

Alliance of Energy Intensive Industries



Energy - the motor of EU's economy



4 million
direct jobs

Represent over
30 000
companies (EU)



30 million jobs
in our
manufacturing
value chains!



EU
objective:

Reinstate
industry's share
of EU GDP to

20%
by 2020

Meeting the March 2014 European Council request...

With a view to an early agreement on a new policy framework for energy and climate in the period 2020 to 2030, the European Council invites the Council and the Commission to continue work and rapidly develop the following elements:

- ...
- **develop measures to prevent potential carbon leakage and call for long-term planning security for industrial investment in order to ensure the competitiveness of Europe's energy-intensive industries;**
- ...

The European Council will ... taking a final decision on the new policy framework as quickly as possible and **no later than October 2014**. The European Council asks its President and the European Commission to take the necessary steps to prepare this decision.

Allocation inadequate to prevent carbon leakage

➤ For new entrants:

Top 10% benchmark x LRF is unrealistic: Sector roadmaps from e.g. Cefic, Eurofer, show considerably lower improvement rate of top 10%.

LRF new		2013	2014	2015	2016	2017	2018	2019	2020	
1,74%		100%	98,3%	96,5%	94,8%	93,0%	91,3%	89,6%	87,8%	
2,20%										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	85,6%	83,4%	81,2%	79,0%	76,8%	74,6%	72,4%	70,2%	68,0%	65,8%

➤ For incumbents:

Top 10% benchmark x CSCF also unrealistic: Sector roadmaps suggest rather 0.8% annual improvement rate.

CSCF new		2013	2014	2015	2016	2017	2018	2019	2020	
1,74%	published	94,3%	92,6%	91,0%	89,3%	87,6%	85,9%	84,2%	82,4%	
2,20%			-1,64%	-1,66%	-1,67%	-1,69%	-1,71%	-1,73%	-1,74%	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	80,2%	78,0%	75,8%	73,6%	71,4%	69,2%	67,0%	64,8%	62,6%	60,4%

A closer look at carbon leakage

- Various forms of carbon leakage:
 - Hard cash cost production carbon leakage
(selling allowances delivers more value than producing and selling product)
 - Arbitrage production carbon leakage
(company arbitrages production between EU and non-EU)
 - Investment carbon leakage
(investments outside EU due to high barriers and risks to get allowances for growth and due to necessity to arbitrage between EU and non-EU)

- Carbon leakage arbitrage break-even CO₂-prices can be calculated (using parameters such as average profit margins, transport costs, carbon intensity, etc.), are equal to CO₂ auctioning prices.

Above relatively low CO₂ prices already, producing outside EU is cheaper than inside EU!

Sources:

1. "Closer look at carbon leakage" (Cefic, 2014)

2. "Carbon leakage prospects under Phase III of the EU ETS and beyond" prepared for DECC (Vivid Economics, Ecofys, 2014)

Allocation based on real production...

- **Carbon leakage arbitrage CO₂-prices are much higher = better resistance to carbon leakage risk.**

Top 10% benchmark allocation even without CSCF appears to be very ambitious and squeezes less efficient plants (95% have to buy allowances while there is a need for investments to reduce emissions!).

‘Price signal’: The lower the CO₂ break-even price, the higher the carbon leakage risk!

- **Real production-based instead of static allocation...**
 - ✓ ...avoids over-allocation during recession and crisis and avoids under-allocation for growth
 - ✓ ...mitigates the risk of carbon leakage (to zero for an efficient plant)
 - ✓ ...removes the perverse incentive to lower production in the EU and instead to import the product from outside EU

Sources:

1. “Closer look at carbon leakage” (Cefic, 2014)

Alliance of Energy Intensive Industries supports sound objectives for a smart EU ETS revision

New method of allocation should be:

- 1. Simple**
- 2. Predictable for companies**
- 3. Effective (clear incentive to reduce emissions and effective against carbon leakage)**

Erroneous claims made:

- **Real production allocation more ‘complex’ (=more ‘red tape’) ?**
 - Production volumes are well known, much more at hand than GHG emissions. Instead, “*20% capacity increase/reduction = 20% higher/lower allocation*” only sounds simple, but can be complex as rules for ‘partial cessation’: risky and partly illogical!
- **Real production allocation requires annual Commission Decision on allocation?**
 - No need, as currently also no annual Commission Decision after closures, new entrants and partially ceased productions.
- **Confidentiality of production data pose a problem?**
 - Easy solutions: e.g. adjustment of allocation not published on installation level but on aggregated level (per sector/Member State).

Answering to the European Council request:

- ***“The existing policy framework for industrial sectors at risk of carbon leakage must continue until 2030, ensuring that there are ...***
 - ✓ ***no incentives to relocate production outside Europe, and ...***
 - ✓ ***no penalties for economic growth.***
 - ✓ ***To that end, at the level of best performers in sectors at risk of carbon leakage there should be no direct or indirect costs resulting from the 2030 framework”.***

Answering to to European Council request:

The future 2030 agreement should make sure that:

- **There is Predictability.** *Already now clarity is given that the current carbon leakage framework is extended up to 2030.*
- **Competition is not distorted.** *Direct carbon costs and resulting higher electricity prices for industry are offset in all member states, consistent with the internal market.*
- **Investments are promoted.** *100% free allocation based on technically and economically achievable benchmarks. The cross sectoral correction factor is removed (art 10a5). New entrant and closure rules adapted.*
- **Growth is accommodated.** *Free allocation is based on sufficient allowances and production volumes that reflect real production.*
- **Investments and innovation are rewarded.** *Investments, innovation and early action are rewarded in the new system.*
- **A long term view is taken.** *Sufficient funds must be made available, among other from revenues from the EU ETS, for the development of breakthrough technologies.*

Alliance of Energy Intensive Industries



Thank you for your attention!

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