

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)	
Cerame-Unie	
Please enter your contact details (address, telephone, email): -open reply-(compulsory)	
17, Rue de la Montagne; 1000 Brussels 0032 2 808 38 80 sec@cerameunie.eu	
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)	Increased slightly
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
Since 2009 the experience of climate summits has shown that the process towards an international binding agreement is slower than originally expected and it is difficult to envisage when major competing countries will commit to comparable efforts. Furthermore, recent developments (including the shale gas revolution in the USA) have shown an increasing divergence of energy prices that is due also to the impact of European and national policies. In addition, the crisis has heavily affected the economic performance of the EU ceramic industry, minimizing its financial ability to bear any additional regulatory cost. The exclusion from the new list would also have a bigger financial impact than the first one due to the higher share of allowances to be purchased. Last but not least, even though the current carbon price is relatively low (but reflecting the financial ability of the industry), investment decisions are also influenced by expectations of higher prices in the medium and long term	

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

The free allocation is an adequate policy instrument to prevent the carbon leakage risk while maintaining an incentive to reduce emissions if it is applied properly. However, as a result of the ambitious benchmarks and the likely application of the cross-sectoral factor, all installations (including the very best performers) will have to buy allowances. . Furthermore, the ex-ante allocation mechanism causes a shortage of free allowances when the production increases compared to the historical reference period. Last but not least, the current framework for compensation is inadequate to cover the indirect cost of climate policies passed through in electricity prices. All ceramic manufacturing is currently excluded, even unique electro-intensive processes. Complementary measures, such as the inclusion of imports, should be investigated, especially in view of the shortage of free allocation in the long-term due to the declining cap

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

The list is the result of the criteria defined in the revised ETS Directive. In the absence of an international agreement with comparable measures, it is essential that the provisions to prevent the risk of carbon leakage are applied effectively. Its length reflects the wide scope of the ETS Directive that covers more than 11,000 installations. One should notice also that the list may have an impact also on other European and also national legislation. Each sector must be judged on merit. The list should not be subject to an artificial limit on the number of qualifying sectors. If the assessment was performed at NACE 3 level, more sectors would be grouped together and the total number of sectors would be lower

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

The recent experience has shown a limited increase in the level of domestic climate ambitions and to a lesser extent application of policies in third countries. However, this is still very far for being directly comparable to the EU ETS. As explained above, the process towards an international binding agreement is slower than originally expected and the scenario of fragmented action at national level seems the most realistic in short and medium terms. Consequently, the EU climate policy remains a unique experience if one considers its level of ambition (unilateral and legally binding targets) and the stringency of the implementing measures (Energy Efficiency Directive, ETS Directive and its implementing provisions, etc.). Last but not least, we would like to stress that the question omits one criterion of Art 10(a)18a, which refers to third countries “representing a decisive share of global production of products in sectors or subsectors deemed to be exposed at risk of carbon leakage”

Australia -single choice reply-(compulsory)	Not comparable to the ETS
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Switzerland -single choice reply-(compulsory)	Not comparable to the ETS
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If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

At this stage, the negotiation process is still ongoing and the result is still unclear. However, the current policies of Australia and Switzerland cannot be considered comparable to the EU ETS. Furthermore, linking the systems does not necessarily entail that the policies are comparable, as there may be still differences in the implementation measures. For instance, the Australian ETS has less stringent rules than the EU ETS (e.g. free allocation based on average emission in Australia s vs. benchmarks of the best 10% performers in the EU; compensation for indirect carbon costs to energy consumers in Australia vs. partial and discretionary compensation in the EU; etc.). As explained above, the assessment should also consider whether third countries represent a “decisive share of global production of products in sectors or subsectors deemed to be exposed at risk of carbon leakage”. In the ceramic industry, and in most industrial sectors, this is clearly not the case of Switzerland and

China -single choice reply-(compulsory)	Not comparable to the ETS
South Korea -single choice reply-(compulsory)	Not comparable to the ETS
New Zealand -single choice reply-(compulsory)	Not 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)	Not comparable to the ETS
If you wish, please motivate your answer (max. 2000 characters) -open reply-(optional)	
None of the proposed countries can be considered to have a comparable climate policy to the EU ETS. This is clear if one considers the level of ambition of the target (-21% compared to 2005 levels by 2020 in the EU) and the stringency of the ETS implementing measures (auctioning as main allocation system, free allocation based on the average performance of the 10% best performers, partial and discretionary compensation for indirect cost in the EUs, etc.)	
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-3
<p>[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)</p>	
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
According to recital 24 of the Directive, sectors should be assessed, as a starting point, at a 3-digit level (NACE-3 code) or, where appropriate and where the relevant data are available, at a 4-digit level (NACE-4 code). NACE-3 level should be used as a starting point as it reduces the complexity of the exercise. In the ceramic industry the NACE-3 code 233 (clay building materials) includes the sub-codes 2331 (ceramic tiles and flags) and 2332 (bricks, tiles and construction products in baked clay). Both sub-sectors supply construction products made of clay through similar production process and technology. Furthermore, the boundaries of the two sub-codes are not well defined, as several companies manufacture products that may fall in both, such as paving and facing products. However, when the NACE-3 does not include homogeneous sectors and where it does not fulfill the quantitative criteria, a more disaggregated level (NACE-4 or more) should be applied	
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)	Sectorial at NACE-3 level,
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The AF shall be calculated at the same level of aggregation of the overall carbon leakage assessment because it reflects better the real share of allowances that a sector has to purchase. Therefore, if the overall assessment is performed at NACE-3 level, the same should apply to the AF. Such factor should be based on transparent data and checked with the sector's representatives. The example described in the Task 2 report for the sector NACE 23.32 is not correct because the Prodcom figures on production quantity are shown as tonnes, while they represent different units (m3, tonnes, and pieces). As a general remark, we would like to stress that the AF should be based	

on the carbon leakage factor of 2020 (i.e. 0.3) instead of the average 2015-19 to reflect the worst-case and medium-term scenario (that is the one taken into account by investment decisions). The robustness of the NIMs data (especially the NACE codes) must be verified and the cross sectoral factor has to be considered

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
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Please motivate your answer (max. 1000 characters) -open reply-(optional)

According to Art. 10a(14) of Directive 2003/87/EC, the assessment shall be based on the average carbon price according to the impact assessment of the Commission accompanying the package of implementation measures for objectives of the Union on climate change and renewable energy for 2020. This price is €30. Therefore, it is necessary to use the same price to comply with the existing legislation. Furthermore, it is sensible to use the same price, as the thresholds of the quantitative criteria were determined considering the €30 price. Last but not least, it is appropriate to use this price considering that several ongoing proposals (backloading, structural reform of EU ETS, 2030 framework) and upcoming ones (like the cross sectoral factor) are expected to increase the carbon price in the next years

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)	Emission intensity of marginal electricity generation in the current system
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If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

As a member of the Alliance of Energy Intensive Industries, we advocated for the use of the marginal factor. This is due to both economic and environmental considerations. The effect of carbon emissions on power prices comes from the emissions per MWh of the marginal power plants. The same is true for the environmental effect, as lower use of consumed electricity results in avoiding the emissions from the marginal power plants. Most importantly, the marginal approach has been acknowledged and used in the state aid guidelines for compensation of indirect costs of EU ETS. According to the values used in the guidelines and using the weighted average, the marginal emission factor is 0.723 ton CO2/MWh

Measurable -single choice reply-(compulsory)	3
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Relevant -single choice reply-(compulsory)	4
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Important -single choice reply-(compulsory)	4
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Measurable -single choice reply-(compulsory)	2
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Relevant -single choice reply-(compulsory)	3
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Important -single choice reply-(compulsory)	3
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Measurable -single choice reply-(compulsory)	5
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Relevant -single choice reply-(compulsory)	5
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Important -single choice reply-(compulsory)	5
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If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)

The profitability of a sector (and the impact of carbon costs on profit margins) is a key parameter, as it indicates the ability of a sector to absorb the carbon costs in the profit margins. If the costs represent a high share of profits, there is a large incentive to cease production.

In this case, market demand would be satisfied by an increase in imports. Its rationale is the closest to the quantitative assessment (CO2 cost/GVA indicator). Furthermore, it is easily measurable because it can be calculated by using the CO2 cost/GVA with few additional data (e.g. Amadeus database). Although less measurable, the possibility to further reduce emissions is a relevant indicator, if combined with an analysis of the abatement costs. The market characteristics are a combination of indicators that by definition are even less measurable as they have to be assessed simultaneously. They may offer a general picture of the sector, only if they are combined with the previous indicators

Complete -single choice reply-(compulsory)	2
Adequate -single choice reply-(compulsory)	1
Comparable across sectors -single choice reply-(compulsory)	2
Transparent -single choice reply-(compulsory)	2
Well-structured -single choice reply-(compulsory)	1
Clear and understandable -single choice reply-(compulsory)	2

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

-open reply-(optional)

The proposed methodology is not in line with the ETS Directive. It introduces a rigid 3step approach with a hierarchy among the three qualitative criteria. Such a hierarchy is not correct from a legal and logical viewpoint. It is not foreseen in the Directive and it does not allow a simultaneous analysis of all indicators, which is necessary to have a comprehensive assessment. A key indicator (the impact of carbon costs on profit margins) is placed only at the end, while it should be at the top of the analysis to assess the relevance of carbon costs. Furthermore, it is not logical to use it as an indicator to reply to the step3 question instead of step1. It is redundant on some trade-related elements, while it omits useful indicators that were assessed by the Commission in previous assessments (see next reply). The qualitative assessment should be performed whenever appropriate, with a special focus on sectors that are in the current list thanks to previous qualitative assessments

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)

The proposed methodology to assess the market characteristics gives priority to trade-related aspects (import intensity, export specialization and transportability). However, it does not really address the potential risk of relocation, which needs to be assessed by comparing the potential prices of EU manufactured products (including carbon costs) vs the prices of imported products (local production costs in non EU countries + transport costs to the EU). Furthermore, the analysis should consider whether trade intensity at the EU border countries is significantly different from the EU-wide average, as this indicates a potential trend that could increase rapidly as a result of the additional carbon costs. In addition, the analysis should assess whether the carbon costs deter new investments, since this situation would accelerate and increase the risk of carbon leakage. A useful indicator would be the impact of cumulative EU + national carbon costs on the expected profitability of the investment. Finally, the assessment of market characteristics should include also a detailed analysis of the structure of the GVA to check the relevance of labour costs and Gross Operating Surplus. If the labour costs are very high, the CO2 cost/GOS should be assessed as well. More generally, the qualitative assessment should take into consideration also the overall financial performance of the sector as an indication of its ability to absorb additional costs (e.g. recent trends in production, employment, turnover, profit etc.). Last but not least, it should assess the structure of the costs (ex. Fixed vs. variable costs) and its ability to adjust to variation of prices and demand. We would like to stress that all the above mentioned indicators were clearly taken into account by the Commission in the previous practice and it would not be justifiable to disregard them now, as the legal basis of the assessment has not changed in the meantime.

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

The questionnaire does not give the possibility to comment on the methodology proposed by Ecofys to include linking countries and countries with comparable efforts in the trade intensity calculation. However, notwithstanding our replies to questions B2-B6, we would

like to stress that the proposed deduction approach (i.e. excluding trade flows with such countries in the formula's nominator) is not appropriate because EU exports to those countries are still exposed to the competition of third countries' exports to local markets. For instance, EU exports to Australia or Switzerland compete in these countries with exports from China, India, etc. Therefore, these exports are still exposed to the risk of carbon leakage and should not be excluded from the trade intensity formula