

# What have we learned so far ?

First Stakeholder meeting on post-2020 carbon leakage provisions for  
the EU ETS  
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## Project overview

- CEPS project *“Carbon Leakage: Options for the EU post 2020”*
- Co-funded by five EU Member States and seven companies from different sectors of the economy.

### Objectives:

1. *Which factors determine carbon leakage risk?*
  2. *How to determine if a sector is at risk of carbon leakage?*
  3. *What can we do (what are the options) to mitigate the risk of carbon leakage?*
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## Ex-post results

- Limited empirical data to perform ex-post analysis
  - As yet little evidence found
  - Reliance is on ex-ante models to assess the impact of EU ETS on carbon leakage in different sectors
- A number of empirical studies are now emerging
  - Some: the indirect impact of the ETS carbon price on electricity prices
  - Others that refer directly to the impact of the EU ETS on products such as cement, steel, and primary aluminum.

## Ex-post results (2)

- Ex-post studies have generally concluded that there was no leakage
- The factors that have been put forward to explain this discrepancy are the following ones:
  - The high level of free allocations
  - Strategic barriers to trade
  - Large fluctuations in the level of CO2 prices and/or low CO2 prices
- Recent CEPS work in this area:
  - Aluminium: impact of EU ETS costs on primary aluminium are significant (though strong fluctuations due to EUA prices and economic cycles)
  - Steel: smaller impacts
- Conclusion: Energy plays a larger role in cost structure than carbon

## Assessment of risk tests: EU ETS

- Using carbon costs (and not intensity) is more focused
  - Assumption: Long-term price of 30 Euros/ton
  - Put forward for an investment decision time frame
- Broad list – Leakage list cover 95% of industrial emissions in EU ETS
- Trade exposure as a stand-alone?
- Carbon costs test captures outliers
- In/Out approach
  - Higher pressure to be on the list: more politicized process
  - Too simplified?
- Data collection is a complicated matter (NACE vs installations)

## Risk tests EU ETS, some conclusions

- Focusing the Leakage List is needed
- Moving away from a binary model to detect carbon leakage risk could contribute to focus the Leakage list.
- Multi-level or linear risk-rating could be an option to examine, since it can provide a more realistic way to measure risk of carbon leakage

## Why is this an issue now? (2/3)

- 2020 package addressed CL through CLL
- Post 2020 there is no clear provision to address the risk of carbon leakage
- Disconnect between ex ante and ex post CL
  - Real OR
  - Apparent?
- Were risk mitigation measures effective?
  - Yes and/or
  - Circumstances helped

## Why is this an issue now? (3/3)

- Past may not tell the future
  - More stringent caps
  - Higher price for carbon in EU and internationally
  - Economic recovery and growth
  - A new international climate change regime with contributions from all
  - Carbon pricing at the domestic level in different jurisdictions
  - Evolution and prices in energy markets



## A number of issues are emerging in need of examination:

1. The number of allowances available for free allocation is decreasing
2. Unfocused coverage – too many sectors covered
3. Likely increase in EUA prices, due to a number of provisions planned and economic circumstances
4. Recognition of increase/decrease in production
5. Coverage of carbon costs from indirect emissions
6. All sectors are treated the same, but are not the same
7. Emergence of new global climate change regime will impact risk mitigation measures
8. Interaction (within the EU e.g. carbon reserve and between the EU ETS and other policies)

**Thank you for your attention**

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