

- *Include business-friendly and meaningful benchmarking for environmental actions*
- *Set realistic and clearly defined indicators for measuring carbon leakage*
- *Identify and include potentially competitive sectors*
- *Establish a genuine level playing field to create incentives for comparable efforts and burden sharing*
- *Ensure carbon costs and prices worldwide must be roughly equal*
- *Allocate enough free allowances for industry*
- *Establish financial support and compensations schemes*

THE CHAMBERS' SPECIFIC COMMENTS ON THE EUROPEAN COMMISSION'S CONSULTATION QUESTIONS

1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

The essential indicators for identifying the risk of carbon leakage (CL) haven't changed. The sectors which have not yet been classified as "carbon leakage" have some significant increases concerning the threshold values on trade and cost intensity. Therefore these sectors should be also included in the list.

Some more criteria on products which are similar or competitive with each other have not yet been taken into account. The respective products (sectors) which have not yet been in the CL list should also be added.

Key indicators have not changed. The carbon leakage criteria were set by the heads of state meeting at which the EU Climate and Energy Package was finalised. The so called carbon leakage list was based on an analytical assessment by the European Commission, using the following criteria in the directive - trade indicators, GVA data and carbon intensity data, together with carbon prices. The criteria, the levels set in the directive and the analysis are directly linked. The European Commission has defined the criteria based on the same assumptions as originally.

The analysis studied the future expected situation in 2013 and 2014 as a basis for the carbon leakage list, based on the available historical and statistical data and the future assumptions. Neither the historical data nor the assumptions have changed. The current carbon price has no meaning, as the future price will be set by the still developing benchmarks, international negotiations, etc. If one can say anything, it is that the economic crisis has increased the likelihood of carbon leakage.

2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?

The results of Copenhagen and the presented emission reduction by many states give no cause for a review of the exposed sector list.

1. Some additional (sub-) sectors are prepared to join the list, but this is not connected to Copenhagen.

2. The Copenhagen climate change conference failed to achieve a consensus on a comprehensive international agreement to combat climate change. The European Union has taken the leadership role in addressing climate change and has adopted the ambitious unilateral target of a 20% reduction in greenhouse gas emissions by 2020 based on 1990 levels. The European Council of 10/11 December 2009 reiterated the EU's conditions to move from this 20% decrease in emissions to 30%. These are *"that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities".* These conditions have so far clearly neither been met by the principal emitters of the 'other developed countries' nor by 'developing countries'.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

A revaluation of the free allocation for industrial installations will come into consideration only if a genuine level playing field is established by a new and comprehensive international climate agreement. Carbon leakage can be prevented only if the resulting burden and impact are equivalent for all industries worldwide.

Double charging must be prohibited, as well as CO_2 tax for companies.

A change of the level of free allocation for CL sectors can only happen when the direct competitors of a sector in the world market have genuinely comparable burdens (same mitigation level, same reference year of1990, an auctioning system, a binding cap, and a trade system).

In spite of the current situation of the certificate prices on a low level, industries have to allow for a rising price level in the mid to long term – this will also lead, as a further consequence, to a higher risk of carbon leakage.

Article 10(b) of the directive would allow for even further measures (import measures, compensation, adjustment of percentage of allowances) to prevent carbon leakage.

The directive already enables free allocation of 100% of the benchmarks. However, if the benchmarks lead to much larger reductions by industry than the 21% foreseen in the 20% target, adjustment could even be considered, or the "starting point" of the benchmarks changed.

At the end of the day, the carbon costs and prices worldwide must be roughly equal to avoid carbon leakage. Such equality is currently a fictitious notion.

4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

To prevent carbon leakage, a free allocation of the allowances as well as the compensation of the increasing power prices due to emission trading, are crucial.

But free allocation of allowances only helps in battling carbon leakage for the costs of the direct emissions. The EU remains the only region with carbon prices included in the electricity prices and therefore high electricity prices. None of the other regions in the world have such a situation - without a cap and trade system in place. Compensation of indirect electricity costs should be a step forward, but should not be limited to a small number of sectors, but to all relevant installations under EU ETS with high electricity costs. The decision not to give free allocation to industry for auto-electricity production by Combined Heat and Power installations (CHP) would cause a severe disadvantage to CHPs.

EUROCHAMBRES is the sole European body that serves the interests of every sector and every size of European business and the only one so close to business. EUROCHAMBRES has member organisations in 45 countries representing a network of 1,700 regional and local Chambers with over 19.8 million member companies. Chamber members employ over 120 million employees.

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