Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors

Comments by Italy

Draft

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?*

Notwithstanding carbon price fluctuations, we believe key indicators of the risk of carbon leakage have not changed significantly. While the economic situation has changed quite appreciably for the worse for European companies, due to the crisis that affected the world economy as a whole, in our view the long-term international trade structure and the international division of production – two of the key factors that determine carbon leakage – have not changed in a significant way.

The effects of the crisis should be taken into consideration when structuring and elaborating any analytical report on European energy-intensive sectors and their treatment for being exposed to risks 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?*

No, we don't think so.

As the Commission highlighted in a recent communication (*COM(2010) 86 final*), COP15 fell short of the EU's ambitions to reach a robust and effective legally binding agreement including economy-wide emission reduction commitments by all major emitters to limit global warming 2°C below pre-industrial levels.

No significant progress was made on energy-intensive industrial sectors. No so-called sectoral mechanisms or other comparable systems were established internationally that can level the playing field in any of the sectors the EU recognized to be exposed at relevant risk of carbon leakage (*Commission Decision C(2009) 10251*).

Feedbacks to the Copenhagen Accord include some pledges by EU's competitor countries that are new and additional compared to the Kyoto Protocol. Such pledges, however, present great problems of comparability, and are still too unclearly attached to binding legislation, at the international and even at the national level. Therefore, the impact of such pledges cannot be considered comparable to the impact that the EU climate legislation has on the European economy and on "carbon leakage" sectors in particular.

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?*

We cannot foresee any factor that could trigger a change in the level of free allocation. Such change should be considered only if a global and comprehensive international agreement for the period beyond 2012 will be reached and if within it comparable carbon constraints are posed to competing sectors in third countries .

Carbon leakage depends on the absence of a level playing field on reduction commitments, and until such level playing field is achieved, the risk of carbon leakage will remain and thus an adequate level of protection is necessary.

We underline that it is important to ensure certainty to both ETS industrial and market operators about the quantity of allowances that will be allocated for free and/or auctioned.

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?*

We believe that further measures to address the carbon leakage risks should be considered, including the solutions provided by the Directive. In such respect we look forward to the analytical assessment the Commission shall deliver by June.