Questions for stakeholder consultation on Emission Trading System (ETS) post-2020 carbon leakage provisions

The EU emissions trading system (EU ETS) [1] was established in 2005 to promote reductions of greenhouse gas emissions in a cost-effective manner. More than half of the emissions covered by the EU ETS come from power generation, with industry making up most of the remainder. Carbon leakage is the term used to describe the situation that may occur if, for reasons of costs related to climate policies, certain businesses were to transfer production to other countries which take a less stringent (or no) action on greenhouse gas emissions, and if that would lead to an increase in global emissions (which could happen if the production that takes over is less greenhouse gas efficient).

To address the risk of carbon leakage for industrial installations covered by the EU ETS, free emission allowances have been given to industry between 2005-12 based on historical emissions, and are given to industry from 2013-2020 onwards based on harmonised benchmark based rules across the EU. Certain sectors covered by the EU ETS, deemed to be exposed to a significant risk of carbon leakage, receive a higher share of free allowances in 2013-2020.

In the context of the NER300 programme, the EU ETS provides over €2 billion for innovation through the demonstration of new technologies [2], and Member States should use auction revenues inter alia to finance energy efficiency and clean technologies in sectors covered by the EU ETS. Member States can also give compensation to certain industrial sectors in respect of increased costs for electricity due to the ETS, in accordance with State aid rules adopted in 2012 [3].

The Commission finds, in its policy framework for climate and energy in the period from 2020 to 2030[4],that as long as there are no comparable efforts undertaken in other major economies, similar policies (including an improved system of free allocation of allowances with a better focus) will also be needed after 2020 to ensure the competitiveness of Europe's energy-intensive industries. Besides a binding greenhouse gas emission reduction target, the 2030 framework also aims at achieving competitive and affordable energy prices, binding targets for renewable energy at the EU-level, promoting improvements in energy efficiency and a reform of the EU ETS. The greenhouse gas reduction rate of 40 % below the 1990 level should be reached by 2030 through continuous efforts by the ETS and non-ETS sectors in lowering their emissions. Moreover the proposed reform of the EU ETS includes the establishment of a market stability reserve at the beginning of the next trading period in 2021.

The purpose of the present stakeholder consultation is to canvass opinions on different options for a system to avoid carbon leakage after 2020 for sectors covered by EU ETS.

The results of this stakeholder consultation will feed into the further work on the 2030 climate and energy policy framework as concerns the determination of post-2020 rules on free allocation and carbon leakage provisions in the EU ETS. Furthermore, dedicated stakeholder meetings will be held in 2014 to enable more focussed discussions[5].

The questionnaire consists of 24 multiple choice questions and should not require more than 20 minutes of your time. There is room to motivate replies and respondents are strongly encouraged to justify their responses with references to concrete evidence and facts wherever possible. For each question it is possible to reply "I don't know/no opinion".

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[1] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009L0029:EN:NOT

[2] http://ec.europa.eu/clima/policies/lowcarbon/ner300/index_en.htm

[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52012XC0605(01):EN:NOT

[4] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014DC0015;
http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014SC0015

[5] http://ec.europa.eu/clima/news/articles/news_2014041501_en.htm

Questions marked with an asterisk * require an answer to be given.

0. Registration

0.1 What is your profil?*

- a) Business
- b) Trade association representing businesses
- c) Government institution/regulatory authority
- d) Academic/research institution
- e) Non-governmental organisation
- f) Citizen
- g) Other

0.2 Please enter the name of your business/organisation/association etc. (maximum 500 characters):

* (between 1 and 500 characters)

0.3. Please enter your contact details (address, telephone, email):

* (between 1 and 1000 characters)

0.4 If relevant, please state if the sector/industry you represent falls under the scope of EU ETS:

*

- a) yes
- b) no
- c) not relevant

Please explain, why it is not relevant to you.

*

(between 1 and 500 characters)

0.5 The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication? *

- 1) yes
- 2) no

I. General: competitiveness, carbon leakage and present free allocation rules

The questions in this section are an opportunity for stakeholders to express their general and broader view on carbon leakage issues, the present rules on free allocation of allowances and will be useful from a policy evaluation perspective.

Question 1: Do you think that EU industry is able to further reduce greenhouse gas emissions towards 2020 and beyond, without reducing industrial production in the EU?

*

- a) yes
- b) no
- c) I don't know

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

(between 1 and 1000 characters)

Question 2: Do you think that the EU ETS helps the EU industry to become more energy efficient, and thus contributes to increasing the competitiveness of European industry in the long-term? *

- a) yes
- b) no
- c) I don't know

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

(between 1 and 1000 characters)

Question 3: Do you think the EU needs to provide special (transitional) measures to support EU industry covered by the EU ETS, in order to address potential competitiveness disadvantages vis-à-vis third countries with less ambitious climate policy? *

- a) yes
- b) no
- c) I don't know

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

(between 1 and 1000 characters)

Question 4: In your view, how adequate a policy instrument is free allocation and, in particular, increased free allocation for certain industrial sectors to address the risk of carbon leakage? *

- a) very adequate
- b) quite adequate
- c) quite inadequate
- d) very inadequate
- e) I don't know

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

(between 1 and 1000 characters)

Question 5: In your view, how does free allocation impact the incentives to innovate for reducing emissions? *

- a) it absolutely keeps the incentive
- b) it largely keeps the incentive
- c) it largely compromises the incentive
- d) it absolutely compromises the incentive
- e) I don't know

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

(between 1 and 1000 characters)

Question 6: In your view, is the administrative burden for companies to ensure the free allocation via the implementation of the benchmarking provisions proportionate to the objectives? *

- a) absolutely proportionate
- b) quite proportionate
- c) quite exaggerated
- d) absolutely exaggerated
- e) I don't know

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

(between 1 and 1000 characters)

II. Options for post-2020

A. Strategic choices

Beyond 2020 the total number of allowances under the EU ETS issued per year will further decline. This makes the overall allowance budget available for auctioning and free allocation (the cap) each year gradually lower. At the same time, we expect increasing efforts by other major economic players in the context of the UNFCCC negotiations for a post-2020 agreement. Currently some 45% of the total number of allowances (the cap) is provided to industry for free in Phase 3 (2013-20).

Question 7: What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes? *

- a) a lower share than in 2013-20
- b) a higher share than in 2013-20
- c) a constant share as in 2013-20
- d) there should be no limit to overall free allocation to industry
- e) there should be no free allocation post-2020
- f) I don't know

If you wish, please motivate your answer (max. 1000 characters):
(between 1 and 1000 characters)

Question 8: Currently the European Commission implements the NER300 programme to provide from EU ETS specific support for large-scale demonstration of Carbon Capture Storage (CCS) projects and innovative renewable energy. 300 million allowances, representing ca. 2% of total phase 3 allowances, are dedicated for this purpose.

What share of the post-2020 allowance budget should be dedicated to such innovation support? *

- a) a substantially higher share than in Phase 3
- b) the same share as in Phase 3
- c) a lower share than in Phase 3
- d) there should be no such innovation support post-2020
- e) I don't know

If you wish, please motivate your answer (max. 1000 characters):
(between 1 and 1000 characters)

Question 9: At the moment, EU ETS rules do not contain a specific support scheme for industrial innovation and deployment of new low-carbon technologies (apart from support for CCS and renewables under the NER300). Do you think there should be such a financial support scheme? *

- a) yes
- b) no
- c) I don't know

If you wish, please motivate your answer (max. 1000 characters):
(between 1 and 1000 characters)

Question 10: If innovative low carbon technologies in the industry are to be further supported, which could be possible sources of funding?
*

- a) It should be funded under a system similar to NER300 with extended scope to cover greenhouse gases reduction technologies in the industry
- b) It should be funded through a new dedicated scheme financed by the revenues from auctioning (e.g. x% of the auctioning revenues);
- c) other types of funding (please specify)
- d) I don't know

If you wish, please motivate your answer (max. 1000 characters):
(between 1 and 1000 characters)

Question 11: In your view, is there a need for additional measures beyond free allocation and EU-level innovation support to address the risk of carbon leakage for energy intensive sectors covered by the EU ETS, post-2020? *

- a) yes
- b) no
- c) I don't know

If you wish, please motivate your answer (max. 1000 characters):
(between 1 and 1000 characters)

II. Options for post-2020

B. Allocation modalities

There is a need for a more focused system of free allocation post-2020 because of the fact that the allowance budget post-2020 gradually shrinks. Providing innovation support would also require some headroom. There might also be a case for improving allocation modalities based on practical experience gained in developing and implementing the existing harmonised carbon leakage and free allocation rules.

Question 12: Currently there are two categories for sectors in terms of exposure to the risk of carbon leakage: sectors are either deemed to be exposed to such risk (the sectors on the carbon leakage list) or not (sectors not on the carbon leakage list). Should the system continue with two carbon leakage exposure groups or is some further differentiation needed? *

- a) the present two groups should remain
- b) more carbon leakage categories should be defined
- c) there is no need for a carbon leakage list, all industrial installations should be treated as exposed
- d) there is no need for a carbon leakage list, all industrial installations should be treated as not exposed
- e) I don't know

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

(between 1 and 1000 characters)

Question 13: Under the current system, exposure of sectors to the risk of carbon leakage is primarily measured by the share of 'carbon costs' in their gross value added (GVA) and by the intensity of trade with third countries. What carbon leakage criteria should be defined for the post-2020 period? *

- a) the present criteria should remain
- b) only the share of 'carbon costs' in the GVA should be maintained
- c) the share of 'carbon costs' in the GVA should be maintained, but 'carbon costs' should be taken into account to the extent that they can't be recuperated in product prices
- d) only the intensity of trade with third countries should be maintained
- e) additional criteria should be defined (please specify which current criteria should be maintained and which additional criteria should be defined)
- f) both the current criteria should be replaced and other criteria should be used instead (please specify)
- g) I don’t know

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

(between 1 and 1000 characters)

Question 14: What thresholds should be defined for the criteria measuring the risk of carbon leakage? *

- a) the present threshold (30% for the stand-alone criteria and lower values for the combination of several criteria) should be maintained
- b) other thresholds should be defined. Please specify below
- c) I don’t know

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

(between 1 and 1000 characters)

Question 15: In the current system, there is a possibility to assess the exposure of sectors to the risk of carbon leakage also based on qualitative criteria (abatement potential, market characteristics and profit margins). Do you think that similar qualitative criteria should be maintained to complement the quantitative criteria? *

- a) yes, it is important to maintain a certain level of discretion in the system for justified cases
- b) no, all criteria should be based on simple metrics and linked to clearly defined thresholds
- c) I don't know

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

(between 1 and 1000 characters)

Question 16: Currently, the list of sectors exposed to the risk of carbon leakage is valid for five years. What should be the validity of the list for the post-2020? *

- a) five years
- b) longer (please specify)
- c) shorter (please specify)
- d) in line with the duration of ETS Phase 4
- e) I don't know

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

(between 1 and 1000 characters)

Question 17: Currently benchmarks are set to the average greenhouse gas emission performance of the 10% best performing installations in the EU for a given product. What adaptations of benchmarks for 2021 onwards should be considered, if any? *

- a) the present approach of average of the 10% most efficient installations should remain
- b) the approach should be more stringent (please specify)
- c) the approach should be less stringent (please specify)
- d) I don't know

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

(between 1 and 1000 characters)

Question 18: Should the benchmarks be revised to reflect the technological state of the art? *

- a) yes (please specify how often)
- b) no
- c) I don't know

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

(between 1 and 1000 characters)

Question 19: Currently, historical production data are used to determine the allocation due to each installation. Operators had the possibility to choose between 2005-2008 or 2009-2010 as basis years. Should the production data used to calculate allocations in Phase 4 (post 2020) be updated? *

- a) no, the same baseline period chosen for allocation in Phase 3 should be maintained also for post 2020 (Phase 4) allocation
- b) yes, production levels in 2016-2018 should be the basis for post 2020 (Phase 4) allocation
- c) other (please specify)
- d) I don't know

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

(between 1 and 1000 characters)

Question 20: Is there a case for any deviations from general harmonised allocation rules, and what would be the risks involved? *

- a) no, there should be no deviations
- b) yes, there should be deviations with higher allowances for installations facing specific hardships
- c) yes, there should be deviations with lower allowances for installations enjoying very favourable circumstances
- d) both b) and c)
- e) I don't know

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

(between 1 and 1000 characters)

Question 21: Should there be a harmonised EU-wide compensation scheme for indirect costs, i.e. for increases in electricity costs resulting from the ETS? *

- a) no, the present approach should be maintained, i.e. that Member States can provide such compensation based on state aid guidelines
- b) no, and there is no need for financial compensation by Member States, either
- c) yes, in the form of additional free allocation
- d) yes, in the form of financial compensation at EU-level
- e) I don't know

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

(between 1 and 1000 characters)

II. Options for post-2020

C. Innovation support

The transition to a low-carbon economy requires continuous innovation activities in many sectors and relatively long time and high level of investments to the final prototypes. The sectoral 2050 roadmaps have revealed some of the key technologies and innovations needed to master this transition. First movers in low-carbon innovation not only have the prospect of earning high returns on successful innovations, but also run the risk of failure. Hence support with public money might be justified, in particular for full scale demonstration projects, to complement other EU (and private) funding possibilities.

Question 22:

In your view, at which stage of the innovation process is there a particular need to strengthen the EU's innovation support? Please rank the options from the most important to the least important.

a: Most important
b: Important
c: Less important
d: Least important
e: I don't know

	a	b	c	d	e
To implement a small-scale prototype *	○	○	○	○	○
At the conception stage *	○	○	○	○	○
To implement a large-scale pilot *	○	○	○	○	○
At the commercialisation stage *	○	○	○	○	○

If you wish, please motivate your answer (max. 1000 characters):
(between 1 and 1000 characters)

Question 23: Should the allowances funding low-carbon innovation support come from the Member States' auction budgets or from free allocation? *

- ○ a) from the Member States' auction budgets
- ○ b) from free allocation
- ○ c) from both
- ○ d) other
- ○ e) I don't know

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

(between 1 and 1000 characters)

Section II:

D. Other issues

Question 24: Are there any other issues you would like to raise? (between 1 and 1000 characters)