Cefic input to public consultation in preparation of an “analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors” (EFCCC – WD 87 -2010)

As a general remark the industry is surprised that this consultation is not conducted by DG Enterprise. DG Enterprise should be in charge of guarding the competitiveness of the EU-27 industry for which the measures for free allocation of allowances have been introduced through the revised Emissions Trading Directive. Cefic expresses its hope that the eventual conclusions will be drawn under the lead of DG Enterprise.

Question 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?”***

Cefic response: Key indicators have not changed. 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 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.

Question 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?”***

Cefic response: No: The Copenhagen climate change conference failed to achieve a consensus for a comprehensive, binding international agreement to combat the risks of climate change. The European Union has adopted the

unilateral target of a –20% reduction of emissions of greenhouse gases by 2020 based on 1990 levels. The European Council of 10/11 December 2009 reiterated the EU's conditions to move from -20% to -30%. These are *"that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities"*. These conditions have clearly neither been met by the principal emitters of *'other developed countries'* nor by important emerging economies that are categorised under *'developing countries'*.

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.

Question 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?"*

Cefic response: The benchmarks. 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 only at the level of the average of the 10% best installations of a sector by 2013 would cause immediate, unilateral costs to 95% of industry installations potentially extracting resources from operators that could otherwise be used for technology investment in a transition period until 2020. Exposure to carbon leakage could be reduced by gradually declining over time the free allocation during 2013 until 2020 from an average performance level down to the benchmark level by 2020.
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.
Question 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?"***

Cefic response: Insufficient. The Commission is currently developing benchmarks, benchmark values, allocation rules under the EU ETS that will determine the level of free allocation to companies. Free allocation of allowances up to the benchmark (of 10% best installations) does by far not mean industry would be escaping from unilateral costs: Only few installations may have a small cost burden, but on average installations will have to purchase the difference between the average emission and the benchmark or invest in abatement technologies, where feasible. Emerging benchmarking data demonstrate huge performance ranges in various sectors (40% or more). Starting only at the level of the average of the 10% best installations of a sector by 2013 would cause immediate, unilateral costs to 95% of industry installations potentially extracting resources from operators that could otherwise be used for technology investment in a transition period until 2020. Exposure to carbon leakage could be reduced by gradually declining over time the free allocation during 2013 until 2020 from an average performance level down to the benchmark level by 2020.
Should the emerging benchmarks lead to much larger reductions by industry than the -21% foreseen, further adjustment must be considered. If benchmarks are overambitious, resulting ETS costs would expose a large number of installations to the risk of carbon leakage despite some free allocation to few performance leaders.

Free allocation of allowances only helps in battling carbon leakage for the costs of the direct emissions. The EU remains the only region with carbon prices included in the electricity prices. Compensation of indirect electricity costs is essential and must not be restricted, but must be available to all relevant installations with high electricity costs.

Moreover, access to flexible mechanisms (CDM) must be maintained and improved instead of abandoned in order to allow for technology transfer and effective global emission reductions at low costs.

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