



Carbon leakage: new list 2015-2019

Stakeholder consultation meeting

Brussels , 23 May2013

Unit B2 - DG Climate Action

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What is carbon leakage?

Carbon leakage: increase of greenhouse gas emissions in third countries where industry would not be subject to comparable carbon constraints (recital 24 of ETS Directive)

'Carbon leakage list': sectors and sub-sectors deemed to be exposed to a significant risk of carbon leakage

Aim to address competitiveness of sectors with significant carbon costs and exposed to international competition

Calculation of free allocation

$$\begin{aligned} & \textit{Allocation} = \\ & \textit{Benchmark} \times \textit{Historical activity level} \times \textit{Carbon} \\ & \quad \textit{leakage exposure factor} \\ & + \textit{Extra allocation for added capacity} \end{aligned}$$

- Sectors **not** exposed to carbon leakage: yearly declining allocation 80% of benchmarked level in 2013 to 30% by 2020 and beyond
- Sectors **exposed** to carbon leakage: free allocation at **100%** of benchmark level (**not** 100% of emissions!)

Clarifications

- Free allowances are attributed to **products**, not to whole sectors
- The carbon leakage list consists of sectors, **not** of operators/installations/products
- An installation may produce **both** carbon leaked and non-carbon leaked products
- Being 'on' the carbon leakage list = 100% of benchmark level, **not** 100% of emissions
- **No** free allocation for electricity production

Quantitative Criteria (Art.10a(15-16) of ETS Directive)

Trade intensity:

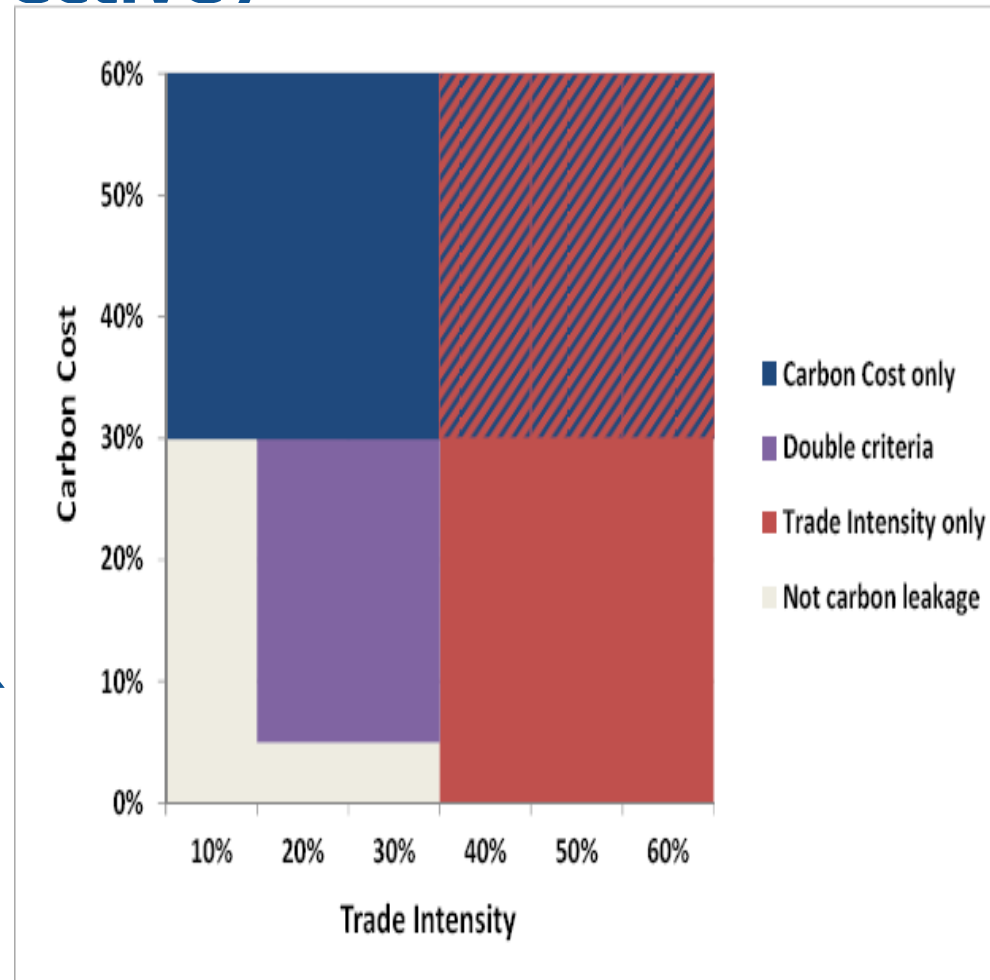
$(\text{imports} + \text{exports}) / (\text{imports} + \text{turnover})$

Carbon costs / Gross Value Added:

$(\text{direct} + \text{indirect costs}) / \text{GVA}$

Thresholds :

Trade intensity > 30%, **OR**
 CO_2 cost / GVA > 30%, **OR**
 CO_2 cost / GVA > 5% **AND**
 trade intensity > 10%



Qualitative criteria (Article 10a(17) ETS Directive)

If the sector has borderline values on the quantitative criteria, then qualitative ones can be considered:

- Emission levels and electricity consumption reduction potential of individual installations in the sector
- Current and projected market characteristics
- Profit margins as indicator of long-term investment or relocation decisions

Legal basis for new list & additions

- Article 10a(13) ETS Directive: *'By 31 December 2009 and **every five years thereafter**, the Commission shall determine the list of sectors and subsectors deemed exposed to significant risk of carbon leakage'* → **clear need for new list for 2015-2019**
- Same Article: possibility for annual **additions** to the list *'if it can be **demonstrated**, in an analytical **report**, that this sector or subsector satisfies the **criteria** set out in paragraphs 14 to 17, following a **change** that has substantial impact on the sector's or subsector's activities*

New carbon leakage list for 2015-2019

- Clear legal **obligation** to determine new list
- Article 10a(14) ETS Directive: use data from the **three most recent years** for which data are available
- Criteria remain the **same** as set out in Article 10a(14) to (17) ETS Directive
- List is based on Eurostat's Statistical Classification of Economic Activities (**NACE**), **Rev.2** (valid since 2008). Last time Rev1.1.
- Some methodological assumptions had to be made in 2009. These will be re-assessed in light of new information available.

Assumptions subject to Impact Assessment

- **Auctioning factor:** share of allowances a sector would need to surrender in order to comply with the ETS if it was **not** deemed at risk of carbon leakage;
- **Emission factor for electricity:** fuel-dependent factor used to convert indirect emissions from electricity consumption to indirect cost percentage;

Assumptions subject to Impact Assessment - 2

- **Countries** to be considered as non-third countries (i.e. deemed as having equivalent climate policies to the EU) for the calculation of the trade intensity criterion (Article 10a18 ETS Directive):
 - Comparability of policies
 - Comparability of carbon efficiencies of installations
- **Carbon price:** legal assessment on-going

What is a sector? A sub-sector?

- Sector= NACE 4-digit level:
e.g. NACE Rev 1.1. '26.82 Manufacture of other non-metallic minerals'
- Sub-sector=more disaggregate level than NACE 4-digit: Prodcom classification - production of manufactured goods
 - Prodcom 6 – e.g. 26.82.14 'Artificial graphite, colloidal, semi-colloidal graphite and preparations'
 - Prodcom 8 – 26.82.16.10. 'Slag wool, rock wool and similar mineral wools and mixtures thereof, in bulks, sheets or rolls'

When is disaggregation justified?

- Any disaggregation is **exception** to the rule of the ETS Directive, thus needs to be **robustly justified**
- Prodcom has same first 4 digits as NACE=close **link**
- The sub-sector in question must **prove** having **substantially different** production, trade, energy consumption and emissions profile characteristics than the NACE-4 code where it belongs
- **Official, verified and representative data** must be available
- Only then, the sub-sector can be assessed against the ETS Directive criteria
- Any further disaggregation beyond Prodcom-8 would lead to technical, statistical and legal problems

Main steps

- **Internal discussions** on methodology → *ongoing*
- **Data** matching, data collection, gap filling, calculations → *ongoing*
 - *Matching NACE codes to ETS installations*
 - *Collecting data from Member States on electricity consumption to calculate indirect costs*
 - *Aggregating and checking data on direct emissions*
 - *Extracting, checking and aggregating data for trade intensity calculations*
 - *Consistency and plausibility checks of data*
 - *Filling of data gaps*

Main steps -2

- Public **consultation** and **impact assessment** → *foreseen Q3 2013*
 - *Online stakeholder questionnaire to be launched soon*
 - *12 weeks to answer*
 - *Impact assessment ongoing*
 - *Internal discussions*
- Stakeholder **meetings** and **discussions** based on preliminary results → *foreseen Q4 2013*
 - *Bilateral meetings*
 - *Multilateral meetings*



Main steps - 3

- **Draft final Decision & Inter-service consultation** in the Commission
- **Vote** in Climate Change Committee
 - *Discussion with MS in Working Group preparing the vote in CCC*
- 3 months **scrutiny** by European Parliament and Council
- **Adoption** by the College of Commissioners

New list to be ready during 2014

Internal process: **Impact assessment**

- A **process** preparing **evidence** on the advantages and disadvantages of possible policy options by assessing their potential economical, environmental, social **impacts**
- **Necessary** also for implementing legislation (comitology measures) with significant impacts
- **Proportionate** (focus on issues where the Commission has some discretion)
- **Lead** service DG CLIMA supported by Inter-service Steering Group
- Upon approval of the Impact Assessment Board, the report can be published

Stakeholder consultation strategy

- Necessary requirement for Impact Assessment
- Online questionnaire:
 - Open to broad base of stakeholders,
 - Concise and not too time consuming,
 - Multiple choice questions with explanations
 - Available online for 12 weeks
- Meetings and discussions with stakeholders:
 - bilateral
 - multilateral

Stakeholder involvement

- Be informed (to be published soon for information purposes: study providing ideas for possible methodological assumptions)
- Follow our website

For industrial stakeholders:

- Statistical classification issues are remit of Eurostat
- Wait for preliminary results on NACE-4 level
- If you feel you meet the criteria for disaggregation to Prodcom, contact us
- Think about own data collection?
- Template and guidance for qualitative assessment reports will be made available

Thank you!

Comments?

Questions?