

## **Comments on the revision of the carbon leakage list<sup>1</sup>**

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A EURELECTRIC response paper

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<sup>1</sup> The Polish member association PKEE does not adhere to the views expressed in this paper.



The **Union of the Electricity Industry–EURELECTRIC** is the sector association representing the common interests of the electricity industry at pan-European level, plus its affiliates and associates on several other continents.

In line with its mission, EURELECTRIC seeks to contribute to the competitiveness of the electricity industry, to provide effective representation for the industry in public affairs, and to promote the role of electricity both in the advancement of society and in helping provide solutions to the challenges of sustainable development.

EURELECTRIC's formal opinions, policy positions and reports are formulated in Working Groups, composed of experts from the electricity industry, supervised by five Committees. This "structure of expertise" ensures that EURELECTRIC's published documents are based on high-quality input with up-to-date information.

For further information on EURELECTRIC activities, visit our website, which provides general information on the association and on policy issues relevant to the electricity industry; latest news of our activities; EURELECTRIC positions and statements; a publications catalogue listing EURELECTRIC reports; and information on our events and conferences.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability

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## **EURELECTRIC comments on the revision of the carbon leakage list**

EURELECTRIC welcomes the opportunity to contribute to this consultation on the methodology for the Commission Decision determining the list of sectors and subsectors deemed exposed to a significant risk of carbon leakage for the period 2015-2019. The European power sector is not included in the carbon leakage list, but has an interest in the functioning of list as this affects the overall success of the ETS. This short comment paper therefore addresses some key principles, while not answering some of the points raised in the detailed Commission questionnaire.

EURELECTRIC's members are committed to delivering carbon-neutral electricity in Europe by 2050, and to ensuring a competitively priced, reliable electricity supply throughout the integrated European energy market. EURELECTRIC believes that it is essential that EU climate policy supports competitiveness by promoting reductions of greenhouse gas emissions in a cost-effective manner through the use of the ETS market mechanism. For this reason, EURELECTRIC supports a strong ETS because we see this as the best way to provide affordable, reliable, and sustainable electricity to the EU economy.

### **1. The impact of the ETS on energy prices**

EURELECTRIC reminds the Commission that it is not the ETS, but rather taxes and the burden of expensive renewables subsidy policies that are today causing end-user electricity costs for society as a whole to rise, and we emphasise that the ETS is a more cost-effective way to drive renewables growth than the current subsidies, with an impact on the whole economy because these cost-effectiveness affects businesses and all residents. While society as a whole faces larger costs due to renewables, in many Member States large industrial users are exempted from contributing to these higher costs, at the same time that they benefit from depressed electricity prices due to the strong growth in renewable electricity.

Meanwhile on-going policy uncertainty due to a weak ETS and the lack of a target beyond 2020 means that the European electricity sector is un-investable, and our sector is experiencing its own problem of global competition: instead of investing to replace old power generation and grids in Europe, EU-based electric utilities are becoming international and are investing elsewhere in the world. A stronger ETS can help to solve both of these problems.

Looking to the longer-term, EURELECTRIC acknowledges the Commission's forecast that energy prices are set to increase in the period up to 2030, independent of decarbonisation, due to the renewal and growth investments which are needed in the energy system. At the same time, we note that the IEA World Energy Outlook 2012 forecasts that the EU will have the lowest relative increase in energy costs of any region over the next 20 years.

EURELECTRIC notes that resource, structural and societal factors indicate that Europe is unlikely to experience the same energy supply situation and cost advantages as the United States, who currently benefit from a shale gas boom. This will remain a central reason why it is essential to look for alternative ways of controlling energy costs for energy intensive industry sectors. Europe can and must overcome the cost gap and create new jobs by choosing a different strategy to develop resource efficiency, electricity storage, demand flexibility, renewables and other low-carbon technologies, and smart grids. A key factor for cost-efficiency will be the completion of the internal energy market, which will bring significant positive effects for all energy customers, big or small.

## **2. Only a holistic approach can deliver de-carbonisation – and markets work best when widest**

In order to succeed in limiting climate change, decarbonisation needs to take place throughout the whole economy – not just in the power sector. EURELECTRIC notes that the purpose of the ETS is to expose both our sector and other sectors to true costs of carbon so that businesses invest in low-carbon innovation, and so that Europe develops next generation technologies.

EURELECTRIC calls on the Commission to link its review of the methodology for determining the carbon leakage list to:

- A clear, early statement of the Commission's vision on the 2030 climate and energy framework. This must ensure cost-effectiveness and investment that supports competitiveness by focusing primarily on EU-level market instruments: firmly establishing the ETS as the key policy instrument for driving investment choice in CO<sub>2</sub> reduction before 2020.
- Draft legislation for ETS structural reform, consisting of a more ambitious reduction path in line with the Low-Carbon Economy, before the end of 2013 under the still existing Commission in the ENV Council.
- An analysis on options for widening the scope of the ETS to include additional sectors.

## **3. Carbon markets are growing across the globe – with energy intensive sectors included**

EURELECTRIC warmly welcomes the recent decisions in Australia, California, China, New Zealand, Quebec, nine north-eastern US States, and South Korea to establish domestic carbon markets on the model of the ETS, as well as the on-going preparations for the introduction of carbon markets in Brazil, Chile, Colombia, Kazakhstan, India, Indonesia,

Mexico, Morocco, Thailand, and Turkey, and for linking the Australian and EU markets. EURELECTRIC takes note that the Australian and California carbon markets include additional sectors in their carbon markets, and we call on the Commission to undertake a detailed assessment of the feasibility of extending the scope of the ETS for phase 4.

EURELECTRIC also notes that many of these non-European carbon markets include energy intensive sectors, notably China, and that this can help to resolve issues of global competitiveness for European energy intensive plants.

#### **4. CO2 price**

The current version of the carbon leakage list has been based on an assessment which used a CO2 price of €30 per tonne. The current price of carbon within ETS is nowhere near €30 per tonne – neither is it likely to recover this level before 2020, not even in the case that ETS structural measures are enacted in 2013-14. A re-evaluation of price assumptions today for 2020 would need to compare scenarios for an unreformed ETS and for ETS structural reform.



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