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

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?

The exposure to international trade has not changed since the energy package even though the crisis has changed many factors.
The carbon leakage criteria were set by the heads of state meeting finalising the Energy and Climate Package and there is no reason why these would have to be changed. The carbon leakage list was based on an analytical assessment by the Commission, i.e. DG Enterprise, using the criteria listed in the directive - trade indicators, GVA data and carbon intensity data, together with carbon prices. The criteria and levels set in the directive and the analysis are directly linked. The Commission used in a consistent manner the same projections as were used to define the criteria in the first place. The projections for 2013 and 2014 are based on available historical and statistical data and future assumptions. Neither the historic data nor the assumptions have changed: While the current carbon price reflects current market conditions, the future price will be resulting from the still to be developed benchmarks, international negotiations, and various currently unpredictable other drivers.
The economic crisis has worsened the economic situation of EU manufacturing sectors and the carbon leakage problem has rather increased. The leakage risk assessment of Article 10a.15 is not a tool to quantify leakage in any form but to assess the inherent vulnerability of sectors. According to Article 10a.13 it is possible and may be necessary to add sectors to the list - but not to remove them.

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?

The Copenhagen accord is in no way an agreement involving a similar level playing field for any industry. Monitoring, reporting and certification are not even defined in the accord. No other continent or country has accepted a similar reduction of GHS as in Europe in absolute term.
Those installations which were border-edge in term of performance will face a strong competitive challenge in the 3rd period as no agreement is signed and **risks of carbon leakage are obviously increasing**.

Accordingly, Copenhagen has not brightened the prospect for a global level-playing field for internationally traded goods in the future. European industry is not less exposed to carbon leakage than before Copenhagen but could be exposed even more due to emerging reluctance of other world regions to impose equal carbon costs and constraints on energy-intensive sectors.

Other than the question would suggest a review of the carbon leakage list cannot be based on article 10b. Reviewing the list of sectors and possibly including, let alone removing sectors are not covered by this article. Article 10b concerns the potential for several measures (import measures, compensation, adjustment of percentage of allowances) not for reviewing the carbon leakage list as such.

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?

UIC supports BusinessEurope scorecard which remains valid for this answer: this position is similar for all businesses in Europe. With the present crisis, the investment capacity of most companies has been decreased. An economic recovery is necessary to achieve the reduction target in any other way than decrease in production.

The Commission is currently developing benchmarks, benchmark values, allocation rules under the EU ETS that will determine the level of free allocation to companies. In many sectors, emerging benchmarking data demonstrate huge performance ranges in various sectors (40% or more). Starting at the level of the average of the 10% best installations of a sector already by 2013 would cause immediate, high, unilateral costs to 95% of industry installations not allowing operators to adjust technology over time. Should the emerging benchmarks lead to much larger reductions by industry than the -21% foreseen, further adjustment must be considered.
These are compelling factors to adjust the level of free allocation allowing a transition towards 2020. Otherwise, other compensational measures with equal effect will be needed: Output and growth perspectives of the whole EU manufacturing economy must not be governed and limited through the emission planning of the European Commission.

Article 10a of the revised Directive named “Transitional Community-wide rules for harmonised free allocation” refers to the need for a transition until there will be a comprehensive international binding agreement with a same or similar carbon price signal for Europe’s competitors in the global market. These transitional measures will have to apply to protect against competitive disadvantages until such an agreement enters into force.
It is worth noting that emerging climate polices in other countries address the protection of the competitive position of their industries explicitly – other than the revised Emissions Trading Scheme.

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?

Free allocation of allowances up to the benchmark doesn't mean no cost for the industry: only few installations may have a small burden, but in average installations will have to purchase the difference between the average emission and the benchmark. This difference could be huge in most sectors. If the benchmark is too low, it becomes obvious that the marginal cost for a large number of installations will become deleterious and free allocation won’t prevent the risk of carbon leakage.
The investment costs to comply with the -21% target will be in many cases above imports costs of the same product.
A Border Adjustment mechanism could be studied as written in the directive to face the carbon leakage due to under allocations to the energy intensive industry.

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