EUROPEAN COMMISSION

Third Stakeholder Meeting on Carbon Leakage post-2020

25 September 2014, Brussels

Summary Conclusions (for information purpose only)

The third stakeholder meeting on carbon leakage post-2020, co-chaired by DG Climate Action and DG Enterprise and Industry, took place in Brussels on 25 September 2014 and brought together representatives of the European Commission, Member States, industry, academics, NGOs and other organisations.

The meeting was opened by Mr Carlo Pettinelli, Director in DG Enterprise and Industry, who underlined that the topics to be discussed were all key aspects of the future provisions on carbon leakage: the identification of best performers in different sectors, what should be the most appropriate reference data to be used and how should the risk of carbon leakage be concretely defined and measured, ensuring adequate protection.

Mary Veronica Tovšak Pleterski, Director in DG Climate Action, underlined in her introductory remarks the European and international political context: The European Council highlighted the importance of growth, competitiveness, research and jobs, objectives which are also among the priorities of Mr Juncker, the President-elect, along with a forward-looking climate and energy policy. The next European Council meeting in October 2014 will give the political direction on 2030 climate-energy framework based on which further work will be carried out. At the international level, the Climate Summit that took place this September in New York saw, among other encouraging developments, the endorsement by over 73 countries and over 1000 companies of the Carbon Price statement of the World Bank.

Hans Bergman (DG Climate Action) gave a brief preliminary overview of the written consultation on post-2020 carbon leakage provisions. The consultation, which lasted for 12 weeks, attracted ca 430 submissions from a wide range of stakeholders. The replies are already accessible on line. The Commission is preparing to publish a summary.

The meeting was structured around three topics with expert presentations (see Agenda), followed by comments from panellists and participants. The topics were benchmarks and their updating, production data parameters to be used, and carbon leakage criteria.

Benchmarks

The first presentation looked at the possible ways of updating benchmarks. It was argued that this would be a useful exercise as it would provide better insight into the actual technological progress made in industry, and therefore put into context the efforts required under any future rules. The panellists reacted to the presentation by stressing that: benchmarks will be crucial in the future system as they will play a decisive role in defining the level of free allocation; clear general principles should be agreed in order to develop the future system; and that it is important to update the benchmarks as it would show the progress of industry and would offer industry the incentive to be more ambitious. Some participants would rather prefer updating not to happen during a trading period for the sake of stability, predictability and ensuring early mover advantage; others stressed the need for benchmarks to be realistic and to show the progress already achieved if benchmarks are to be interpreted as an indication of what is technologically feasible and of the level of performance it is possible to strive for.

There were mixed views on the issue of setting benchmarks in accordance with worldwide 10% best, with the approach supported by some and questioned by others. The main concern of those against a global approach was related to availability and quality of data at worldwide level. Industry representatives argued that best performers should not have any carbon costs. Other issues raised included how to take into account the impact of other policies such as resource or energy efficiency on emission reduction; the considerable impact a breakthrough technology would have on the benchmark level for sectors with a limited number of installations.

Ms Tovšak Pleterski summarized the debate: updating benchmarks is one element of a wider debate; benchmarking was implemented in order to create incentives to improve, and to reward the most efficient installations; determining values based on international data would be complex, considering the data availability and quality; the benchmark system used in the EU was studied and is being adopted by international partners as a successful approach; best performers should have a good outcome but should still have the incentive to improve and reduce emissions, while of course the entire system should address the risk of carbon leakage.

Production data to be used

The presentation assessed two commonly discussed approaches (ex-ante and ex-post). Pros and cons were highlighted, and the complexities inherent in an annually updated ex-post approach, especially in terms of feasibility, administrative burden and length of the process, were underlined. The importance of keeping in mind the efficiency of the ETS was underlined as well in the presentation, and also that the ex-ante system provides industry with long term stability. The panellists noted that the past (pre-2013) system was problematic as it did not manage to tackle the problem of surplus allocation, and that, even if the new system from 2013 is improved, further changes in this respect would be useful. It was also stated that an ex-post system would provide more allowances to installations that produce more, therefore reflecting economic trends and responding with certainty to future increased production, while it was argued to be simpler than the current system.

It was in this context noted that also the present ex-ante system can be updated more often, and in that case also be made simpler by e.g. simplifying the new entrants' rules. During the debate some participants brought up the problem of confidentiality in an ex-post system, underlining the need for transparency. Generally, there was support for ex-post allocation from the industry stakeholders, stressing the need to accommodating growth dynamics in different sectors, while other participants expressed concerns about it since it would, among other things, weaken the carbon price signal and risks creating administrative burdens. It was also pointed out by some that ex-post allocation would create the undesired result that installations with fall-back allocation would get reduced allocation if they increase energy/fuel efficiency.

In the context of the discussions on the possibility of using an annually or frequently updated ex-post approach, the Commission recalled the need to carefully take into account the considerable administrative burden and likely delays it could imply as well as the dynamic elements already included in the current system in the form of closure rules and new entrants rules. Some rules may seem complicated but this is the result of the wish to ensure fairness among different type of operators.

Ms Tovšak Pleterski summarized the debate by emphasising certain key messages that came out during the session: there is convergence of opinions regarding the need to have the efficiency of the ETS system as guiding principle; the need to ensure strong carbon price signal; the need for predictability; that there is a strong call for a more frequent updating of data, with due regard to issues of transparency and data confidentiality, keeping the administrative burden at minimum.

Carbon leakage criteria

The third presentation, on carbon leakage criteria and thresholds, underlined a number of issues to consider when defining the future system, notably: international developments in terms of climate policies and carbon pricing; the emission reduction targets for 2050 are ambitious and might prove challenging if international competitors do not have similar constraints; phasing out free allocation will be problematic; the amount of allowances is declining – how to best address the shortage? In this context, the presentation underlined the need to determine how best to protect those most at risk and explained different possible options, such as e.g. adopting a tiered approach instead of the current in/out, using international credits or financial compensation. The panellists also stressed the importance of the international context along with the need to ensure adequate protection for European industry.

The issues underlined by other participants include the trade-offs inherent in choosing between a shorter and a longer list; the need to consider transport costs, cost-pass through and total ETS cost when defining criteria for selecting sectors for which compensation is necessary; the issue of how to address compensation for indirect CO2 costs; the fact that any change in one element of the system such as carbon leakage criteria has to consider the impacts on the whole system; the question of whether allowances received by industry have led to job creation; the need to have fact-based policy making that considers the ability to pass on costs; the possibility of implementing border tax adjustments linked with the problematic administrative and international trade aspects of such an approach. There were also a few questions on the follow up of the consultation process and on the timing of the development of the future carbon leakage policies.

Conclusions

In his concluding remarks on the last discussion and the meeting, Mr Pettinelli thanked the speakers and participants for sharing their views. He underlined the key role of industry and the need to provide appropriate support to industry's competitiveness and to protect against carbon leakage and investment leakage. There are different views on how to achieve the desired results and the right balance but whatever the decision, the future system has to be simple, predictable and effective based on a thorough assessment of impacts. They will have to ensure the most effective support to exposed sectors and operators, properly taking into account the technological feasibility of reducing emissions, all main sources of cost increase (direct and indirect) and the need for an adequate level of free allocation of allowances. Moreover, the new measures will need to be accompanied by stepped-up efforts in support to investments in research and innovation for low carbon technologies, both in terms of finance and framework conditions. In view of these achievements, the cooperation of all stakeholders will still prove essential in the near future and the Commission will be open to receiving inputs from and exchanging views with all of them.

Ms Tovšak Pleterski concluded by stressing that the aim is to consider the views and concerns of all stakeholders. The meetings and the written consultation, along with the 2050 industry roadmaps are valuable and useful inputs that will contribute to the background analysis for the future elements of the revised EU ETS. A number of messages emerged during the three meetings, namely: the system has worked so far but improvements are needed; this improvement must be a fact-based process; we need to keep in mind that the number of allowances is declining; international developments are encouraging; while there has been no evidence of carbon leakage so far the future system must ensure the necessary protection; need for a strong industrial base in Europe; the converging views on the need to incentivise innovation; the need to be mindful of administrative burden and associated costs as no solution with more red tape could be considered an improvement; the need to preserve transparency; the trade-offs to be made e.g. proportion of free allowances relative to auctioning revenues or the number of protected sectors and the level of protection. Once there is political guidance from the European Council, the background analysis for the future revision of the EU ETS will be prepared.