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Carbon Market Watch

Myths and realities around carbon leakage in Europe

Questions over how the potential risk of "carbon leakage" will be addressed in the 2030 climate and energy framework have recently gained importance. The discussions should ideally draw from the lessons learnt from the current carbon leakage provisions. This short media briefing shows that while there has been no evidence detected for the occurrence of carbon leakage so far, the European Commission has proposed to continue over-subsidising polluters at the expense of taxpayers. They have done this, even though the unpublished impact assessment accompanying the Commission's proposal recommends cutting the number of free pollution permits to industry by around a quarter. It is up to the members of the European Parliament to ensure that European taxpayers do not lose out from this carbon leakage proposal that would unjustifiably hand €5 billion out to heavily-polluting industries. On 24 September the environment committee will vote on an objection to the Commission's flawed approach.

What proof is there of carbon leakage?

None so far. The main conclusion of a fact-finding study[1] for the European Commission is that there is no evidence detected for the occurrence of carbon leakage in the 2005-2012 period. During that time, industrial sectors accumulated a surplus of one billion free CO_2 allowances, worth €5 billion. As a result of this over-allocation of free CO_2 allowances to industry, the "ETS has rather been a benefit than a cost to energy intensive industries".

What is the problem with the 2015-2019 carbon leakage list

The Impact Assessment that was supposed to accompany the 2015-2019 carbon leakage list recommends using an updated and more realistic carbon price of €16.5 instead of using €30 as currently is the case for the 2013-2014 list. However, the Commission's decision that determines the 2015-2019 carbon leakage list instead uses €30. By using a carbon price that is too high compared to reality, it artificially inflates the costs of sectors including them unduly in the carbon leakage list and thus foregoing revenues from governments in times of crisis.

Using the lower price would increase the auctioning revenues for Member States by around €5 billion. The price of €16.5 per tonne of CO_2 would also cut the number of free pollution permits to industry by around a quarter. The cement sector would then not be eligible for 100% allocation of free pollution permits anymore for example.

If compared to current market expectations, even this value of €16.5 could be considered quite high, according to the unpublished Impact Assessment. A carbon price of €10 would be more in line with the latest forecasts. This would cut the number of free pollution permits to industry by more than two-thirds, as also the steel sector would not be eligible for full compensation of carbon costs anymore.

For more information:

- See here our rebuttal against industry's latest proposal for more windfall profits at the expense of taxpayers ("dynamic allocation")

[1] This refers to the Carbon leakage evidence project done for the European Commission (Ecorys, 2013)