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)

EAA - European Aluminium Association- Transparency register number 9224280267-20

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)	Increased slightly

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

For primary aluminium producers the main source of carbon leakage risk is the CO2 costs of EU ETS, embedded in the price of electricity (“indirects”). The protection intended by the inclusion in the carbon leakage list does not provide proper compensation for the indirect costs, which is left to the discretion of each Member States through State aid measures (and in most cases not provided). The carbon leakage risk for the sector has increased compared to expectations in 2009 (e.g. use of historical production instead of actual production, expiration of long term contracts non renewable, etc.). The compensation for indirects must be an EU-based mechanism. The

combination of economic, energy and climate policy uncertainty tend to prevent the needed investments in the EU manufacturing industry, which need a predictability of policy consequences for at least 10–30 years, depending on type of investments. This predictability does not exist. Carbon leakage starts when investments stop

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 inadequate

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

Free allocation is in principle a very adequate policy instrument, as is the increased allocation for sectors on the carbon leakage list. However, indirect emissions are the main cost issue for primary aluminium producers and the inclusion of the sector in the carbon leakage list does not provide for any compensation of these costs, which is left to the decision of each Member State and can only be partial due to the Guidelines on certain State Aid measures in the context of the greenhouse gas emission allowance trading scheme of June 2012 (OJ 2012/C 158/04). The protection mechanism should mitigate the carbon leakage risk through allocation of free allowances as an EU based scheme based on actual production for both direct as well as indirect costs, as per the scheme introduced in Australia.

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)

The list should primarily focus on the most exposed sectors. A long list overcomplicates the process, and many of the sectors that are included solely on the grounds of trade intensity with minimal carbon emissions and not subject to a global pricing reference. The only sectors certain of not being able to pass on costs of carbon in the products sold are those which are globally priced like aluminium on the London Metal Exchange (LME).

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)	No change since 2009

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

There might have been a minor increase in the political ambitions of domestic climate policies undertaken in countries outside the EU/EEA since 2009 but no significant equivalent scheme is yet up and running or likely to be established in the near future. The majority of the schemes highlighted later in the questionnaire are either small scale trials or plans for future implementation of schemes yet to be defined. The Australian and Swiss systems are discussed in the following question.

Australia -single choice reply-(compulsory)	Not comparable to the ETS
Switzerland -single choice reply-(compulsory)	Partially comparable to the ETS

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

The Australian system ensures compensation of the indirect emissions together with the direct ones within the scheme and the benchmarking system, which provides compensation for up to 94% of the direct and indirect emissions, is calculated on the average sector performance and not on the 10% best or absolute best. The Swiss scheme is very similar to the EU scheme but for one fundamental difference – trade exposed industry may opt out of the scheme.

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)	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 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? **[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)	NACE-4

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

The assessment should be performed at the most detailed level available to ensure accuracy.

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)

As in 2009 (75% direct, 100% for indirect emissions), a uniform auctioning factor is advised to keep the assessment simple but still justified and because the accuracy of data will be a challenge (a.o. electricity generator (EG) heat to ETS installations, waste gas used by EGs). Based on (simple) calculations we advise an auctioning factor of 80%-85% considering that: - For direct emissions the share of free allocation to non-exposed sectors decreases to 30% in 2020. - All installations below the benchmark level – 90% of all installations – will have a higher auctioning factor than 70% in 2020. These plants should not be driven outside of Europe by setting a too low auctioning factor. - The allocation rules foresee no additional allocation for production growth. Furthermore, the allocation rules for capacity extensions are likely to lead to under-allocation. This should be taken into account when setting the auctioning factor.

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)

From a legal point of view, a carbon (EUA) price of € 30/ton CO2 must be used according to the impact assessment referred to in EU ETS Directive Art. 10a (14). The main aim of the review of the list was to check if there is an international agreement in place, as carbon leakage mechanisms were introduced as a shield mechanism to protect the EU industry until such time. The aim was not to check if formulas could/should be changed. The list is a package of percentages, carbon prices and formulas fixed in the existing ETS legislation. Furthermore, the price has to take into account possible evolution of the market in the next few years, and should not be tied to the current market price.

In your view, which is the most adequate CO2 emission factor that should be used for the	Emission intensity of

calculation of indirect costs? -single choice reply-(compulsory)	marginal electricity generation in the current system
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
The marginal producers set the market price of the electricity and will pass through the cost of carbon into the market price. The use of a marginal CO2 factor for electricity is based in the abovementioned State Aid Guidelines of June 2012, however it should be changed to actual production and not historical. It would not be consistent if sectors were to be compensated based on marginal factors and carbon leakage were to be calculated on the basis of the average electricity factor.	
Measurable -single choice reply-(compulsory)	3
Relevant -single choice reply-(compulsory)	No opinion
Important -single choice reply-(compulsory)	No opinion
Measurable -single choice reply-(compulsory)	3
Relevant -single choice reply-(compulsory)	5
Important -single choice reply-(compulsory)	5
Measurable -single choice reply-(compulsory)	3
Relevant -single choice reply-(compulsory)	5
Important -single choice reply-(compulsory)	5
If you wish, please motivate your answer (max. 1000 characters) -open reply-(optional)	
If profit margins of a sector are high in Europe, they will be high in other regions as well. It is primarily the relative cost position that matters when a company is able to attract customers and investments.	
Complete -single choice reply-(compulsory)	3
Adequate -single choice reply-(compulsory)	1
Comparable across sectors -single choice reply-(compulsory)	2
Transparent -single choice reply-(compulsory)	1
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)	
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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 following parameters are proposed for a forward looking qualitative assessment: • All costs related to climate change policy along the value chain • The value chain analysis should also consider the implication for downstream sectors if an upstream sector is deleted from the carbon leakage list. • The inability to pass through locally imposed costs for sectors whose product prices are determined internationally, e.g. on global exchanges such as London Metal Exchange, should be taken into account. • An auctioning factor of 100% with sensitivity analysis of 80% • A carbon price of € 30/ton CO2

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

EAA points out that industry needs predictability regarding future operating conditions over a substantial time horizon in order to plan investments. Changing the list of sectors deemed to be exposed to the risk of carbon leakage every five years reduces this predictability. In addition, modifying the list in the current economic situation would incur enormous extra costs for industry without any justified reason and without any environmental benefits. The carbon leakage list should remain as the main shield mechanism for the EU industries until a broad international climate agreement is reached and a global level playing field, ensuring the global competitiveness of the EU industry, is in place.