

Position Paper

30 August 2013



EUROCHAMBRES response to the consultation on methodology for Commission Decision determining the list of sectors and subsectors deemed exposed to a significant risk of carbon leakage for the period 2015-2019

A. Registration

A.1. What is your profile?*

- Business
- Trade association representing businesses
- Government institution/regulatory authority
- Academic/research institution
- Non-governmental organisation
- Citizen
- Other (please specify below)

A.2. Please enter the name of your business/organisation/association etc:*

(maximum 500 characters)

EUROCHAMBRES - The Association of European Chambers of Commerce and Industry

A.3. Please enter your contact details (address, telephone, email):*

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Contact person: Michael Steurer, Advisor EU Affairs*

A.4. If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS:*

- Yes
- No
- Not relevant (please explain below)

A.5. Please explain why the question above is not relevant in your case

(max 500 characters)

Chambers of commerce serve the interests of every sector of European business, including those sectors which fall under the scope of the ETS.

A.6. 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?*

- Yes
- No
- Not relevant (please explain below)

A.7. Please explain why the question above is not relevant in your case (max. 500 characters)

(maximum 500 characters)

See above

B. I. General: competitiveness, carbon leakage and the 2009-2014 carbon leakage list

The questions in this section are an opportunity for stakeholders to express their general and broader view on carbon leakage issues, the list valid for 2013 and 2014 and will be useful from a policy evaluation perspective.

B.1. 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:*

- Increased substantially
- Increased slightly
- Remained the same
- Decreased slightly
- Decreased substantially
- No opinion

B.2. If you wish, please motivate your answer (max. 1000 characters)

Globally, the gap between the EU and growth front runner countries is still widening. Against the background of an increasingly tense intl. business environment, differing degrees of climate protection efforts result in competitive disadvantages for EU businesses.

The ongoing discussion on artificially increasing the CO2 price (backloading) and the resulting lack of predictability of the ETS make it even more difficult to produce cost-effectively inside the EU. Thus, the risk of carbon leakage is still increasing. Evidence has been provided by scientific studies (e.g. www.publications.parliament.uk/pa/cm201012/cmselect/cmenergy/1646/1646.pdf) showing that domestic emissions in the EU decrease, while emissions linked to consumption in EU increase. This can neither be the aim of EU's climate policy nor be accepted as side effect. We have to prevent losing energy-intensive industries, which are also an important supplier of components/base material for sustainable energy technologies.

B.3. In your view, how adequate policy instruments are free allocation and the increased allocation for sectors on the carbon leakage list in particular in relation to the risk of carbon leakage?*

- Very adequate
- Quite adequate
- Quite inadequate
- Very inadequate

B.4. If you wish, please motivate your answer (max. 1000 characters)

Many CO2 and energy-intensive businesses are facing difficult times on the global market. Just glancing at official statistics illustrates the scale of the problem: In comparison to the US, the EU electricity prices for industrial consumers are on average 25% higher and for natural gas EU industries have to pay more than three times as much. In both cases, the gap is widening even further. This has led the EU's entire industrial base to fall significantly behind its global competitors, which inevitably has a knock-on effect on the whole economy and the EU labour markets. High energy prices are thus a major risk factor for the economic recovery of Europe and adversely affect the Commission's target of increasing industrial production to 20% of the EU's GDP by 2020.

In order not to further weaken the competitiveness of CO2-intensive sectors, the basic principles of the current policy instruments (free/increased allocation for sectors on the carbon leakage list) must not be questioned.

B.5. 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?*

- The carbon leakage list is too short
- The carbon leakage list is of adequate length
- The carbon leakage list is too long
- No opinion

B.6. If you wish, please motivate your answer (max. 1000 characters)

In order to guarantee long-term planning certainty to all carbon leakage sectors and sub-sectors, their status must not be changed within one trading period. Moreover, as the coverage of sectors and sub-sectors reflect the level of threat to EU industry competitiveness, major changes would be a setback of the EU economy.

B.A. II. Methodology for new carbon leakage list 2015-2019: options to be discussed in the Impact Assessment

Based on Article 10(a)18a of the ETS Directive, if third countries have firmly committed to reducing emissions in an extent comparable to the one of the ETS, it can be considered whether the trade between EU and these countries shall be treated the same way as intra-EU trade because there would be no risk of carbon leakage to such countries.

B.A.1. In your view, is there an increase of the ambition of domestic climate policies undertaken in countries outside the EU/EEA since 2009?*

- Yes, a significant increase
- Yes, some increase
- No change since 2009
- No, there is even some decrease
- No, there is even a significant decrease
- No opinion

B.A.2. If you wish, please motivate your answer (max. 1000 characters)

After the first commitment period of the Kyoto protocol expired by the end of 2012, the second period now only binds the EU and some 10 states which together currently represent 13% of global greenhouse gas emissions. By 2020 this share will even decrease to around 10%. The withdrawals of Canada, Japan, New Zealand and Russia represent a clear step backwards. At the same time, global emissions are still growing significantly, mainly due to the rapid industrial growth in China and other non-OECD countries.

The conclusion of a legally binding global agreement, which comprises all major emitters is still uncertain and would not enter into force before 2020. This means that, for the foreseeable future, Europe is alone with a stringent ETS regime and binding Member State targets.

B.A.3. How do you see the climate policies of the following countries outside the EU-28 and EEA EFTA states, with which there are decisions or on-going discussions to implement ETS systems?**B.A.3.1. Australia***

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.3.2. Switzerland*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.4. If you wish, please motivate your answer (max. 1000 characters)

B.A.5. How do you see the climate policies of countries or regions outside the EU-28 and EEA EFTA states?

B.A.5.1. China*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.2. South Korea*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.3. New Zealand*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.4. USA*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.5. Brazil*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.6. Russian Federation*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.7. Middle Eastern countries*

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.5.8. Other country (please specify below)

- Fully comparable to the ETS
- Partially comparable to the ETS
- Not comparable to the ETS
- No opinion

B.A.6. If you wish, please motivate your answer (max. 2000 characters)

The main difference between the EU ETS and the emission trading in other world regions is the fact that there are hardly any nation-wide systems, capping the total amount of CO2 emissions. Especially, the 100 % full auctioning of CO2 emissions allowances for energy production does not exist anywhere else than in the EU.

In China, the world's largest emitter, the reporting system is highly intransparent. Therefore, the real emissions of the country and its industries are unknown.

B.A.7. The ETS Directive requires the use of the Eurostat NACE classification (Statistical Classification of Economic Activities in the European Community) for the definition of sectors to be assessed for potential^[1] 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?

^[1] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF

- NACE-3
- NACE-4
- No opinion

B.A.8. If you wish, please motivate your answer (max. 1000 characters)

B.A.9. 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:*

All industrial installations in the ETS receive free allowances based on benchmarks, according to the Benchmarking Decision (2011/278/EU). The amount of free allowances received per year if they are not deemed to be exposed to carbon leakage declines from 80% of the benchmark value in 2013 to 30% of the benchmark value in 2020. To assess direct costs, it is necessary to take into account the amount of allowances a sector would need to acquire if were not deemed to be exposed to carbon leakage. This assessment, referred to as 'auctioning factor' is expressed as a percentage and is used alongside actual levels of allocation in the calculation of the direct costs a sector may be facing under ETS.

- Uniform for all sectors
- Sectorial at NACE-2 level,
- Sectorial at NACE-3 level,
- Sectorial at NACE-4 level,
- Other (please specify below)
- No opinion

B.A.10. If you wish, please motivate your answer (max. 1000 characters)**B.A.11. 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?***

- Yes
- No
- No opinion

B.A.12. Please motivate your answer (max. 1000 characters)

As the ETS is a market-based system prices may rise again. Moreover, € 30 are an economic threshold for investments and therefore relevant as a calculation basis.

Moreover, the carbon leakage assessment must be forward-looking and address the potential risk of carbon leakage in the future, applying the precautionary principle. Scientific scenarios show that the carbon price will reach about € 30/tonne at the end of the period (cf. Bloomberg's presentation at the Commission's second consultation meeting on the options for structural measures to strengthen the EU ETS on 19 April 2013).

B.A.13. In your view, which is the most adequate CO2 emission factor that should be used for the calculation of indirect costs?*

- Average emission intensity of the whole electricity generation mix
- Average emission intensity of the fossil fuel electricity generation mix
- Emission intensity of marginal electricity generation in the current system
- No opinion

B.A.14. If you wish, please motivate your answer (max. 1000 characters)

B.A.15. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on the following indicator for the qualitative assessment of the risk of carbon leakage: *possibility of individual installations within a sector to reduce emissions*

B.A.15.1. Measurable*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.15.2. Relevant*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.15.3. Important*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.16. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on the indicator for the qualitative assessment of the risk of carbon leakage listed below: *current and projected market characteristics*

B.A.16.1. Measurable*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.16.2. Relevant*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.16.3. Important*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.17. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on the indicator for the qualitative assessment of the risk of carbon leakage listed below: *profit margins*

B.A.17.1. Measurable*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.17.2. Relevant*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.17.3. Important*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.18. If you wish, please motivate your answer (max. 1000 characters)

Basically, the profitability of a sector is a clear and measurable indicator. However, the entrepreneurial data security has to be kept in mind. Market characteristic are diverse and a simultaneous assessment is more difficult. Therefore, it should only be used in combination with other indicators.

The mere technical feasibility of reducing emissions does not mean that these improvements are affordable. The key issue is the potential to cost-effectively reduce emissions. Once this potential has been exploited, profit margins are even more under pressure.

B.A.19. On a scale from 1 to 5, where 1- the least, and 5- the most, what is your view on a framework for qualitative assessment, such as the one proposed in the study made for DG Climate Action and published on DG Climate website ? ^[1]

^[1] http://ec.europa.eu/clima/policies/ets/cap/leakage/docs/carbon_leakage_list_en.pdf

B.A.19.1. Complete*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.19.2. Adequate*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.19.3. Comparable across sectors*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.19.4. Transparent*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.19.5. Well-structured*

- a: 1
- b: 2
- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.19.6. Clear and understandable*

- a: 1
- b: 2

- c: 3
- d: 4
- e: 5
- f: No opinion

B.A.20. If you wish, please motivate your answer (max. 1000 characters)

B.A.21. 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)

B.A.22. If you wish, please provide any general comments on the questionnaire (max. 1000 characters)

So far, the ETS has been a well-functioning working instrument, showing that CO₂-reduction can be achieved in a cost-efficient way. However, the EU should focus on a stable long-term perspective for climate action. What our businesses need most is planning certainty, confidence in Europe as business location and a level playing field with global competitors. Though the EU can act as pace-setter, it cannot shoulder climate protection alone. Today, Europe is responsible for 11 % of global GHG emissions. By 2020 this share will even decrease to below 10%. Therefore, the EU has to put every effort into the conclusion of an intl. agreement by 2015. However, until such a binding agreement including all major emitters will enter into force, our CO₂ & energy intensive businesses must not be subject to any new burdens.

Moreover, the EU must not only concentrate on mitigation but also on adaptation measures, which (unlike mitigation efforts) lead to concrete and economically quantifiable results.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 45 countries and a European network of 2000 regional and local Chambers.

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