



Carbon Leakage

“Second level assessment”

**Workshop on the preliminary Carbon Leakage List for
phase 4 of the EU Emissions Trading System**

2 March 2018

DG CLIMA.B

Legal provisions on CL in the Revised EU ETS Directive

Revised Article 10b lays down the formula for the quantitative assessment:

CL indicator = emission intensity (x) trade intensity > 0.2

and

Emission intensity = (direct emissions + indirect emissions) / GVA

Trade intensity = (exports + imports) / (turnover + imports)

Based on the data for the three most recent calendar years available (2013-2015)

To calculate the indirect emissions, electricity consumption will be multiplied with an electricity emission factor (tCO₂/kWh).

Legal provisions on CL in the Revised EU ETS Directive

Qualitative assessments (at NACE-4 level):

- **For borderline (sub)sectors, i.e. when: emission intensity (x) trade intensity is between 0.15 and 0.2**
- **For sectors whose emission intensity* >1.5**
***(direct emissions+indirect emissions)/GVA**
- **For sectors for which free allocation is based on refinery-related product benchmarks**

Legal provisions on CL in the Revised EU ETS Directive

Qualitative assessments – criteria based on:

- **Abatement potential**
- **Market characteristics**
- **Profit margins**

Assessment will be based on data covering the years 2014-2016

Legal provisions on CL in the Revised EU ETS Directive

Disaggregated assessments at Prodcom
(8-digit level) – eligible sectors to apply:

- Sectors whose emission intensity > 1.5 or sectors using refinery-related product benchmarks
- On the basis of duly substantiated, complete and independently verified data (2013-2015)
- Added if at Prodcom level emission intensity(x)trade intensity > 0.2



Legal provisions on CL in the Revised EU ETS Directive

"MS Route"

A provision in the revised EU ETS Directive allows MS and EEA/EFTA countries to submit a **disaggregated application** on the basis of "duly substantiated, complete, verified and audited data"

Data covering **5 most recent years (2011-2015)**

Eligibility limitation: Only Prodcoms that were included in current CLL for ETS phase 3 may apply

Deadline for applications: 30 June 2018



Outline for the framework for qualitative assessments

Overview

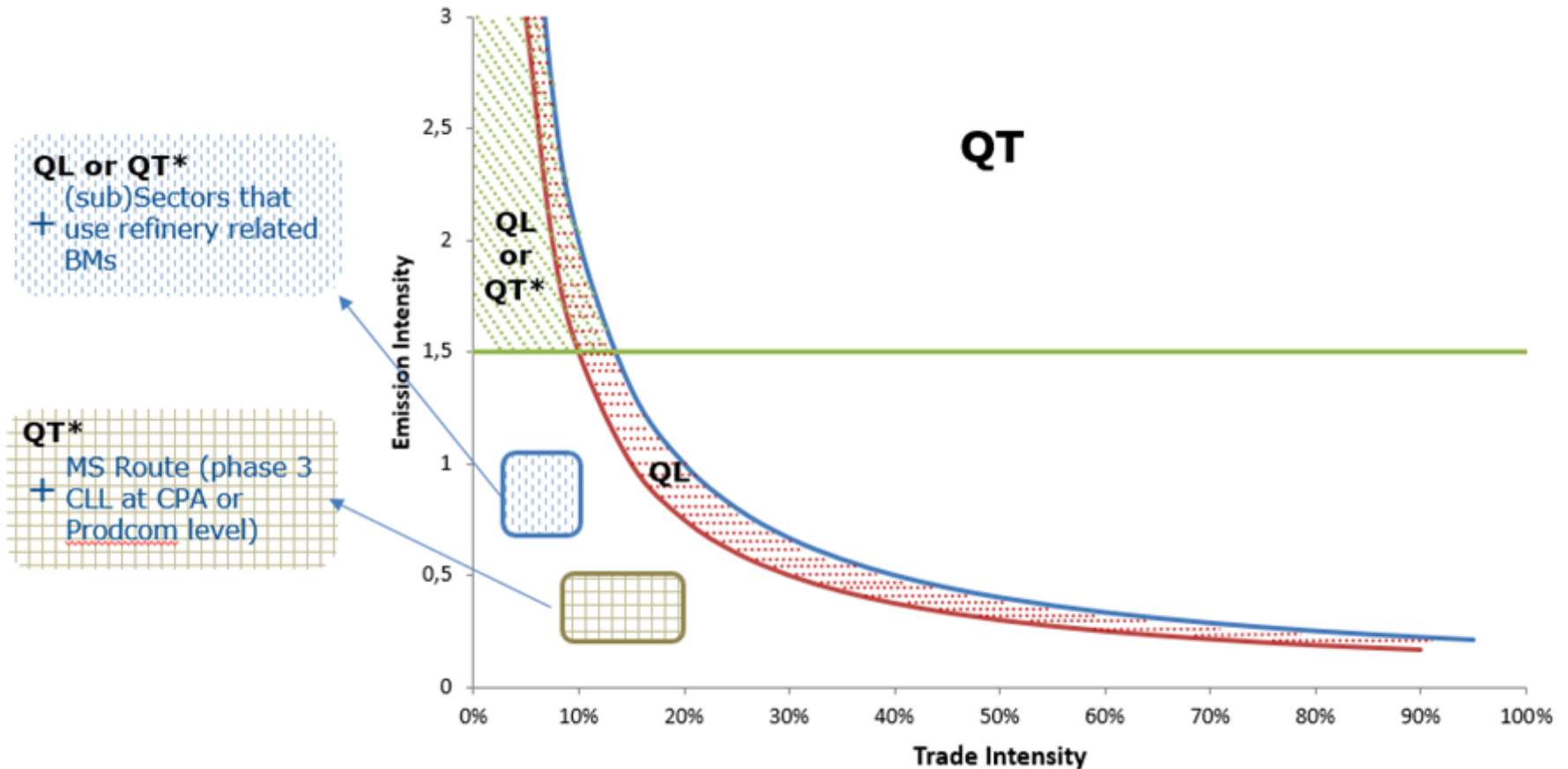
The outline presentation provides an overview of the focus and framework for the Qualitative Assessment.

It provides a first level of guidelines and instructions on what sectors need to do when applying for a Qualitative Assessment and on the evidence they need to provide to support their application.




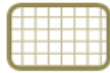
Revised EU ETS Directive

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

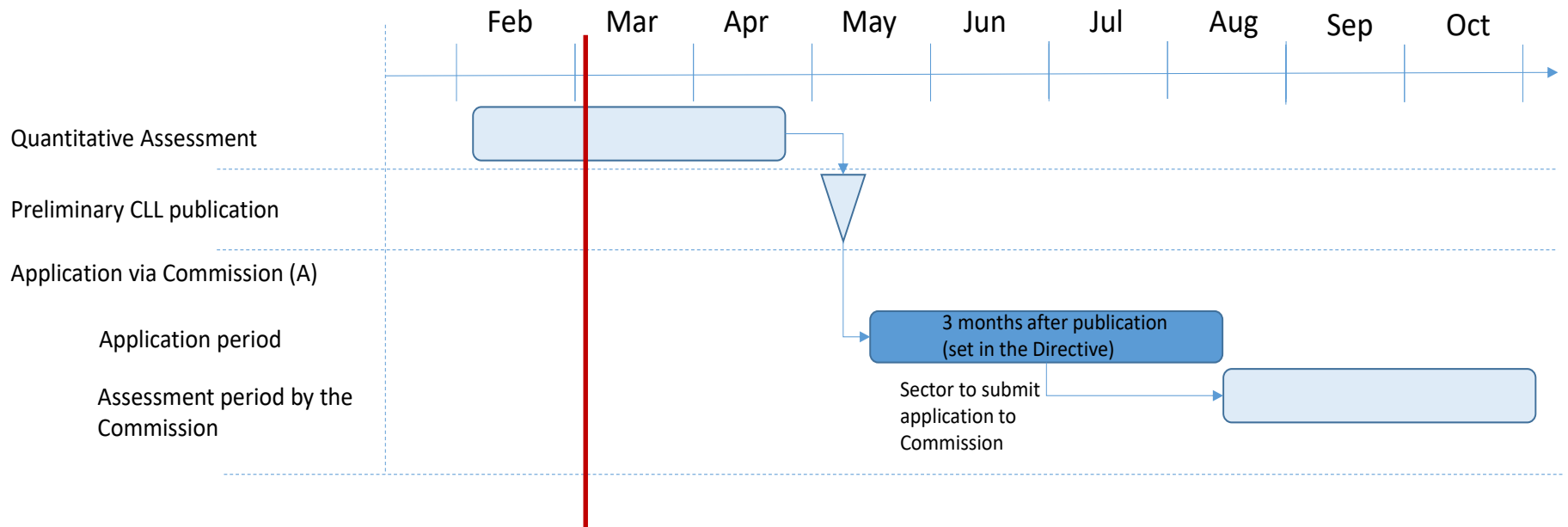
Carbon Leakage List eligibility criteria



“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	3 months after publication of preliminary CLL	
B	emission intensity exceeds 1,5	Art 10b (2a)	Qualitative assessment (QL) OR Quantitative at Disaggregated level (QT*)	to Commission	3 months after publication of preliminary CLL	
C	free allocation is calculated on the basis of the refineries benchmarks	Art 10b (2a)	Qualitative assessment (QL) OR Quantitative at Disaggregated level (QT*)	to Commission	3 months after publication of preliminary CLL	
D	listed in the EU ETS phase 3 CLL at a 6-digit or 8-digit level	Art 10b (2a)	Quantitative at Disaggregated level (QT* via MS)	to one Member State before final decision by Commission (“MS route”)	by the 30 June 2018	

Process - draft 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**
- **List of the installations in the sector that are covered by the EU ETS**
- **Evidence and reasoning on the status of each of the three Qualitative criteria of the sector**
- **Arguments supporting the Qualitative criteria combined assessment and carbon leakage conclusion**

Process

Who: *Eligible sector under criteria A, B and C*

To whom: *to the Commission*

By when: *within three months from the publication of the preliminary Carbon Leakage List*

What: *Carbon Leakage Qualitative assessment application*

Data period: *2014-2016*

Data quality: *duly substantiated, complete and independently verified data*

Verification report: *to validate supporting evidence and proposed methodology; evidence on the competence and independence of the verifier*

Process

Verification on: *data used, assumptions applied, calculations of indicators and the link between indicators and conclusions. Only submissions including a positive opinion from the verifier can be considered by the Commission*

Competence of the verifier can be demonstrated by:

Certified accreditation with representative industry organisations

Certified quality standards (e.g. ISO) accreditation

The track record of the verifier in providing similar services for other clients, including

past project/contract experience

letters of satisfactory completion

The experience and qualifications of those responsible for carrying out the verification

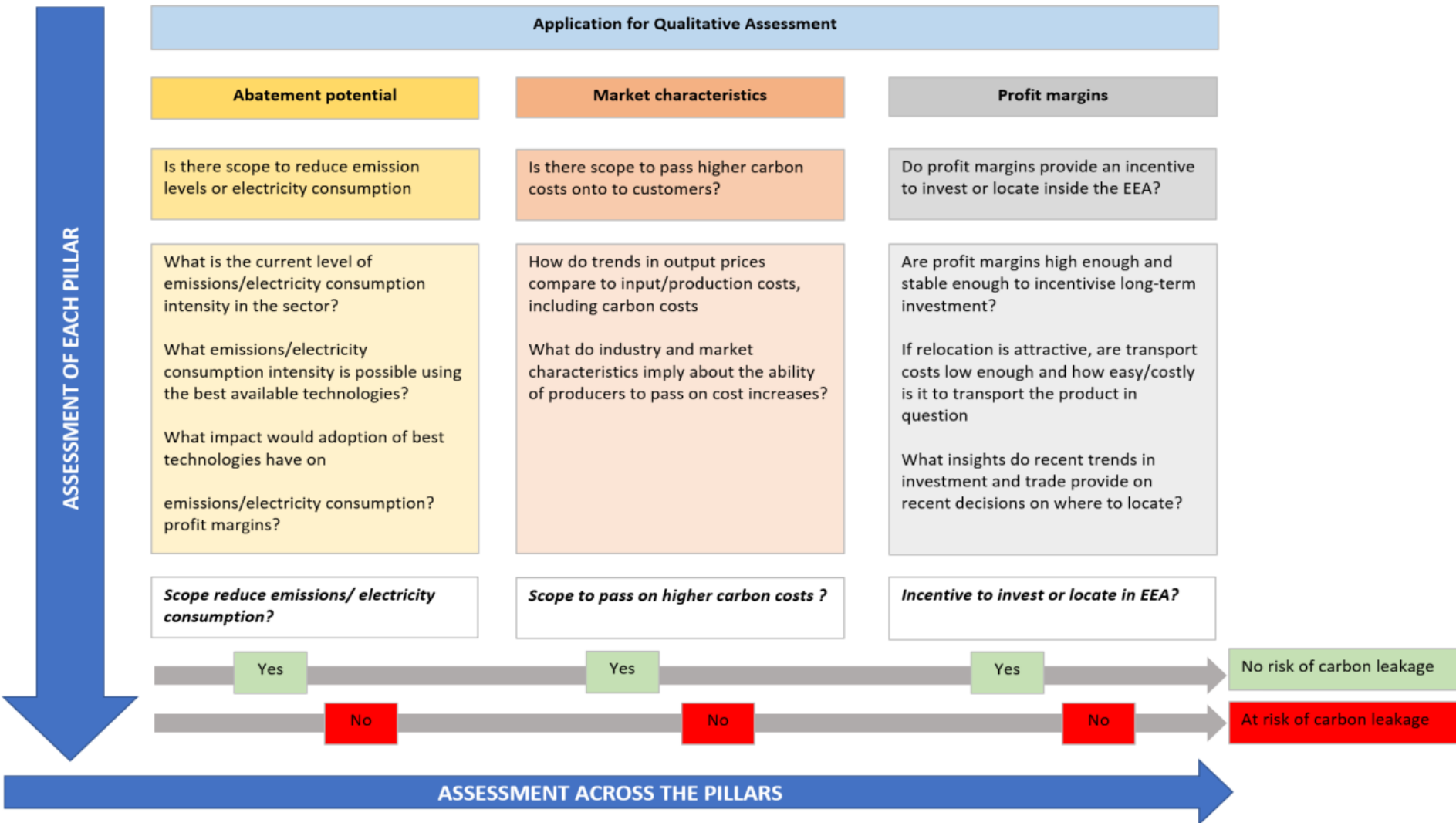
Only submissions including a positive opinion from the verifier can be considered by the Commission.

Process

Assessment by the Commission:

- *checks of eligibility, completeness of the files, verification requirements and data sources used, if satisfactory*
- *correlations and trade-offs between the three criteria*
- *assess the qualitative criteria evidence and draw a conclusion on the extent to which the applied data and methodology is duly:*
 - *Substantiated*
 - *Complete*
 - *Independently verified*
- *decision on the sector CLL status*

Overarching analytical framework



Analytical framework for the qualitative assessments (I/III)

Example approach: provide a set of questions to operationalise and harmonise the criteria:

Abatement potential: ascertaining the extent to which it is possible for individual installations in the sector to reduce emissions or electricity consumption

- *What is the current level of emissions and electricity consumption intensity in the sector?*
- *What emissions and electricity consumption intensity is possible using the best available technologies?*

Analytical framework for the qualitative assessments (II/III)

Market characteristics: assessing the extent to which producers can reject cost increases or pass cost increases on to customers

- *How do trends in output prices compare to input/production costs, including carbon costs, and is there any pattern/correlation?*
- *What do industry and market characteristics imply about the ability of producers to pass on cost increases? How do trends look like?*

Analytical framework for the qualitative assessments (III/III)

Profit margins (as indicators of investment or relocation decisions): ascertaining the size of profit margins associated with EU production/market to assess the relative attractiveness of the ETS area as a place for further long-term investment

- *Are current and expected future profit margins high enough and stable enough to incentivise long-term investment?*
- *If relocation is attractive, are transport costs low enough and how easy/costly is it to transport the product in question (e.g. value to weight ratio)?*
- *Do current trade patterns imply it would be feasible?*
- *Do recent investment trends provide any insight on recent decisions on where to locate?*

Quality criteria for application (I/II)

Representativeness of data

- *Whole of the 4-digit NACE sector (min. 85% of turnover)*
- *Geographic scope: EEA area (min. 85% of turnover)*

Robustness of data

- *Reliable and trustworthy sources, preferably official sources*
- *Alternative data and methods should be independently verified*

Consistency of the data

- *Consistent with both standard economic definitions and methods*

Quality criteria for application (II/II)

Time period

- *2014, 2015 and 2016*

Traceability of calculations

- *Where alternative methods have been used to calculate the data values for an indicator, 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.*

Items where further development is ongoing

- *Quality criteria for application*
- *Detailed analytical framework for each criterion*
- *Verification provisions*
- *Assessment provision*
- *Application template*



European
Commission

Thank you for your attention