

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

Registration	
What is your profile? -single choice reply-(compulsory)	Non-governmental organisation
Please enter the name of your business/organisation/association etc: -open reply-(compulsory)	
Carbon Market Watch / Nature Code	
Please enter your contact details (address, telephone, email): -open reply-(compulsory)	
Carbon Market Watch Nature Code – Centre of Development & Environment Rue d’Albanie 117 B-1060 Brussels info@carbonmarketwatch.org	
If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS: -single choice reply-(compulsory)	No
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)	No
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)	Decreased substantially
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The EUA price dropped very significantly over the last 2 years and is now at around 4 Euros. This is 85-90% lower than the assumed price of 30 EUR that underlies the carbon leakage calculations. In other words, the carbon cost indicator is only a tenth as relevant in reality than it was assumed to be. The risk of competitive disadvantage is therefore significantly lower than what it was projected to be.	
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? -single choice reply-(compulsory)	Quite adequate

If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

Free allocation is an adequate policy instrument if the parameters by which free allocations are determined are realistic and conservative. This is currently not the case. Nevertheless, alternatives, such as fully excluding all industries with leakage risks would be less desirable from an environmental standpoint.

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)

The carbon leakage list is too long

If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

Several analyses confirm that the list is currently too long. Of 220 sectors total, over 154 are included; some of which do not have any emission intensive installations (e.g musical instruments). This is because the list is based on trading intensity alone. We therefore recommend that the list be determined by trading intensity AND carbon price. This would shorten the list and make it more relevant.

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, a significant increase

If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

Many developing countries are implementing substantial climate and energy policies. The following countries have been implementing significant policies that impact GHG emissions: China, South Korea, Japan, California, Indonesia, South Africa (CO2 tax) Especially at the current low EUA prices these countries have and are undertaking comparable efforts. Indonesia and Mexico are two other countries that may be undertaking comparable efforts. Since the EU is planning to link to the ETSs of Australia and Switzerland they have to be assumed comparable.

Australia -single choice reply-(compulsory)

Fully comparable to the ETS

Switzerland -single choice reply-(compulsory)

Fully comparable to the ETS

If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

Since the EU is planning to link to the ETSs of Australia and Switzerland they have to be assumed comparable. Otherwise the EU would undermine its climate goals. Yet the EU should examine more carefully the AU and Swiss offsetting schemes. If they are of substantially lower quality, they could undermine the environmental integrity of the EU ETS

China -single choice reply-(compulsory)

Partially comparable to the ETS

South Korea -single choice reply-(compulsory)

Partially comparable to the ETS

New Zealand -single choice reply-(compulsory)

Partially comparable to the ETS

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)	Not comparable to the ETS
Other country (please specify below) -single choice reply-(optional)	Partially comparable to the ETS
If you wish, please motivate your answer (max. 2000 characters) -open reply-(optional)	
Especially at the current low EUA prices the following countries have and are undertaking comparable efforts. - China is launching 7 regional ETSs and has numerous climate and energy policies - South Korea is introducing a mandatory cap-and-trade system with a target of minus 30% against business as usual (BAU) by 2020. - NZ has an operating ETS - In the US there are ETSs in California and in the North East: the Regional Greenhouse Gas Initiative (RGGI) - Japan: significant energy efficiency and GHG targets - Indonesia has announced an ambitious quantitative pledge. - South Africa is implementing a carbon tax - Mexico has a 2050 climate goal and may potentially implement ETS and other policies.	
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?	No opinion
[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)	
Sectors should not be further aggregated than in NACE-4	
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)	No opinion
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)	No
Please motivate your answer (max. 1000 characters) -open reply-(optional)	
The EUA price dropped very significantly over the last 2 years and is now at around 4 Euros. This is 85-90% lower than the assumed price of 30 EUR that underlies the carbon leakage calculations. The projected price of EUR 30 turned out to be completely unrealistic. This raises the larger question of how the carbon price should be determined. A price based on projections and modeling is always highly uncertain and likely non-conservative, since models cannot forecast economic recessions. We therefore recommend that the carbon price is based on historic prices and not on long term modelling. This would also be more in line with the other parameters, which are all based on historic data and not on projections (e.g. CVA, trade activity)	
In your view, which is the most adequate CO2 emission factor that should be used for the calculation of indirect costs? -single choice reply-(compulsory)	Average emission intensity of the whole electricity generation mix
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The CO2 emission factor should be based on average intensity which reflects the realistic generation mix and includes renewables. The EU has important policies to foster renewables. The share of renewables should be reflected in the CO2 emissions factor. An emission	

factor only based on fossil fuel would artificially inflate the calculated indirect emissions. This would make industry's emission look higher than they actually are and lead to an industry advantage based on unrealistic assumptions. Getting reliable and complete data for marginal electricity generation is difficult. It is not a good alternative to average emissions intensity.

Measurable -single choice reply-(compulsory)	3
Relevant -single choice reply-(compulsory)	3
Important -single choice reply-(compulsory)	No opinion
Measurable -single choice reply-(compulsory)	1
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)

Projected market characteristics are unreliable. Parameters have to be measurable, realistic and conservative. Therefore historic parameters should be used and not not projections. Profit margins are notoriously difficult to assess as profit margins data are difficult to get. Therefore this is a problematic indicator.

Complete -single choice reply-(compulsory)	5
Adequate -single choice reply-(compulsory)	3
Comparable across sectors -single choice reply-(compulsory)	5
Transparent -single choice reply-(compulsory)	3
Well-structured -single choice reply-(compulsory)	5
Clear and understandable -single choice reply-(compulsory)	3

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

-open reply-(optional)

Comparable: All sectors should undergo the same assessment. There should not be any pick and choose. The qualitative assessment can only be transparent if the assessments are published in full length, not just as a summary.

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)

Additional factor could be added by examining trade barriers that lead to an advantage of EU sectors (e.g. sugar industry, this is probably

especially relevant for agriculture products)

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

Thank you for giving us the opportunity to provide feedback!