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PositionPaper

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Response to the public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive industries (DGClimate Action request).

Question 1. *In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?*

CEPI Answer 1. Key indicators have not changed. The carbon leakage criteria were set by the heads of state meeting finalising the Energy and Climate Package. The so called carbon leakage list was based on an analytical assessment by the Commission, using the criteria in the directive - trade indicators, GVA data and carbon intensity data, together with carbon prices. The criteria and levels set in the directive and the analysis are directly linked. The Commission used the same assumptions as were used to define the criteria in the first place. The analysis studied the future, expected situation in 2013 and 2014 as a basis for the carbon leakage list, based on available historical and statistical data and future assumptions. Neither the historic data nor the assumptions have changed. The current carbon price has no meaning, as the future price will be set by the still to be developed benchmarks, international negotiations, etc. If one can say anything, it is the fact that the economic crisis has worsened the situation and the carbon leakage problem has increased.

Question 2. *Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?*

CEPI Answer 2. No. The Copenhagen climate change conference failed to achieve a consensus for a comprehensive international agreement to combat the risks of climate change. The European Union has taken the leadership role in climate change and has adopted the ambitious unilateral target of a –20% reduction of emissions of greenhouse gases by 2020 based on 1990 levels. The European Council of 10/11 December 2009 reiterated the EU's conditions to move from -20% to -30%. These are *"that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities"*. These conditions have so far clearly neither been met by the principal emitters of the *'other developed countries'* nor by *'developing countries'*.

In addition to this answer please note that we do not read the directive as you described in the question. You seem to indicate that a review of the carbon leakage list could be based on article 10b. Reviewing the list of sectors and possibly including, let alone removing sectors are not covered by this article. Article 10b, the topic of your questions covers the potential for several measures, as described in your introduction, not for reviewing the list.

Question 3. *In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?*

CEPI Answer 3. The benchmarks. Article 10(b) of the directive allows for even further measures (import measures, compensation, adjustment of percentage of allowances) to prevent carbon leakage. The directive already enables free allocation of 100% of the benchmarks. There are no compelling new factors to change the level of free allocation as the benchmarks are not finalised yet. However, if the benchmarks lead to much larger reductions by industry than the -21% foreseen in the -20% target, adjustment could even be considered, or the “starting point” of the benchmarks changed.

Question 4. *Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?*

CEPI Answer 4. Insufficient. Free allocation of allowances only helps in battling carbon leakage for the costs of the direct emissions. The EU remains the only region with carbon prices included in the electricity prices and the consequent high electricity prices. None of the other regions of the world has this, without a cap and trade system in place. Compensation of indirect electricity costs is a step forward, but should not be limited to a small number of sectors, but to all relevant installations under EU ETS with high electricity costs. The decision not to give free allocation to industry for any electricity production causes the situation in combination with the compensation proposals causes the situation that CHP producers who produce their own electricity would not be compensated, where industries that buy electricity would be eligible.

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