



CLL “second-level” assessments Framework for disaggregated assessments

**Stakeholder Meeting on the Preliminary Carbon
Leakage List for phase 4 of the EU Emissions Trading
System**

16 May 2018

DG CLIMA.B

Overview

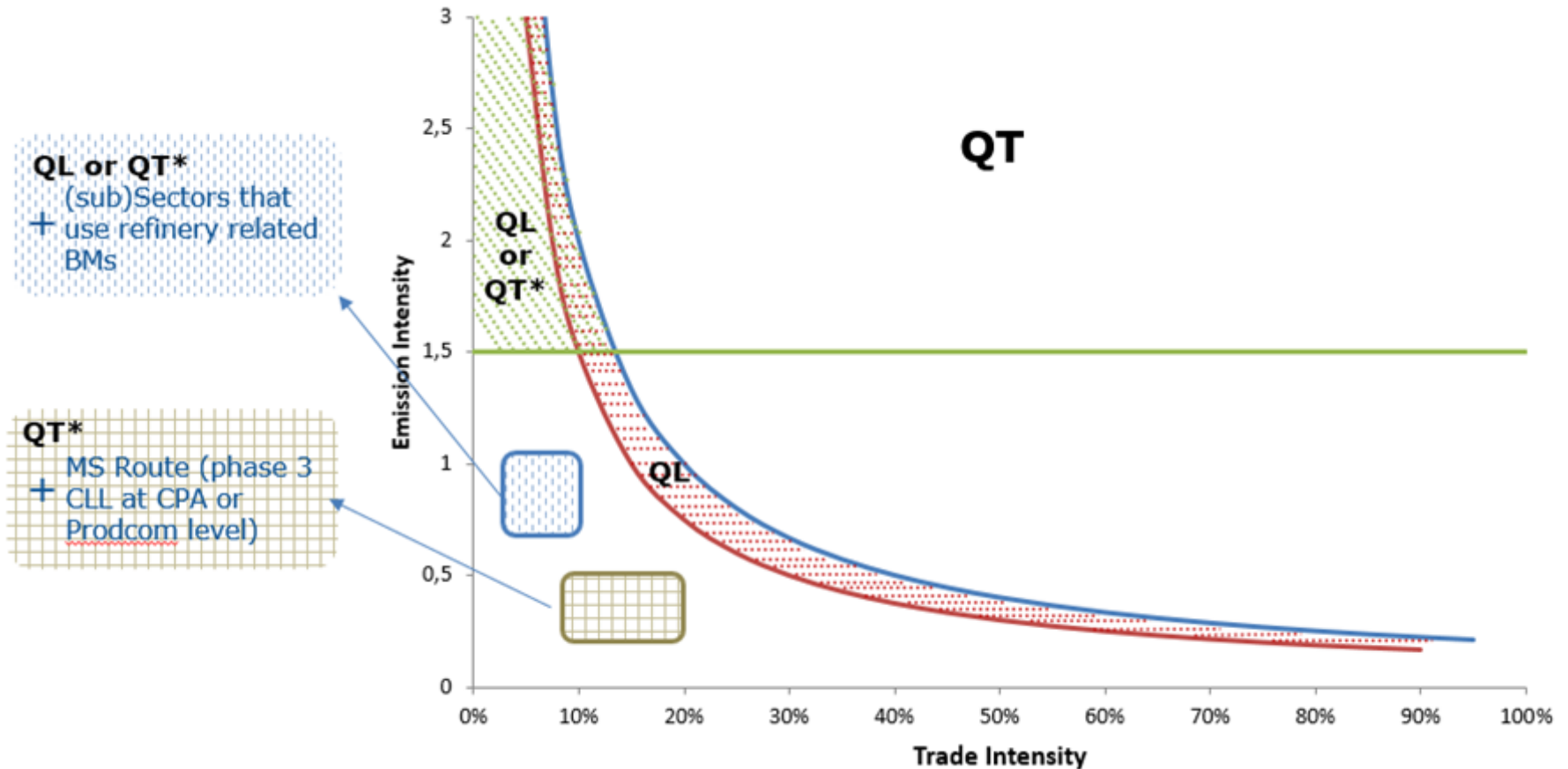
The Framework document provides an overview of the focus and framework for the Disaggregated Assessment.

It provides guidance and instructions on what sectors need to do when applying for a Disaggregated Assessment and on the evidence they need to provide to support their application.




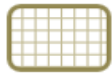
Revised EU ETS Directive

- *Carbon Leakage List assessment*
- *Article 10(b), paragraphs 1 to 4-5*

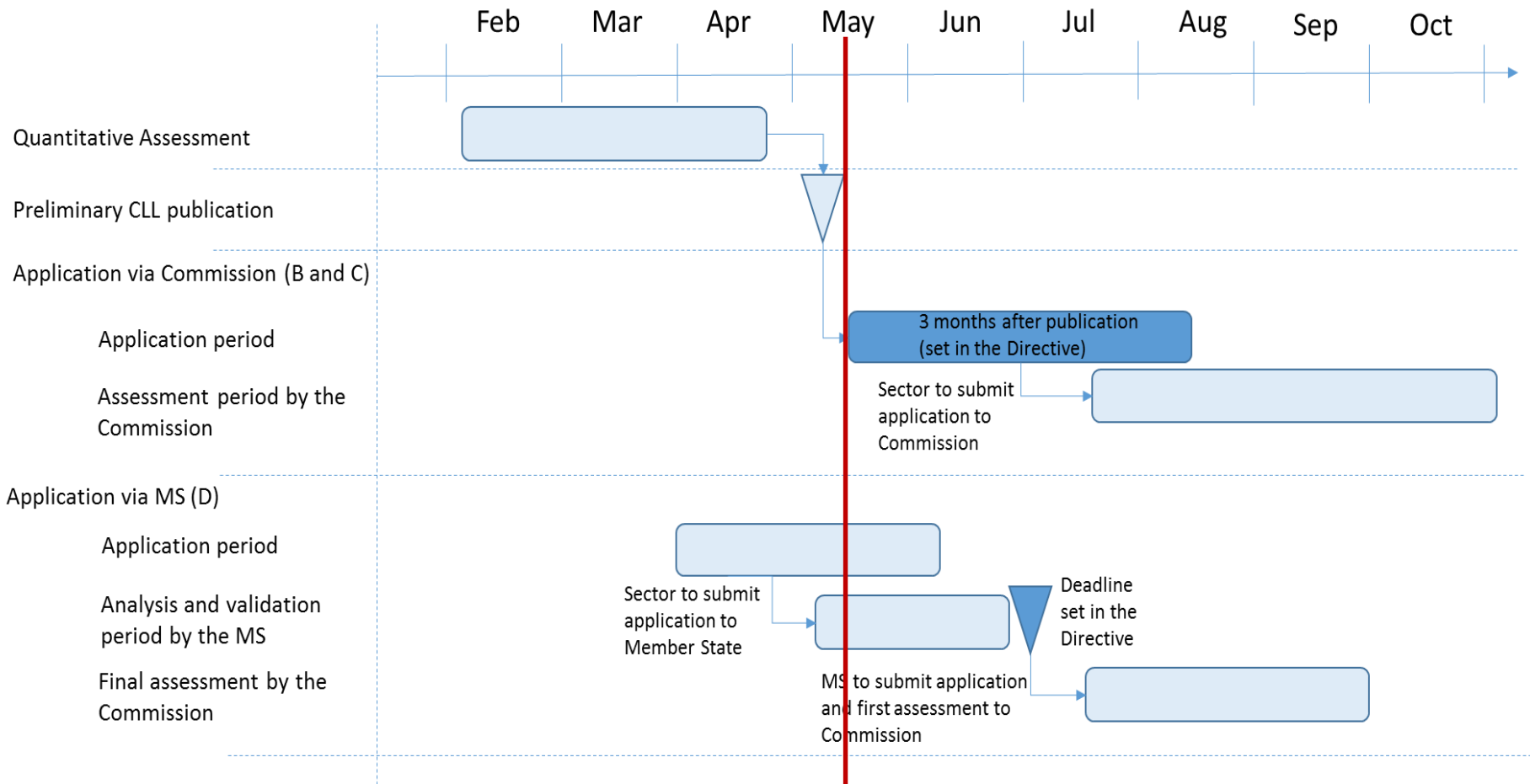
Carbon Leakage List eligibility criteria



“Second level” assessment eligibility criteria (as set in the revised EU ETS Directive)

Criteria		Article	Assessment process	Sector application route	Application deadline	Figure 3 reference
A	carbon leakage indicator between 0.15 and 0.2	Art 10b (2)	Qualitative assessment (QL)	to Commission	At the latest by: 8 August 2018	
B	emission intensity exceeds 1,5	Art 10b (3)	Qualitative assessment (QL) OR Quantitative at Disaggregated level (QT*)	to Commission	At the latest by: 8 August 2018	
C	free allocation is calculated on the basis of the refineries benchmarks	Art 10b (3)	Qualitative assessment (QL) OR Quantitative at Disaggregated level (QT*)	to Commission	At the latest by: 8 August 2018	
D	listed in the EU ETS phase 3 CLL at a 6-digit or 8-digit level	Art 10b (3)	Quantitative at Disaggregated level (QT* via MS)	to one Member State before final decision by Commission (“MS route”)	By 30 June 2018 to the Commission	

Process - timeline



Process – general items

Application entity:

- **Ensure the application completeness and representativeness**
- **One application by eligible (sub)sector is expected**
- **Single point of contact: Industry association(s), multiple companies or combination**

Application must provide:

- **NACE 4-digit code and the activities it covers**
- **Prodcom codes that are covered by the NACE 4-digit code**
- **subset of Prodcom codes that are believed to have a CL indicator >0.2**
- **Criteria/route through which the subsector is eligible**
- **List of the installations in the (sub)sector that are covered by the EU ETS**

Process – general items

Carbon leakage indicator (CLI) calculation and methodology:

- **CLI calculation for each Prodcop-defined sub-sector using the default methodology (provided in Framework)**
- **Complementary methodology (if relevant) should be justified and detailed**
- **Data and methodology validation must follow EU ETS Directive verification and audit requirements**
- **All underlying data and data sources must be provided**

Quality criteria for application:

- **Robustness of data (reliable sources)**
- **Coverage (time period)**
- **Coverage (in terms of ETS installations)**
- **Geographical coverage**
- **Clarity of methodology**
- **Traceability of calculations**

Process (criteria B and C)

Who: Eligible (sub)sector under criteria B and C

To whom: to the Commission

By when: by 8 August 2018

What: Carbon Leakage Disaggregated assessment application

Data period: three most recent year

Indicator calculation: $\text{Emission Intensity} * \text{Trade Intensity} > 0,2$

Data quality: duly substantiated, complete and independently verified data

Verification report: to validate calculation and methodology; evidence on the competence and independence of the verifier

Process (criteria B and C)

Verification on: *data used, assumptions applied, calculations of indicators and the link between indicators and conclusions*

Assessment by the Commission:

- *checks of eligibility, completeness of the files, verification requirements and data sources used, if satisfactory*
- *assess the Carbon Leakage Indicator methodology, and draw a conclusion on the extent to which the applied data and methodology is duly:*
 - *Substantiated*
 - *Complete*
 - *Independently verified*
- *decision on the calculated CLI*

Overview of disaggregated assessment application for route B and C

What	By Whom	To whom	By when
1 (sub)Sector application, should include: <ul style="list-style-type: none"> - NACE 4-digit code and the activities covered - List of relevant Prodcom codes - Confirm the route through which the subsector is applying for the assessment (route B, C or D) - List of all installations in the sector that are covered by the EU ETS - Carbon leakage indicator calculation and all supporting evidence (data, methodology, verification report, etc) 	Industry (sub)sector to apply as a single entity (e.g. Industry association)	Commission	At the latest by: 8 August 2018
2 Provide acknowledgement of receipt and initial feedback on data completeness	Commission	Industry (sub)sector	Within 2 weeks of application submission
3 Reply to Commission on data completeness enquiry and provide any relevant details	Industry (sub)sector	Commission	Within 2 weeks of EC response
4 Final Decision on Industry (sub)sector inclusion in phase 4 CLL	Commission	Industry (sub)sector	4 th quarter 2018

Process (criteria D)

Who: Eligible (sub)sector under criteria D

To whom: via a Member State

By when: by 8 June 2018

What: Carbon Leakage Disaggregated assessment application

Data period: five most recent years

Indicator calculation: $\text{Emission Intensity} * \text{Trade Intensity} > 0,2$

Data quality: duly substantiated, complete, verified and audited data

Verification report: to validate calculation and methodology; evidence on the competence of the auditor

Process (criteria D)

Verification on: *data used, assumptions applied, calculations of indicators and the link between indicators and conclusions*

Analysis by the Member State:

- *checks of eligibility, completeness of the files, verification requirements and data sources used, if satisfactory*
- *analyze the Carbon Leakage Indicator methodology, and review the extent to which the applied data and methodology is duly:*
 - *Substantiated*
 - *Complete*
 - *Verified*
 - *Audited*
- *prepare an analysis report to accompany sector application and submit to Commission for final approval*

Process (criteria D)

Assessment by the Commission:

- *confirm checks of eligibility, completeness of the files, verification requirements and data sources used,*
- *confirm MS analysis and assess the Carbon Leakage Indicator*
- *decision on the calculated CLI*

Overview of disaggregated assessment application for route D

What	By Whom	To whom	By when
1 (sub)Sector application, should include: - NACE 4-digit code and the activities covered - List of relevant Prodcod codes - Confirm the route through which the subsector is applying for the assessment (route B, C or D) - List of all installations in the sector that are covered by the EU ETS - Carbon leakage indicator calculation and all supporting evidence (data, methodology, verification report, etc)	Industry (sub)sector to apply as a single entity (e.g. Industry association)	Member State	Latest by 8 June
2 Provide acknowledgement of receipt and initial feedback on data completeness	Member State	Industry (sub)sector	Within 1 week of application submission
3 Reply to Member State on data completeness enquiry and provide any relevant details	Industry (sub)sector	Member State	Within 1 week of MS response
4 Submit (sub) sector application and Member State assessment report	Member State	Commission and Industry (sub)sector (in copy)	Latest by 30 June 2018
5 Provide acknowledgement of receipt and initial feedback on application and assessment report	Commission	Industry (sub)sector and Member State	Within 2 weeks of application submission
6 Reply to Commission on application and assessment report enquiry and provide any relevant details	Industry (sub)sector	Commission	Within 2 weeks of EC response
7 Final Decision on Industry (sub)sector inclusion in phase 4 CLL	Commission	Industry (sub)sector	4 th quarter 2018

Recap

Who can apply for Disaggregated Assessment?

To whom do they apply?

By when do they apply?

Recap - which sectors are eligible

Criterion B

- NACE 5.20 Mining of lignite
- NACE 23.32 Manufacture of bricks, tiles and construction products, in baked clay

Criterion C

- None - any such sector is already included on preliminary CLL

Recap - which sectors are eligible I/II

Criterion D

- NACE 81221 Kaolin and other kaolinic clays
- NACE 08122250 Common clays and shales for construction use (excluding bentonite, fireclay, expanded clays, kaolin and kaolinic clays); andalusite, kyanite and sillimanite; mullite; chamotte or dinas earths
- NACE 10311130 Frozen potatoes, prepared or preserved (including potatoes cooked or partly cooked in oil and then frozen; excluding by vinegar or acetic acid)
- NACE 10311300 Dried potatoes in the form of flour, meal, flakes, granules and pellets
- NACE 10391725 Concentrated tomato puree and paste
- NACE 105121 Skimmed milk powder
- NACE 105122 Whole milk powder
- NACE 105153 Casein

Recap - which sectors are eligible (II/II)

Criterion D

- NACE 154 Lactose and lactose syrup
- NACE 10515530 Whey and modified whey in powder, granules or other solid forms, whether or not concentrated or containing added sweetening matter
- NACE 108211 Cocoa paste, whether or not defatted
- NACE 108212 Cocoa butter, fat and oil
- NACE 108213 Cocoa powder, not containing added sugar or other sweetening matter
- NACE 10891334 Bakers' yeast
- NACE 203021 Prepared pigments, opacifiers and colours, vitrifiable enamels and glazes, engobes, liquid lustres and the like; glass frit
- NACE 25501134 Open die forged ferrous parts for transmission shafts, camshafts, crankshafts and cranks *etc*

Analytical framework

Approach – based on estimating the Carbon Leakage Indicator at the 8-digit Prodcom level

- Similar to first-level (quantitative) assessment

Carbon Leakage Indicator (CLI) = *Trade Intensity (TI) x Emission Intensity (EI)*

$$TI = \frac{Imports + Exports}{Turnover + Imports}$$

$$EI = \text{Direct Emission Intensity (DEI)} + \text{Indirect Emission Intensity (IEI)}$$

- But at a more detailed level

Analytical framework

Trade intensity – calculated using three variables (exports, imports, turnover):

$$TI = \frac{Imports + Exports}{Turnover + Imports}$$

- All the data are accessed from the same database: Eurostat Europroms (see section 4 *Data sources* in Framework for more details)
 - This provides data at the required 8-digit Prodcom level
- By using the default data source, the applicant should not need to make any own calculations or manipulations
 - In a few cases there may be gaps; use Eurostat Structural Business Statistics to estimate a value to fill the gap (see 'How to deal with gaps in the data' in the Framework)

Analytical framework

Emissions intensity – calculated using five variables (direct emissions, electricity consumption, emissions factor, GVA (for direct emissions), GVA (for indirect emissions))

$$EI = \text{Direct Emission Intensity (DEI)} + \text{Indirect Emission Intensity (IEI)}$$
$$DEI = \frac{\text{Direct Emissions}}{\text{GVA entire sector Direct Emissions}}$$
$$IEI = \frac{\text{Indirect Emissions (IE)}}{\text{GVA entire sector Indirect Emissions}}$$

- The data are obtained from different data sources (see section 4 *Data sources* in Framework for more details)
- Default approach for GVA data: PRODCOM
- Data for electricity consumption: MS data
- Data for direct emissions: EUTL

Quality criteria for application – I/II

- **Representativeness of the data**
 - should cover the whole of the 8-digit Prodcom sector being assessed, and only that sector; or at least 85% (by turnover)
 - should cover the European Economic Area, which covers the same 31 countries participating in the EU ETS; or at least enough countries to account for 85% of sector turnover in the EU ETS area and trade (exports+imports) with non-EU ETS countries.
 - should cover all installations that are covered by the EU ETS, and their direct emissions; or least enough installations to account for 85% of direct emissions from the sector
- **If the minimum thresholds described above cannot be met, the robustness of the conclusions from the Qualitative Assessment will be undermined**

Quality criteria for application – II/II

- **Robustness of the data**
 - reliable and trustworthy sources, preferably official sources
- **Consistency of the data**
 - measure the concept/indicator they purport to measure, be consistent with both standard economic definitions and methods
- **Time period**
 - three most recent years when applying directly to the Commission
 - five most recent years when applying to the MS (Route D).
- **Traceability of calculations**
 - a clear description of the method must be provided. The method must be transparent, easy to follow and replicate, and the data used must be readily accessible

Data sources

- **To the extent possible, applications should use official statistics**
 - official sources (e.g. Eurostat) score highly in terms of the standard of data quality and credibility among stakeholders
- **Alternative sources include industry associations, commercial databases or firms**
 - but care must be taken to ensure the robustness and completeness data from these sources
- **Annex 2 provides a detailed list of default indicators and data sources that can be used to provide estimates for the assessment criteria under each pillar**

Documentation

Framework guidance document for Disaggregated Assessments can be found here:

https://ec.europa.eu/clima/sites/clima/files/ets/allowances/leakage/docs/framework_for_disaggregated_assessments.pdf



Thank you for your attention