

Assumptions to be used for new EU ETS carbon leakage list 2015-2019

Registration	
What is your profile? -single choice reply-(compulsory)	Trade association representing businesses
Please enter the name of your business/organisation/association etc: -open reply-(compulsory)	
EUROALLIAGES	
Please enter your contact details (address, telephone, email): -open reply-(compulsory)	
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If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS: -single choice reply-(compulsory)	Yes
Please explain why the question above is not relevant in your case (max 500 characters) -open reply-(optional)	
If your sector/industry falls under the scope of EU ETS, does the sector/company you represent receive free allocation under the harmonised allocation rules? -single choice reply-(compulsory)	Yes
Please explain why the question above is not relevant in your case (max. 500 characters) -open reply-(optional)	
I. General: competitiveness, carbon leakage and the 2009-2014 carbon leakage list	
As stipulated in the ETS Directive, the aim of the EU Emission Trading System is to promote reductions of greenhouse gas emissions in the most cost-effective and economically efficient manner. To address the risk that, for reasons of costs related to climate policies, relocation of companies to areas which have laxer constraints on greenhouse gas emissions could lead to an increase of carbon dioxide emissions, Commission Decision 2010/2/EU has established the list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage. This list is valid from 2009 to 2014 included, and is incorporated in the determination of free allocation for 2013 and 2014. In your view, how has the risk of carbon leakage evolved since the adoption of the first carbon leakage list in 2009: -single choice reply-(compulsory)	Remained the same
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The progress on a new Global Climate Agreement was less than hoped for. The allocation rules that were adopted subsequently have design errors which: (a) Give a clear incentive for production carbon leakage. An allocation system based on actual production levels does not give this incentive. (b) Deter investments due to under-allocation in case of growth or replacement of older less efficient plants due to complex and risky allocation rules. These rules are likely to cause significant investment carbon leakage. The indirect (electricity) costs are higher than expected and increasing due to RES-E surcharges. The ex-ante allocation also causes over-allocation during recession or economic crisis.	
In your view, how adequate policy instruments are free allocation and the increased	Very adequate

allocation for sectors on the carbon leakage list in particular in relation to the risk of carbon leakage? -single choice reply-(compulsory)	
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
Free allocation is essential. Other essential elements are: benchmark level, activity level (production volume), compensation for indirect emissions. EC impact assessments should calculate the difference between auctioning, ex-ante & ex-post free allocation.	
Currently 154 sectors and 16 sub-sectors are on the carbon leakage list valid for 2009-2014. In your view, how adequate is the coverage of sectors and sub-sectors in the current carbon leakage list? -single choice reply-(compulsory)	No opinion
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
It is not up to one sector to express an opinion on other sectors since the list is based on objective criteria. However not all the sectors currently on the list seem actually exposed to global competition and unable to transfer their costs. The carbon leakage list must be as accurate as possible as it has also an impact beyond the EU ETS. It is becoming a reference for other European legislation.	
II. Methodology for new carbon leakage list 2015-2019: options to be discussed in the Impact Assessment	
In your view, is there an increase of the ambition of domestic climate policies undertaken in countries outside the EU/EEA since 2009? -single choice reply-(compulsory)	Yes, some increase
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The growing interest in ETS outside Europe is encouraging. Some countries (especially Australia) have initiated similar systems to the ETS. China and some other countries have indicated an interest to do so. However, today these do not represent comparable systems. In any case, the future connections with Switzerland and Australia and the inclusion of Norway, Iceland and Lichtenstein are no reason to adapt the trade intensity calculations. Firstly, it has to be analysed whether the carbon cost to industry is comparable (the Australian ETS has a much more favourable allocation to industry). Secondly, these countries should account for a decisive share of global production (ETS Directive Art. 10a (18)).	
Australia -single choice reply-(compulsory)	Partially comparable to the ETS
Switzerland -single choice reply-(compulsory)	Not comparable to the ETS
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The Australian ETS has avoided some crucial shortcomings of the EU ETS, especially with regard to the design of the carbon leakage provisions. Free allocation to industry is based on the following characteristics: - Benchmarks based on weighted average efficiency; - Actual production levels; - Free allocation for indirect emissions with a CO2 factor of 1.0 ton CO2/MWh. In Switzerland, industry can opt out of participating in the ETS.	
China -single choice reply-(compulsory)	Not comparable to the ETS
South Korea -single choice reply-(compulsory)	No opinion
New Zealand -single choice reply-(compulsory)	No opinion
USA -single choice reply-(compulsory)	Not comparable to the ETS
Brazil -single choice reply-(compulsory)	Not comparable to the ETS
Russian Federation -single choice reply-(compulsory)	Not comparable to the ETS

Middle Eastern countries -single choice reply-(compulsory)	No opinion
Other country (please specify below) -single choice reply-(optional)	No opinion
If you wish, please motivate your answer (max. 2000 characters) -open reply-(optional)	
For any comparison of different climate policy regimes to be meaningful, one must compare the actual burden/exposure facing competing industries within different regimes. The existence of an ETS as such is not enough to have an environmentally effective system (proper incentives to reduce emissions) including a solid resistance to carbon leakage.	
The ETS Directive requires the use of the Eurostat NACE classification (Statistical Classification of Economic Activities in the European Community ^[1]) for the definition of sectors to be assessed for potential inclusion in the carbon leakage list. In your view, what should be the starting point for the analysis of sectors, taking into consideration both feasibility and the structure of European industry?	NACE-4
[1] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF -single choice reply-(compulsory)	
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
NACE-4 level is a good starting point which gives a good indication for many sectors to build on for further analysis, where needed. However, exposed sectors or sub-sectors may be hidden in the NACE-4 level. Therefore, for the list to become better targeted, data should be gathered at Prodcop 8 level. It is vital that industry federations are consulted and that these federations can ask for assessment on the appropriate level of detail, as determined by EU ETS Directive Art. 10a (13).	
In your view, the auctioning factor (an estimation concerning the share of allowances to be acquired if not on the carbon leakage list) should be: -single choice reply-(compulsory)	Uniform for all sectors
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The current carbon leakage list, applied for free allocation in 2013 and 2014, is based on a carbon price of €30. In your view, is this an adequate carbon price to be used for the new carbon leakage list for the period 2015-2019? -single choice reply-(compulsory)	Yes
Please motivate your answer (max. 1000 characters) -open reply-(optional)	
The list should be robust at all price levels and the price will vary over the period. In a forward looking approach for the qualitative assessment the EU ETS should be resistant to carbon leakage until e.g. € 60-90/ton CO ₂ , because for new investments planned after the crisis and started up by 2020 the relevant time horizon is 2020-2035 to 2040 (investment security). For this period, the CO ₂ prices will be much higher than today (cf. the Commission's Energy Roadmap Diversified Supply scenario). Therefore a policy choice is needed for the carbon price to which the resistance to carbon leakage should work.	
In your view, which is the most adequate CO ₂ emission factor that should be used for the calculation of indirect costs? -single choice reply-(compulsory)	Emission intensity of marginal electricity generation in the current system
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The use of average prices gives no meaning as it is the actual price that affects a company's competitiveness. The Alliance of Energy Intensive Industries issued papers with ample evidence that the marginal power plant determines the carbon cost impact of indirect emissions. The State Aid Guidelines for the financial compensation under the EU ETS recognise the concept of the marginal power plant, based on the average emission of the fossil fuel electricity generation as proxy, with regional differences (Annex IV).	

Measurable -single choice reply-(compulsory)	1
Relevant -single choice reply-(compulsory)	1
Important -single choice reply-(compulsory)	1
Measurable -single choice reply-(compulsory)	3
Relevant -single choice reply-(compulsory)	1
Important -single choice reply-(compulsory)	1
Measurable -single choice reply-(compulsory)	1
Relevant -single choice reply-(compulsory)	1
Important -single choice reply-(compulsory)	1
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
B.A.15: In all sectors there is no escape to avoid the carbon cost. Feasible efficiency improvements are much lower than linear reduction factor. B.A.17: If profit margins of a sector are high in Europe, they will be high in other regions as well. It is primarily a favourable relative cost position that matters when a company is able to attract customers and investments. Major problems of maintaining and expanding a manufacturing base in Europe affect profit margins negatively and should be taken into account as well.	
Complete -single choice reply-(compulsory)	1
Adequate -single choice reply-(compulsory)	1
Comparable across sectors -single choice reply-(compulsory)	1
Transparent -single choice reply-(compulsory)	1
Well-structured -single choice reply-(compulsory)	1
Clear and understandable -single choice reply-(compulsory)	1
If you wish, please motivate your answer (max. 1000 characters): -open reply-(optional)	
From a practical viewpoint, it seems difficult to transparently gather and evaluate data with this level of detail and, most importantly, to compare them with the same data for competitors in other regions. The Ecofys/Öko-Institut study for the qualitative assessment is not a good theoretical framework either. E.g. the EU ETS Directive (art. 10a (17) does not prescribe a hierarchy as proposed but a balanced assessment of all factors together.	
In the context of qualitative assessment, after considering the indicators listed in the study, do you consider that other indicators/variables should be taken into account when gathering basic evidence? Please explain (max. 2000 characters) -open reply-(optional)	
There are significant differences between sectors within each NACE 4 level. Therefore data should also be gathered at Prodcom level 8	

to ensure that Prodcoms that are unable to pass on costs to customers (the most important criteria for exposure to carbon leakage) are included in the list, whereas other Prodcoms within the NACE 4 level could be excluded. Several errors appear in the Ecofys/Öko-Institut study: average instead of marginal power plant (flawed argumentation); the “deduction approach” for the trade intensity (flawed: for connected countries, e.g. Switzerland, exports to/from third countries ignored). See further reply B.A.2. Capacity extensions and new manufacturing plants for market growth or to replace older less efficient plants could be planned soon after the crisis, which means that the start-up date will be around 2020. Then the economic evaluation horizon is 2020-2035 to 2040. The ambitious “top 10%” benchmarks are to be multiplied with the ambitious linear reduction factor. For sectors like ferro-alloys and silicon, they have to be adapted to the level of the thermodynamic minimum. CCS and biomass are beyond the present planning horizon.

If you wish, please provide any general comments on the questionnaire -open reply-(optional)

NB: in many answers, statistical analysis of the multiple choice questions is not meaningful. CCS is beyond the present planning horizon, because of public acceptance, legal problems in some Member States, and the lack of planning for the transport and storage infrastructure. For many processes, especially energy-intensive industries such as ferro-alloys and silicon, the carbon leakage break-even price at 100% auctioning is € 15-35/ton CO₂. Above these prices, producing outside Europe and transporting the product to Europe is cheaper than producing in Europe. In the structural EU ETS reform, the benchmarks and the linear reduction factor for industry must be more realistic. The activity factor should move from ex-ante historical to ex-post actual production. This would remove the barriers and the risks for growth.