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## Assumptions to be used for new EU ETS carbon leakage list 2015-2019



The EU emissions trading system (EU ETS)[1] was established in 2005 to promote reductions of greenhouse gas emissions in a cost-effective manner. Carbon leakage is the term used to describe the situation that may occur if, for reasons of costs related to climate policies, certain businesses were to transfer production to other countries which have laxer action on greenhouse gas emissions and that would lead to an increase in global emissions.

Transitional free allocations are given to industry from 2013 onwards, which are harmonised across the EU. In addition, to address the risk of carbon leakage of specific industries covered by the EU emissions trading system, production from sectors and sub-sectors deemed to be exposed to a significant risk of carbon leakage receives a higher share of free allowances in the third trading period (from 2013 to 2020). Member States can also give state aid to certain industries in respect of power prices, in accordance with State aid rules adopted in 2012[2].

For the sectors and sub-sectors included in the carbon leakage list, the benchmark-based free allocation (see Commission Decision 2011/278/EU)[3] is multiplied by a factor of 1 (100%) while for other sectors the allocation will be multiplied by a lower figure (80% in 2013, reducing linearly every year to reach 30% in 2020).

The ETS Directive provides criteria for how to determine if a sector is to be on the carbon leakage list. The first carbon leakage list was adopted in 2009 (Commission Decision 2010/2/EU)[4] and is applicable for the free allocation of allowances in 2013 and 2014. Annual additions to the carbon leakage list are allowed and sectors were added in 2011 and 2012. Evaluation for possible additions in 2013 is currently ongoing.

The Commission is required to draw up a new list every five years. Thus, a new carbon leakage list has to be determined for the years 2015-2019.

The criteria used to determine whether a sector is exposed to carbon leakage are set in the EU ETS Directive (Article 10a, paragraphs 14-17). A sector or sub-sector is deemed to be exposed to carbon leakage if:

- the sum of direct and indirect additional costs induced by the implementation of the ETS Directive would lead to an increase of production cost, calculated as a proportion of the Gross Value Added, of at least 5%; AND the trade intensity (imports and exports) of the sector with countries outside the EU is above 10%, OR
- if any of the above two criteria (additional cost or trade intensity) has a value above 30%

Alternatively, a sector can be deemed to be exposed also based on qualitative criteria, focusing on abatement potential, market characteristics and profit margins.

The purpose of the present stakeholder consultation is to ask the opinion of stakeholders on issues related to the determination of the new carbon leakage list for the period 2015-2019. These issues concern in particular certain assumptions that have to be made when applying the overall approach spelled out in the ETS Directive.

The process for the adoption of the new carbon leakage list has to be concluded in 2014, and will include the opinion of the Climate Change Committee and 3 months scrutiny by the European Parliament and Council. Involvement of the European Council is foreseen in Article

10(a)13 of the ETS Directive.

The results of this stakeholder consultation will be analysed and incorporated in the Impact Assessment to be conducted for the determination of the new carbon leakage list for the period 2015-2019. Furthermore, dedicated stakeholder meetings may be held in autumn 2013 to enable more focussed discussions. Additionally, bilateral stakeholder meetings may also take place.

The questionnaire consists of 17 multiple choice questions and does not require more than 20 minutes of your time. There is however room to motivate replies and respondents are strongly encouraged to justify their responses with references to concrete evidence and facts wherever possible. For each question it is possible to reply "I don't know/no opinion".

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[1] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009L0029:EN:NOT>

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[2] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52012XC0605\(01\):EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52012XC0605(01):EN:NOT)

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[3] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32011D0278:EN:NOT>

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[4] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32010D0002:EN:NOT>

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## A. Registration

A.1. What is your profile? <sup>\*</sup> (compulsory)

- ☐ Business
- ☐ Trade association representing businesses
- ☐ Government institution/regulatory authority
- ☐ Academic/research institution
- ☐ Non-governmental organisation
- ☐ Citizen
- ☒ Other (please specify below)

A.2. Please enter the name of your business/organisation/association etc: <sup>\*</sup> (compulsory) (maximum 500 characters; count: 0)

ASSOVETRO- Associazione Nazionale degli Industriali del Vetro

A.3. Please enter your contact details (address, telephone, email): <sup>\*</sup> (compulsory)

Via Barberini, 67 - 00167 Roma - Italia

Tel. 0039064871130 - fax 00390642011162 - e-mail: [assovetro@assovetro.it](mailto:assovetro@assovetro.it)

ASSOVETRO E' UN'ORGANIZZAZIONE REGISTRATA

Register ID: 09462657891-23

Denomination: Assoc 148491583

A.4. If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS: <sup>\*</sup>  
(compulsory)

- ☒ Yes
- ☐ No
- ☐ Not relevant (please explain below)

A.5.

Please explain why the question above is not relevant in your case (max 500 characters)  
(optional) (maximum 500 characters; count: 0)

A.6. If your sector/industry falls under the scope of EU ETS, does the sector/company you represent receive free allocation under the harmonised allocation rules? <sup>\*</sup>  
(compulsory)

- ☒ Yes
- ☐ No
- ☐ Not relevant (please explain below)

A.7. Please explain why the question above is not relevant in your case (max. 500 characters) (optional)  
(maximum 500 characters; count: 0)

## B. I. General: competitiveness, carbon leakage and the 2009-2014 carbon leakage list

The questions in this section are an opportunity for stakeholders to express their general and broader view on carbon leakage issues, the list valid for 2013 and 2014 and will be useful from a policy evaluation perspective.

B.1. As stipulated in the ETS Directive, the aim of the EU Emission Trading System is to promote reductions of greenhouse gas emissions in the most cost-effective and economically efficient manner. To address the risk that, for reasons of costs related to climate policies, relocation of companies to areas which have laxer constraints on greenhouse gas emissions could lead to an increase of carbon dioxide emissions, Commission Decision 2010/2/EU has established the list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage. This list is valid from 2009 to 2014 included, and is incorporated in the determination of free allocation for 2013 and 2014.

In your view, how has the risk of carbon leakage evolved since the adoption of the first carbon leakage list in 2009: <sup>\*</sup>  
(compulsory)

- ☒ Increased substantially
- ☐ Increased slightly
- ☐ Remained the same
- ☐ Decreased slightly
- ☐ Decreased substantially
- ☐ No opinion

B.2. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

the permanent uncertainty surrounding the whole ETS dossier (revision of the carbon leakage list, back-loading, set-aside, late allocation for 2013) puts a serious brake on new investments in Europe. We can see that new projects are rather located outside EU. There is also evidence that territorial emissions in EU decrease, while emissions linked to consumption in EU increase, showing that production of goods for EU consumption takes place more and more outside EU (see e.g. House of Commons – Energy and Climate Change Committee. Consumption-based Emission Reporting. Twelfth report of session 2010 – 2012. Volume 1). The situation in the US (shale gas and strong industrial policy for re-industrialising US) is also attracting investments at the expense of EU. Finally, the severity of the benchmarks in the third period (10% of best installations) is also a reason for re-location of production outside EU.

B.3. In your view, how adequate policy instruments are free allocation and the increased allocation for sectors on the carbon leakage list in particular in relation to the risk of carbon leakage?\* (compulsory)

- ☐ Very adequate
- ☒ Quite adequate
- ☐ Quite inadequate
- ☐ Very inadequate
- ☐ No opinion

B.4. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)



Being at the beginning of the third period, it is a bit early to take a firm position on this question. Overall, the principle of free allocation for energy-intensive industry is a good one and should be maintained. But, this principle alone does not guarantee an effective protection of industry. The very though benchmarks (10% best), the extremely complex and unfavourable guideline documents for allocation, and the constant uncertainty around the ETS dossier (revision of the carbon leakage list, back-loading, set-aside, late allocation for 2013) undermine this general principle and favours carbon leakage.

B.5. Currently 154 sectors and 16 sub-sectors are on the carbon leakage list valid for 2009-2014. In your view, how adequate is the coverage of sectors and sub-sectors in the current carbon leakage list? <sup>\*</sup>  
(compulsory)

- ☐ The carbon leakage list is too short
- ☐ The carbon leakage list is of adequate length
- ☐ The carbon leakage list is too long
- ☒ No opinion

B.6. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)



glass industries cannot judge about the relevance for the other sectors to be on the list. But the list would be shorter if only ETS sectors were listed.

## B.A. II. Methodology for new carbon leakage list 2015-2019: options to be discussed in the Impact Assessment

Based on Article 10(a)18a of the ETS Directive, if third countries have firmly committed to reducing emissions in an extent comparable to the one of the ETS, it can be considered whether the trade between EU and these countries shall be treated the same way as intra-EU trade because there would be no risk of carbon leakage to such countries.

B.A.1. In your view, is there an increase of the ambition of domestic climate policies undertaken in countries outside the EU/EEA since 2009?<sup>\*</sup> (compulsory)

- ☐ Yes, a significant increase
- ☐ Yes, some increase
- ☐ No change since 2009
- ☒ No, there is even some decrease
- ☐ No, there is even a significant decrease
- ☐ No opinion


B.A.2. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

Even if some countries (Australia, South Korea) are developing some trading schemes, these countries are not major trade partners for the EU glass industries. Moreover, those schemes are generally not comparable with the EU ETS, being far less stringent (e.g. free allocation to the level of the average performance of a sector in Australia, instead of the 10% in EU). On top of this, there is currently no Kyoto protocol (contrary to the 2009 situation). Some talks are happening to try to extend the Kyoto protocol between 2015 and 2020, but progress is very slow, and major economies have already declared that they will not participate (Russia, Canada, Japan, US,...). The situation has therefore worsen !

B.A.3. How do you see the climate policies of the following countries outside the EU-28 and EEA EFTA states, with which there are decisions or on-going discussions to implement ETS systems?

	Fully comparable to the ETS	Partially comparable to the ETS	Not comparable to the ETS	No opinion
B.A.3.1. Australia <sup>*</sup> (compulsory)			x	
B.A.3.2. Switzerland <sup>*</sup> (compulsory)			x	


B.A.4. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

 The level of ambition in Australia is far less than in Europe (e.g. free allocation to the level of the average performance of a sector in Australia, instead of the 10% in EU).

### B.A.5. How do you see the climate policies of countries or regions outside the EU-28 and EEA EFTA states?

	Fully comparable to the ETS	Partially comparable to the ETS	Not comparable to the ETS	No opinion
B.A.5.1. China <sup>*</sup> (compulsory)			×	
B.A.5.2. South Korea <sup>*</sup> (compulsory)			×	
B.A.5.3. New Zealand <sup>*</sup> (compulsory)			×	
B.A.5.4. USA <sup>*</sup> (compulsory)			×	
B.A.5.5. Brazil <sup>*</sup> (compulsory)			×	
B.A.5.6. Russian Federation <sup>*</sup> (compulsory)			×	
B.A.5.7. Middle Eastern countries <sup>*</sup> (compulsory)			×	
B.A.5.8. Other country (please specify below) (optional)			×	

B.A.6. If you wish, please motivate your answer (max. 2000 characters) (optional) (maximum 2000 characters; count: 0)

-  India is missing from this list. There is no mandatory scheme in the US, China, Russia and India. Brazil is mainly focusing on deforestation to receive CDM, but industry

is not targeted.

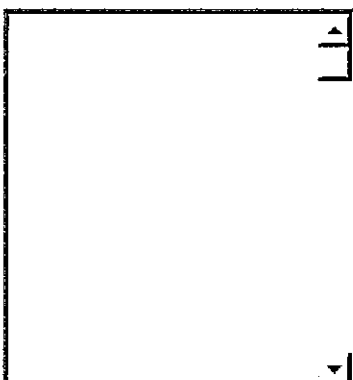
B.A.7. The ETS Directive requires the use of the Eurostat NACE classification (Statistical Classification of Economic Activities in the European Community<sup>[1]</sup>) for the definition of sectors to be assessed for potential inclusion in the carbon leakage list. In your view, what should be the starting point for the analysis of sectors, taking into consideration both feasibility and the structure of European industry?


[1] [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF)

\*  
(compulsory)

- ☐ NACE-3
- ☒ NACE-4
- ☐ No opinion

B.A.8. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

- ☐ 
- ☒ NACE-4 should be the minimum level of disaggregation. NACE-4 data are publicly available.

B.A.9. In your view, the auctioning factor (an estimation concerning the share of allowances to be acquired if not on the carbon leakage list) should be: \*  (compulsory)

- ☐ Uniform for all sectors
- ☐ Sectorial at NACE-2 level,
- ☐ Sectorial at NACE-3 level,
- ☐ Sectorial at NACE-4 level,
- ☐ Other (please specify below)
- ☒ No opinion

B.A.10. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)



▾ Even if, for simplicity reasons, costs reasons and coherence with the past an equal factor for the whole industry seems to be the first option, too many data are lacking for the moment to take a decision on this point.

B.A.11. The current carbon leakage list, applied for free allocation in 2013 and 2014, is based on a carbon price of €30. In your view, is this an adequate carbon price to be used for the new carbon leakage list for the period 2015-2019? \* (compulsory)

- ☒ Yes
- ☐ No
- ☐ No opinion

B.A.12. Please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

▾ Scenarios by analysts show that the carbon price will reach about 30€/tonne at the end of the period (see Bloomberg's presentation during the April Stakeholders meeting on structural measures). Industry should be protected against carbon leakage for prices much higher than 30€/tonne in case there is an (unexpected) economical revival. It is indeed essential to look forward rather than backwards in the context of the new carbon leakage list. Finally the directive refers to the Climate Change Package 2008 for the carbon price to be used, where 30€/tonne was the minimum.

B.A.13. In your view, which is the most adequate CO2 emission factor that should be used for the calculation of indirect costs? \* (compulsory)

- ☐ Average emission intensity of the whole electricity generation mix
- ☐ Average emission intensity of the fossil fuel electricity generation mix
- ☒ Emission intensity of marginal electricity generation in the current system
- ☐ No opinion

B.A.14. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

firstly, marginal emission intensity was used by DG Competition for the calculation of compensation for higher electricity prices. The same approach should be followed here. Secondly, industry is charged by electricity producers (cost pass-through) at the level of the marginal costs (opportunity costs).

B.A.15. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on the following indicator for the qualitative assessment of the risk of carbon leakage:

possibility of individual installations within a sector to reduce emissions

	a	b	c	d	e	f
B.A.15.1. Measurable* (compulsory)		x				
B.A.15.2. Relevant* (compulsory)					x	
B.A.15.3. Important* (compulsory)					x	

B.A.16. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on the indicator for the qualitative assessment of the risk of carbon leakage listed below:

current and projected market characteristics

	a	b	c	d	e	f
B.A.16.1. Measurable* (compulsory)		x				
B.A.16.2. Relevant* (compulsory)					x	
B.A.16.3. Important* (compulsory)					x	

B.A.17. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on the indicator for the qualitative assessment of the risk of carbon leakage listed below:

profit margins

	a	b	c	d	e	f
B.A.17.1. Measurable* (compulsory)			x			
B.A.17.2. Relevant* (compulsory)				x		
B.A.17.3. Important* (compulsory)				x		

B.A.18. If you wish, please motivate your answer (max. 1000 characters) (optional) (maximum 1000 characters; count: 0)

even if those three questions are worded according to the directive, we believe they should be somehow clarified. The first question refers to individual installations, while it is not clear for the other questions. It is also not clear whether one should answer based on historic data or based on forecast for the future. Finally "market characteristics" is a very broad concept and should be clarified.

B.A.19. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on a framework for qualitative assessment, such as the one proposed in the study made for DG Climate Action and published on DG Climate website<sup>[1]</sup>?

[1][http://ec.europa.eu/clima/policies/ets/cap/leakage/docs/carbon\\_leakage\\_list\\_en.pdf](http://ec.europa.eu/clima/policies/ets/cap/leakage/docs/carbon_leakage_list_en.pdf)

	a	b	c	d	e	f
B.A.19.1. Complete* (compulsory)						x
B.A.19.2. Adequate* (compulsory)		x				
B.A.19.3. Comparable across sectors* (compulsory)						x
B.A.19.4. Transparent* (compulsory)						x
B.A.19.5. Well-structured* (compulsory)				x		
B.A.19.6. Clear and understandable* (compulsory)				x		

B.A.20. If you wish, please motivate your answer (max. 1000 characters):  
(optional) (maximum 1000 characters; count: 0)

B.A.21. In the context of qualitative assessment, after considering the indicators listed in the study, do you consider that other indicators/variables should be taken into account when gathering basic evidence? Please explain (max. 2000 characters) (optional) (maximum 2000 characters; count: 0)

we believe that the following parameters should be looked at: (i) projected new capacities around Europe (ii) Territorial versus consumption-based emissions (iii) Evolution of production investments in and outside EU (iv) Contribution of sectors to the EU economy (jobs, trade balance,...), taking into account the whole value chain, including recycling

B.A.22. If you wish, please provide any general comments on the questionnaire (optional) (maximum 1000 characters; count: 0)

we consider that the staged approach for the qualitative assessment as proposed by Ecofys is going beyond the provisions of the ETS directive (ii) carbon intensity of relevant substitutes is not in the directive (iii) the ability to pass costs is not a very relevant criteria: even if a sector is able to pass on some of the extra costs, it will necessarily be less profitable than its competitors outside EU and will attract less investments.

**SUBMIT**

Clear existing answers