



Summary overview of Stakeholder Responses

to the Public Consultation on the methodological
choices for determining the list of sectors and
subsectors exposed to carbon leakage (2021-2030)

Executive Summary

1.1 Overview

156 stakeholders - including trade associations, businesses, NGOs, governmental institutions and a citizen - were consulted on a number of key points relating to the methodology of the assessments which determine the carbon leakage list. Responses were structured using a questionnaire. The data generated from the consultation were cleaned by removing blank & repeat entries, making corrections to respondents who had misclassified themselves and completing responses that were cut short by the character limit. The results were then analysed and are presented in this report.

Stakeholders were firstly asked to provide feedback on their experiences of Phase 3 of the emissions trading scheme (ETS). The risks of carbon leakage were typically perceived to be higher since the beginning of ETS Phase 3 in 2013, though government institutions and NGOs tend to be less pessimistic. The administrative burden of Phase 3 was described as being significant but proportionate to the scale of the task. Specific recommendations were provided on ways in which the process might be streamlined or made more inclusive. Respondents were also asked specific questions relating to methodological aspects of the quantitative, qualitative and disaggregated assessments. Stakeholders were typically in favour of a transition to a marginal measure of indirect emission intensity, though others highlighted the added complexity this would bring. Suggestions were made as to how the ability of firms to pass on costs through product prices could be estimated. Various indicators for the qualitative assessment were put forward capturing the vulnerability of certain industries. The appropriate degree of detail and data availability for the disaggregated assessments were discussed. Finally, stakeholders were asked for their views on the global landscape of climate policy, particularly in relation to environmental policies being implemented outside of the EU.

1.2 Feedback on the impact of EU ETS Phase 3

Responses from the stakeholder consultation highlighted a divide in opinion between *NGOs/government institutions* and *Business/trade associations*. Of the 145 businesses and trade associations that took part, 129 argued that the risk of carbon leakage (CL) had increased since the start of Phase 3. Reasons given for this outlook highlighted the slow pace of climate action in third countries and the disproportionate impact of other 'cost-push' factors on EU manufacturing. Many stakeholders also argued that the application of the cross-sectoral correction factor (CSCF) exacerbated the risk of carbon leakage. Government institutions and NGOs had a more optimistic view, with most arguing that the risk had either decreased or remained constant throughout Phase 3. These respondents acknowledged many of the aforementioned challenges to international competitiveness, but also argued that this was outweighed by the success of international agreements (e.g. Paris).

Concerning the administrative burden, most respondents felt that while the workload was substantial, it was proportional to the scale and significance of the task. Administrative simplification, it was argued, should only be permitted if it does not endanger the robustness of the assessment. Specific suggestions were however provided on potential improvements to the process, such as the inclusion of a

streamlined process for small businesses and the amalgamation of assessments for indirect and direct emissions.

1.3 Feedback on the methodological choices of the quantitative assessments

In response to questions addressing indirect emission intensity, the general consensus (around 3 in 4 respondents) was that marginal values were most appropriate. The vast majority of stakeholders felt that the marginal value better reflected both the costs incurred and the environmental impact of electricity use. Many of the respondents who favoured average measures also expressed the belief that marginal values were theoretically and conceptually appropriate. Several respondents, however, pointed out that the evaluation of a marginal measure would be complicated, time-consuming and would add to the administrative burden of the assessments.

When asked about the best way to estimate the extent to which businesses are able to pass on costs through product prices, stakeholders provided a number of helpful improvements and alternative measures. Participants suggested incorporating upstream and downstream activities into the existing measure. With respect to alternative measures, various suggestions were made, including: the % share of European production as a share of global production, the price elasticity of demand, the homogeneity of product and the bargaining power of businesses (via market concentration).

1.4 Methodological choices of the qualitative and disaggregated assessments

The views of the participants in the stakeholder consultation, with regards to the approach taken in the qualitative and disaggregated assessments can be categorised into the following three groupings:

(1) The need for the involvement of stakeholders

An important outcome from the stakeholder consultation was the need for a transparent and uniform assessment framework that relies upon the involvement of stakeholders. However, there were diverging views on who should be consulted during the process with industry advocating that only the representatives of the sector should be involved whereas others expressed the need for a wider selection of stakeholders (i.e. representing civil society). The form of this interaction also varied with industries arguing that their involvement should occur before the assessment is finalised in order to provide a reaction in advance of the adoption of the list. In contrast, NGOs within the stakeholder consultation requested that the Commission reports publicly on how the views of other stakeholders beyond industry were taken into account when finalising the list.

(2) Indicators for the qualitative assessment

The stakeholder consultation collected a range of views on which indicators could be used for the qualitative assessment. Key indicators for the qualitative assessment included:

- Cost pass through rate: this indicator should be reflected based upon observed empirical data.
- Ability of a sector to reduce emissions or electricity consumption: this indicator should be based on assessments of available technologies and the potential for new advances in technology, improved process efficiency and emission reductions by decentralized energy converting facilities.
- Sector's current and projected market characteristics: this indicator should be based on an assessment of the competition impacts between carbon intensive and clean industries as a result of

placing the sector on the carbon leakage list. Geographic location and whether the sector contributes to food security should also be considered.

- Profit margins: this indicator should assess the long-term profit impacts of placing the sector on the carbon leakage list and should also reflect which level of utilisation rate is required for a sector to operate economically. It should also be identified whether or not a sector is a price taker and the price elasticity of demand.

(3) Disaggregation level of the qualitative assessment

In the stakeholder consultation, representatives from industry advocated the ability to use sector specific data in order to calculate the carbon leakage ratio where public database information contains unreliable or unrepresentative information. Views on the disaggregation level of the qualitative assessment varied from those who deem the 8-digit level as appropriate especially in sectors with very heterogeneous products to those who argued that the assessment should be carried out at 2-digit level (e.g. for the oil and gas sector). Where a qualitative assessment is made at the sub-sector or PRODCOM level, it was expressed in the stakeholder consultation that the same quantitative criteria should also be applied. In the case where no PRODCOM code applies, it was advocated by representatives from industry that installations should be allowed to submit individual data to the Commission in order to be assessed.

The respondents in the stakeholder consultation were in favour of disaggregated assessments that attempt to reproduce the level of robustness, fairness, transparency and equity of the standard NACE assessments.

Several key issues have been identified from the results of the stakeholder consultation that include:

- Accuracy of data sources

Although there was a consensus on the need for accurate data, views diverged on the requirements for data verification ranging from those that argued for no additional requirements apart from simple verification by a consultant to those that stressed the need for company data to be verified by independent accreditors and/or at national level. It was also suggested during the stakeholder consultation that a simplified gross value added (GVA) disaggregation methodology should be available for integrated industries. There was also support amongst the respondents for the development of a clear approach to the collection of data in the event of missing data, which should be reviewed by an independent third party. It was also put forward that the collection of additional data should be publicly available to ensure complete transparency of the process.

- Assessment process

Respondents from the stakeholder consultation argued that the rules of data submission should be clear, flexible and user-friendly with feasible deadlines. Guidelines for data collection and quality should be clear and the need for communication between sectors, Member States and the Commission was strongly emphasised - especially with regards to the application process for a sector applying for further assessment.

- Sector eligibility

A view was also expressed that companies from small sectors should be able to provide their own data and to allow assessments to be conducted by certified/accredited inspectors. Companies active in smaller sectors are willing to pay for controllers, when at an individual level, emission and production

data can be assessed. Allowing for assessments at disaggregated (individual level) was considered to be important for some of the respondents for Phase 4 of the ETS.

1.5 Global landscape of climate policy

The vast majority of the respondents believed that at least some progress has been made with regards to the development of international climate policy and action in 2018 compared to 2013. Several key points were raised during the consultation:

- Respondents cited the emergence of a number of emission trading schemes across the world as evidence of environmental policies being implemented outside the EU. However, views were mixed on the comparability of these emission trading schemes with the ambition of the EU ETS.
- Respondents also highlighted the importance of comparing the industries participating in the EU ETS with the climate policies implemented worldwide at a net cost level, i.e. after taking into consideration free allowances; indirect cost compensation as well as the cost that companies may face for non-compliance. It was expressed that a transparent methodology needs to be developed in order to assess the comparability of the EU ETS with other climate policies worldwide.
- Many of the respondents believed that the outcome of any such assessment on comparability would currently conclude that the EU ETS is more ambitious than other climate policies worldwide. This in part reflects the maturity of the system. However, some examples of more ambitious elements of ETS design in other schemes were provided by the respondents. It was often argued that direct comparisons of ETS schemes is challenging and that ideally a global set of rules would be applied to ensure a level playing field for industry.

The majority of the respondents assessed that the rate of improvement of carbon emission intensities in production in the manufacturing industry was greater in the EU compared to worldwide. Key issues that were raised include:

- A number of representatives from manufacturing sectors have strongly expressed the improvement in the carbon emission intensity of their production; however some respondents claimed that they were not in a position to judge the improvement outside of the EU.
- One of the submissions claimed that in several highly emitting sectors, the (direct) emission intensity has been flat-lining since the start of Phase 3 and that this may indicate that the EU ETS is not providing sufficient incentives to improve carbon efficiency nor to invest in new, low carbon installations in these sectors.
- It is important to acknowledge the difficulty in making such comparisons between the EU and the rest of the world due to the limited availability of data.