# Carbon leakage and the ETS proposal

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ECCP meeting 11/4-08

# Overall objectives of EU ETS review

- Cost-effective contribution to -20% GHG target for 2020, or to stricter target
- Improvement of the EU ETS based on experience
- A clear long-term carbon price

# Allocation principles

- Harmonised allocation rules ensure level playing field across the EU

- Basic principle for allocation is auctioning:
  - Macro-economic benefits from good use of revenues
  - Efficiency of the ETS
  - Simplicity and transparency
  - Eliminates wind-fall profits

# Allocation principles

- Partial free allocation to industry as a transitional measure
  - 80% of their share in 2013, reduced to 0% 2020 (equals 40% over the period)
- For sectors exposed to significant risk of carbon leakage
  - Free allocation up to 100% of their share.
  - Sectors to be determined by June 2010

# Carbon leakage

- **General principle:**
- The Commission is committed to addressing carbon leakage.
- The delocalisation of EU industry to countries without carbon constraints, due to climate policies, will not contribute to climate change mitigation.
- However, globalisation tendencies, not linked to climate change policies, cannot be solved by climate change policies

# Criteria for Carbon Leakage

- Criteria in ETS proposal: Commission to take into account extent to which a sector can pass on the cost of allowances in product prices without significant loss of market shares, taking into account:
  - Extent to which auctioning lead to a substantial increase in cost
  - Possibility to reduce emission levels
  - Market structure and exposure to international competition
  - Effect of climate change policies implemented outside the EU
- Estimates of lost sales may be used as a criterion

# Allocation principles

- In light of international negotiations: Commission to report on ‘risk of carbon leakage’ by June 2011 and make any appropriate proposals, e.g.:
  - To review free allocation levels and/or
  - To introduce system to neutralise distortive effects
- Report will include analysis of:
  - any international agreement
  - actions taken by competing economies (including binding sectoral agreements).

# Indirect effects

- Indirect effects mentioned in the ETS proposal ”action taken [on carbon leakage] may take into account  the electricity consumption in the production process”
- Need to reflect further on this and what methods could be used. Examples:
  - Free allowances
  - Financial support
  - Border measures

# European Council

*“The European Council recognizes that in a global context of competitive markets, the risk of carbon leakage is a concern in certain sectors such as energy intensive industries particularly exposed to international competition that needs to be analysed and addressed urgently in the new ETS Directive so that if international negotiations fail, appropriate measures can be taken. An international agreement remains the best way of addressing this issue.”*