



Justifying free pollution permits?

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WWF European Policy Office
23/05/2013

Stakeholder meeting EU ETS
New Carbon leakage list
Brussels

Reminder Art.1 of ETS Directive

- **Reductions of greenhouse gas emissions in a cost-effective and economically efficient manner [...] so as to contribute to the levels of reductions that are considered scientifically necessary to avoid dangerous climate change.**

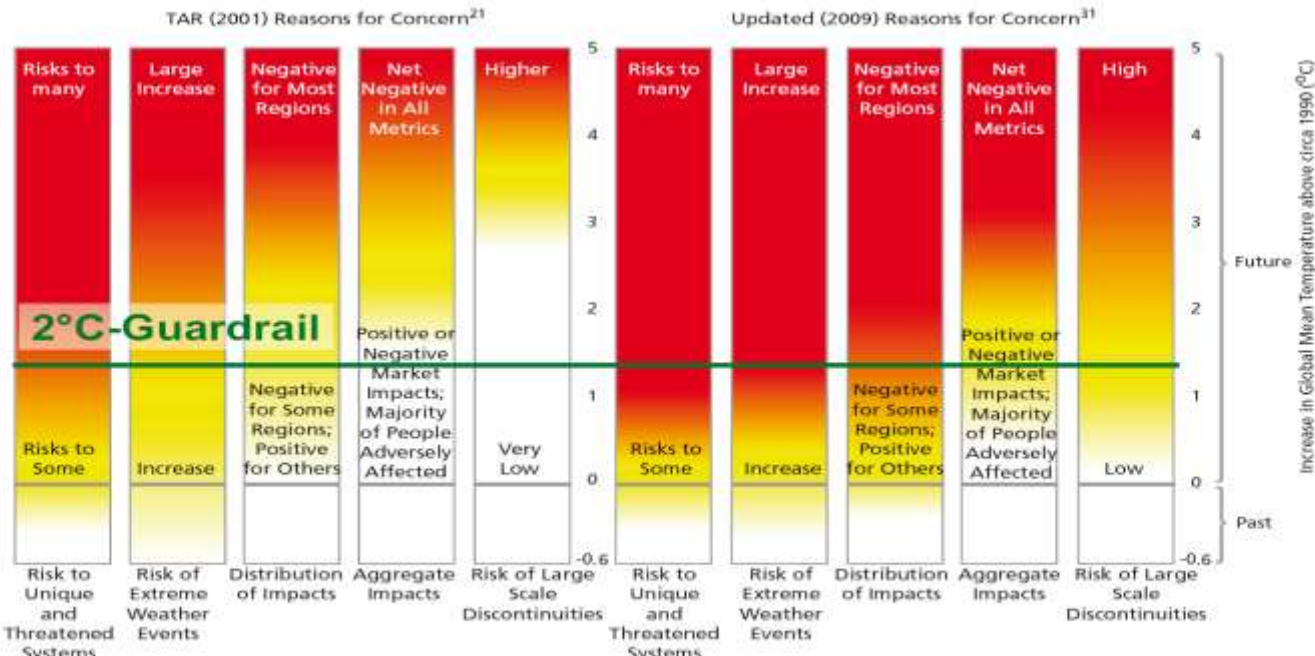
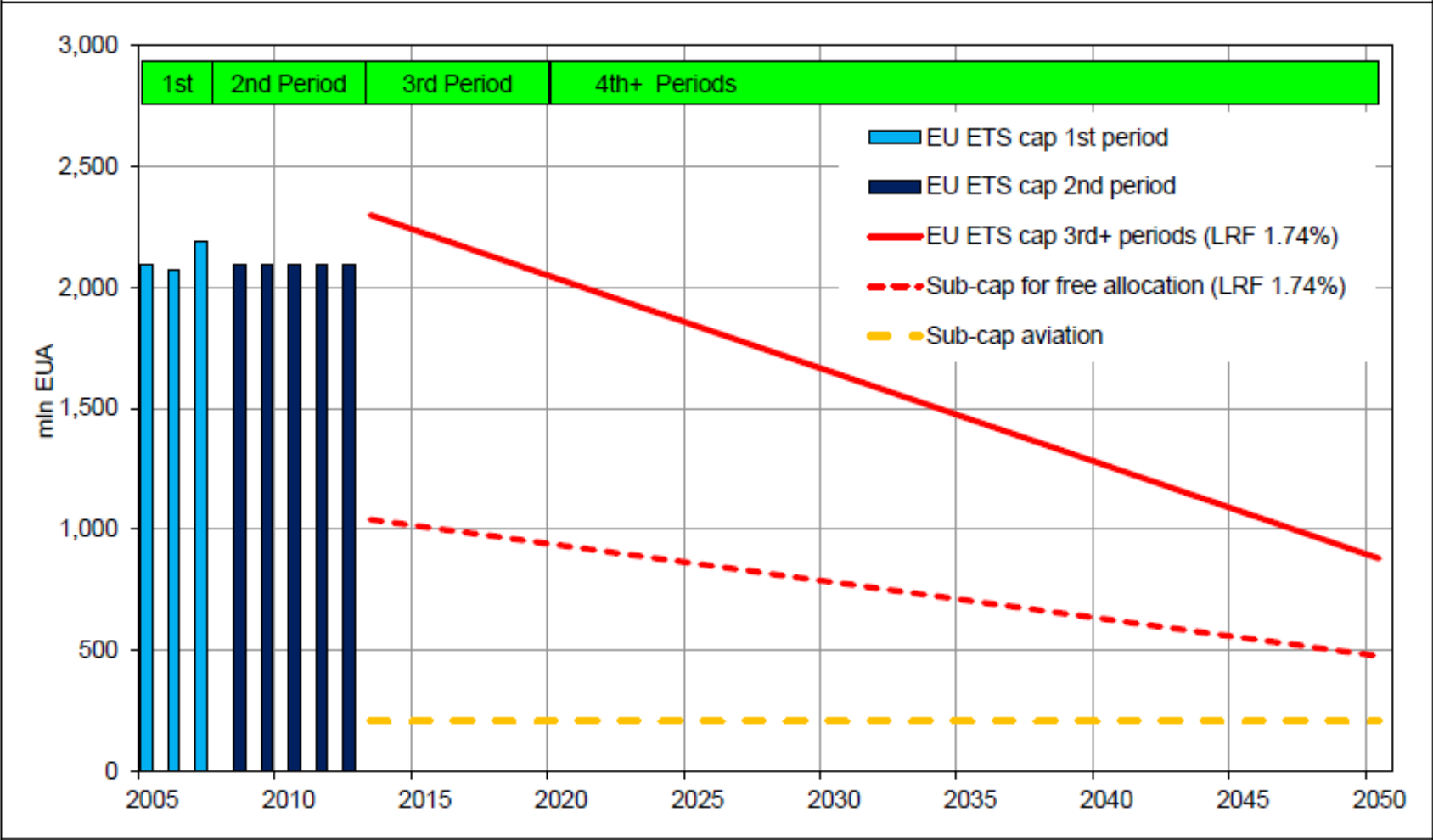


Figure 8
Diagram relating the potential impacts of climate change to the rise in global average temperature. 2°C on the temperature scale corresponds approximately to 1990 average temperature, and the bottom of the temperature scale to pre-industrial average temperature. The level of risk or severity of potential impacts increases with the intensity of red colour. The 2°C guardrail is shown for reference.



Reminder Art.9: each trading phase counts



Source: CEC 2010b, EU 2009a, calculations by Öko-Institut

Free allocation to avoid carbon leakage: not fit for a highly doubtful purpose

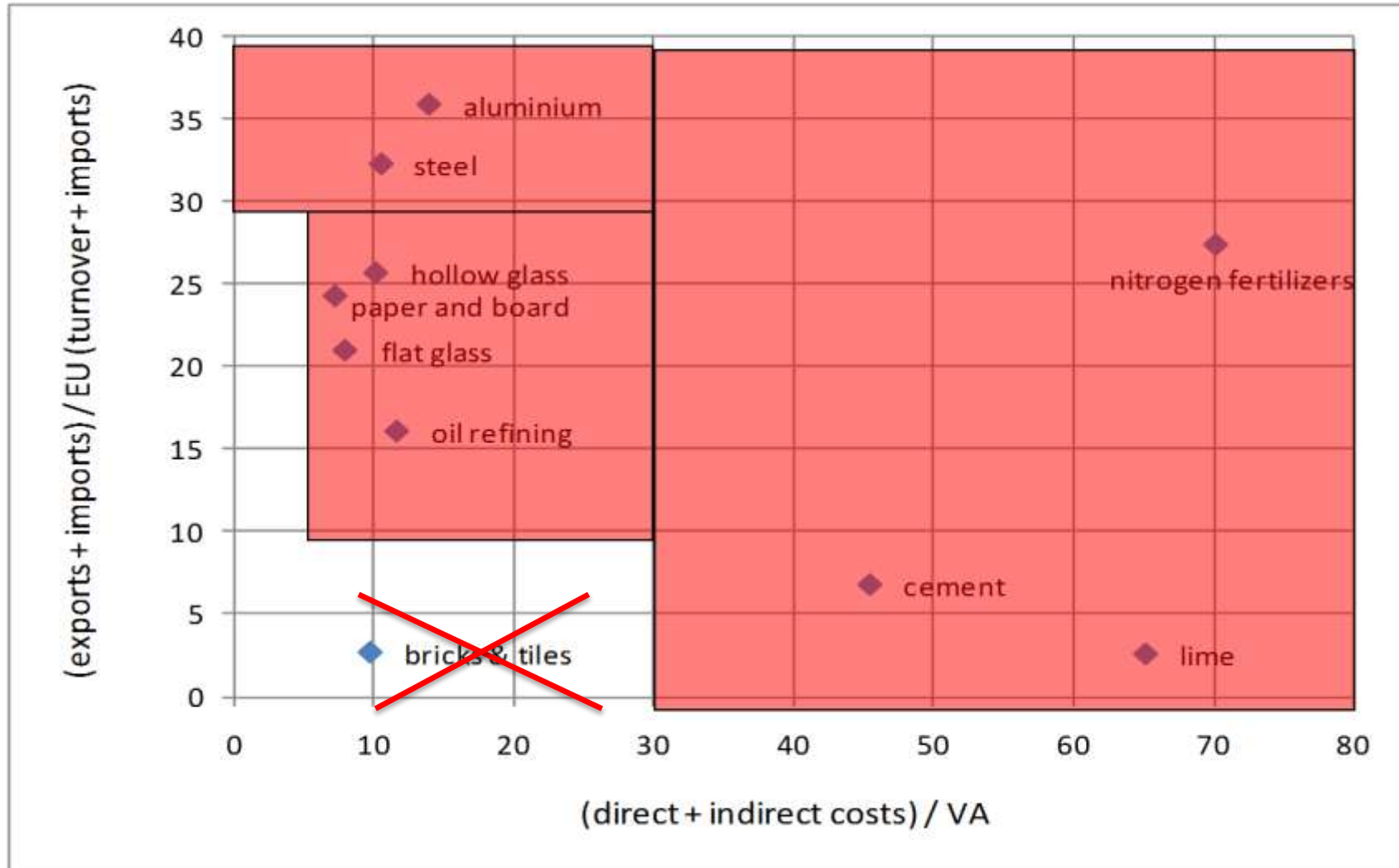
“...the threat of leakage to countries outside the EU has sometimes been exaggerated in lobbying conducted by vested interests. We do not accept that it poses an imminent threat to EU industry, except in a small number of sub-sectors.” **UK House of Commons (2012)**

“During the first two phases of EU ETS, the chemical, oil and steel sectors alone may have made windfall profit amounting to some €14 billion” **CE Delft (2010)**

“the European Commission[’s way] to assess vulnerability of firms and sectors to negative competitiveness effects is ill defined and there is potential for market distortions” **Anderson et al., Centre for Economic Performance, LSE (2011)**



Situation of key industrial sectors vis-à-vis EU ETS criteria (© Quirion)





2009

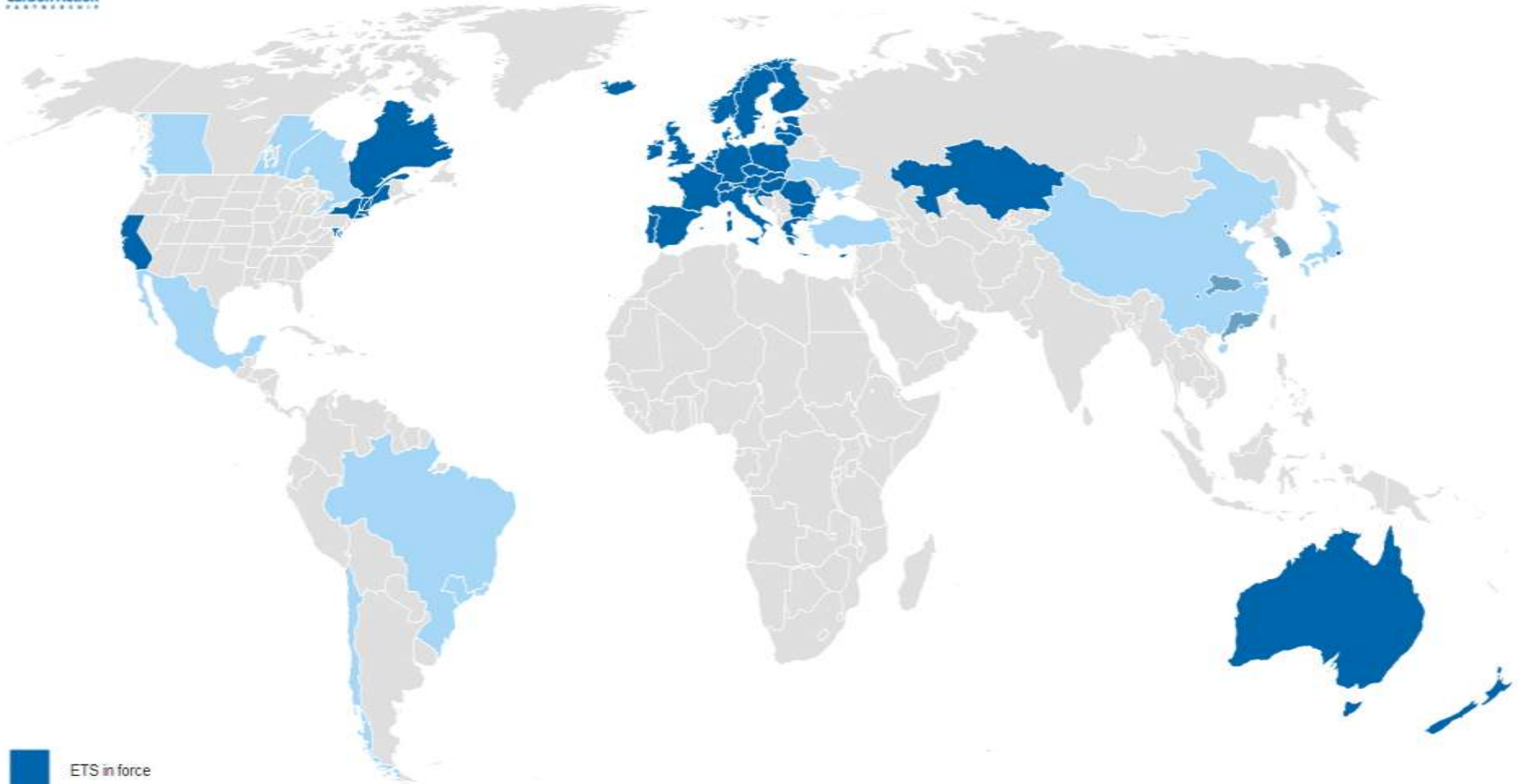
VS



2013



ETS carbon spot price (€/tonne)





-  ETS in force
-  ETS implementation scheduled
-  ETS under consideration



ARTICLE

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Japan industry unites against carbon tax

Aanbevelen Raad dit als eerste van je vrienden aan..

Mon Dec 7, 2009 4:29pm GMT

* Japan urged to seek broad, effective climate deal

* CO2 cuts primarily achieved by technology-steel industry

TOKYO, Dec 7 (Reuters) - Japan should not consider a carbon tax as it would damage the economy which is already among the world's most energy efficient, its top industries said in a rare combined stand on the

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Steel sector wins big aid package

July 11, 2011

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The steel deal has failed to win support from the Greens. Photo: Craig Abraham

STEEL makers and manufacturers have emerged as key winners under a \$9.2 billion compensation package for industries affected by the carbon tax.

Money

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2010-07-22 17:04

KCCI asks for delay on carbon tax plan

By Kim Yoo-chul Staff reporter

SEOGWIPO, Jeju Island — A key business lobby has called for the government to delay the introduction of a carbon tax as the new policy may hurt business activities.

"Introducing the cap-and-trade in the form of a carbon tax policy is too premature. It would be better to take action after fully investigating moves



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9. 국민영웅 강간 혐의 기소
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Pictorial & Video

A global level playing field?

Industry views on South African carbon tax:

“...we believe it would be unwise for government to begin introducing a carbon tax”

Industry Task Team on Climate Change

“...hoping to ...qualify for higher exemptions and...engage with the government on proposals currently on the table”

ArcelorMittal CEO Nonkululeko Nyembezi-Heita

"It will have consequences for our growth and job creation and we need to compensate for that “

Energy Intensive User Group





Justifying free
pollution permits in
the EU

Assumptions during previous comitology process are significantly outdated, 2009 impact assessment obsolete

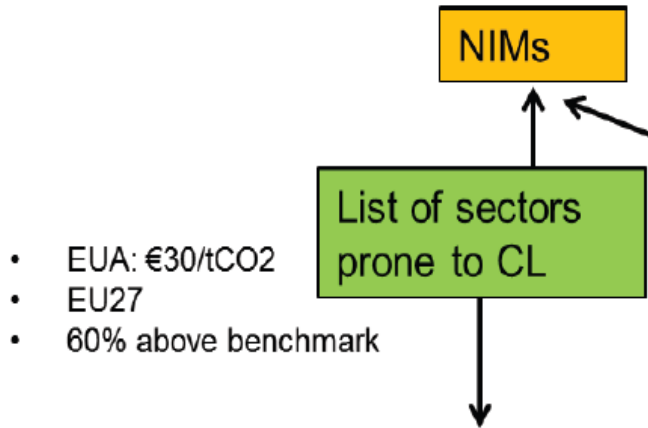
EU assumed:

1. Strong ETS market with carbon price €30/t, international offsets at comparable price
2. Strict benchmarks implying that 60% of emissions of industrial sectors would be above the benchmarks, leading to higher proportion of auctioning assumed
3. Trade intensities calculated as if no linkages with EU ETS (all trade to non-EU27)



Recalibration exercise (© CE Delft, 2013)

Allocation 2013-2014



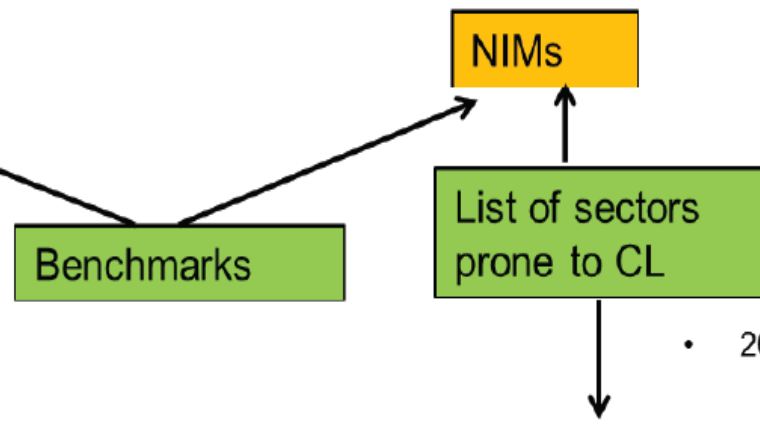
- EUA: €30/tCO₂
- EU27
- 60% above benchmark

Allocation 2013-2014 for industrial emissions up to the benchmark



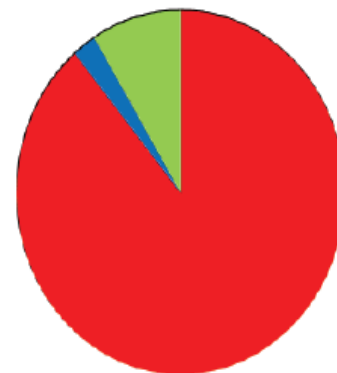
■ Auctioning ■ Unknown ■ Free up to benchmark

Potential allocation post 2015



- EUA: €12/tCO₂
- EU27 + 6 linked
- 20% above benchmark

Potential allocation post 2015 for industrial emissions up to the benchmark



■ Auctioning ■ Unknown ■ Free up to benchmark

Conclusion

Even a revived ETS (incl. backloading) does not entail a significant risk of carbon leakage that would justify the majority of pollution permits to be distributed for free

Carbon leakage is much less of an issue when prices of EUA are low and assumptions used during comitology of 2009 are outdated

More realistic assumptions for these variables show that free allocation to industry needs to be drastically reduced

A new impact assessment with correct parameters is required to guide the development of the New Carbon Leakage list in 2014

Pressing need for structural ETS reforms that generate adequate pollution price signal



Further reading

CE Delft (2013): Carbon leakage and the future of the EU ETS market

UK House of Commons (2012): The EU Emissions Trading System

Thank you

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