

# **Carbon leakage assessment**

## **QUALITATIVE ASSESSMENT**

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**Michel Catinat**



**European Commission**  
Enterprise and Industry

# The Approach

- Respectful of the ETS amended Directive: Art 10a17 “The list of sectors or sub-sectors which are exposed to significant risk of carbon leakage may be supplemented after completion of a qualitative assessment, taking into account .. the following criteria:
  - .. possible to reduce emissions levels or electricity consumption..
  - .. market characteristics (current and projected) ...
  - .. profit margins...”
- Pragmatic. Qualitative analysis done if:
  - Border line case
  - Absence of statistics
  - Quality of statistics
  - Sectoral specificities
- Selective: 7 sectors out of 94
- Comprehensive

# Selected sectors for a qualitative assessment

- Finishing of textiles (1730)
- Wood-based panels e.g. Manufacture of veneer sheets; manufacture of plywood, laminboard, particle board, and fiber board and other panels and boards (2020)
- Manufacture of plastics in primary forms (2416)
- Casting of iron (2751)
- Casting of steel (2752)
- Casting of light metals (2753)
- Manufacture of bricks, roof tiles, and construction products (2640)

# The technological assessment

- **In general, there is evidence of technological improvement over the past**  
Example: 40 % reduction of GHG emissions for the wood-based panel group (Norbold) over 2002-2006; national evidence for the textile sector
- **The profit margins too low to allow investments in new technologies**  
Example: finishing textile
- **In some cases, there exists technology barriers to further improvement.**  
Example: for casting, when the big cupolas furnaces are used, the use of coke is necessary and CO<sub>2</sub> emissions reduction has reached its limit.

# Market characteristics

- Market concentration HHI calculated when feasible;
- Pressure of competition from abroad : increase in imports (finishing of textile, wood-based panels and plastics); in the future this trend may accelerate (plastics);
- Strong position of the main client sectors on the market;  
Example casting sector: high dependence on limited number of customer sectors, notably the automotive sector;
- Integration over the value chain  
Example primary plastics sector (high integration with petrochemicals and plastics ), finishing textile (a service that can be integrated into most of textile products).

# Profit margins

- Some sectors show near zero profit margins, and sometimes negative ones (casting of light metals, finishing of textile).;
- For some sectors, the additional costs represent a significant part of profit margin  
Example: more than 50% for casting of iron, one third for wood-based panels;
- For these sectors, the low profit margins indicate a high pressure of competition and difficulties to invest in new technologies.

# Conclusions

From the qualitative assessment, three cases occur:

- Sectors for which there is evidence that they would be deemed to be at risk of carbon leakage (finishing of textile, wood-based panels, plastics);
- Sectors requiring further analysis (casting of iron, casting of steel and casting of light metals);
- Sector for which there is no evidence that the sector would be deemed to be at risk of carbon leakage (bricks, roof tiles and construction products);
- **These conclusions are conditional to the Commission decisions.**