

Climate Strategies

Tackling Leakage in a World of Unequal Carbon Prices

Berlin, 19 February 2009

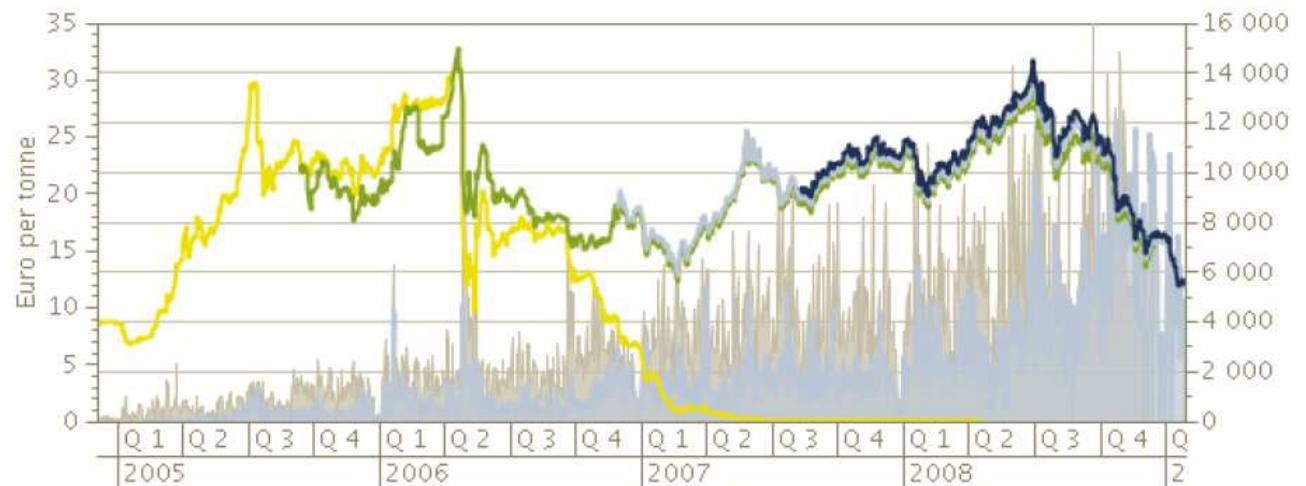
The EU ETS Directive

What do we know after the December decisions?

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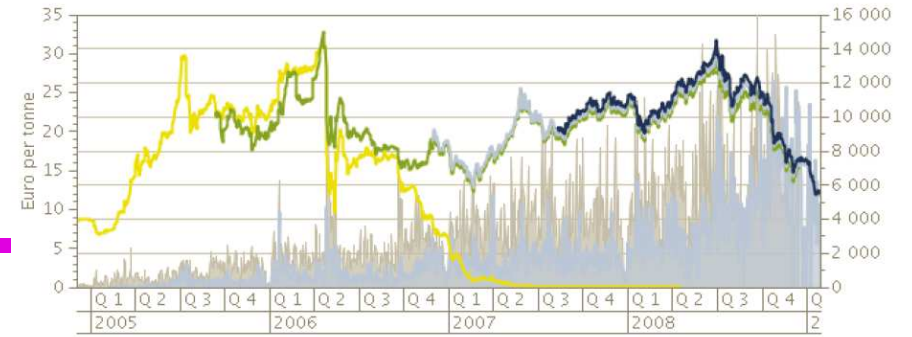
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My positions about EU ETS in phase 3

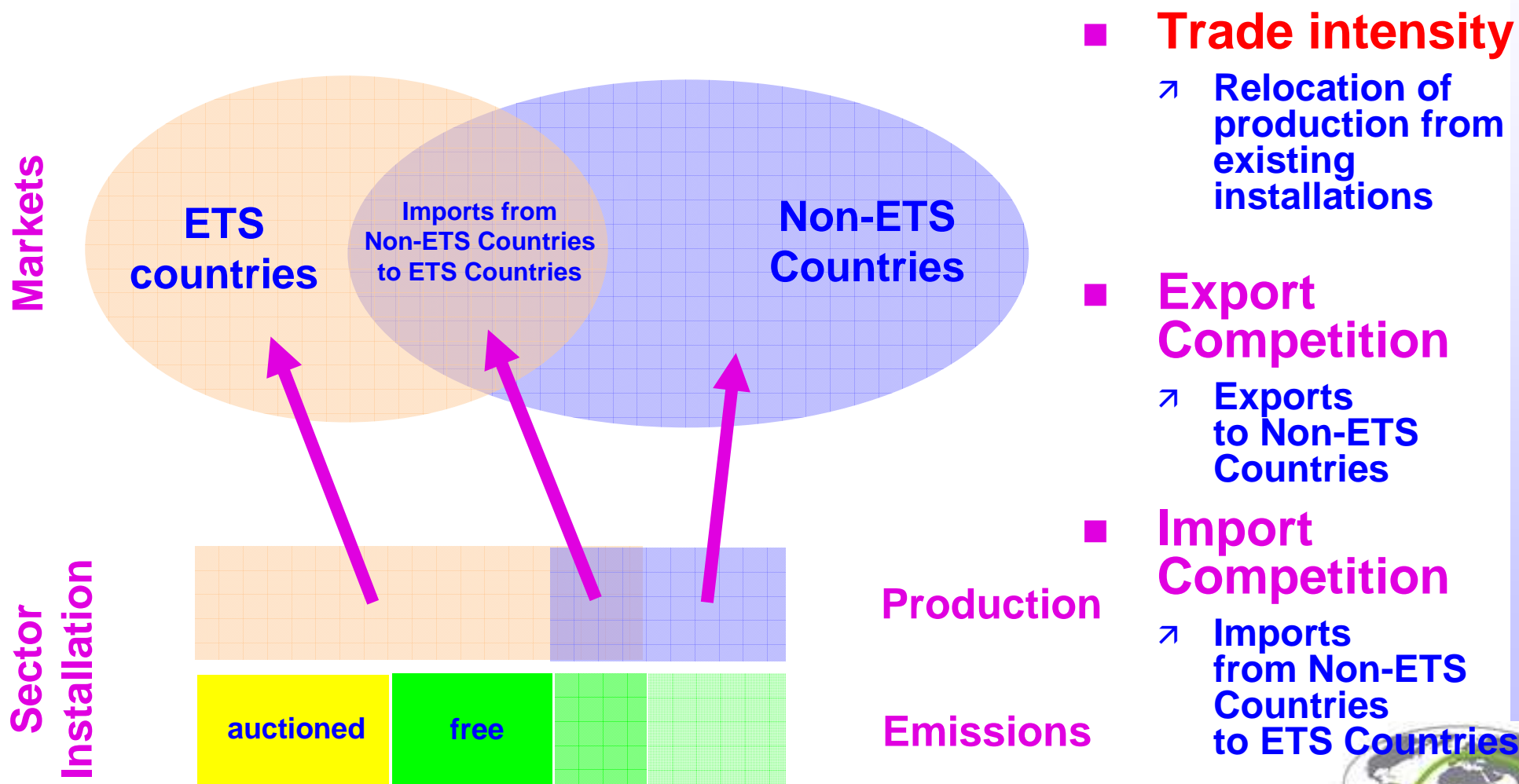
- **The Council decisions of December 2008 are far from being operational**
 - ↗ **Both the cost and trade criterion for evaluating the danger of carbon leakage need to be refined**
- **The details of the procedures to be developed for auctioning and carbon leakage still offer opportunities for empowering the ETS market**



Understanding carbon leakage

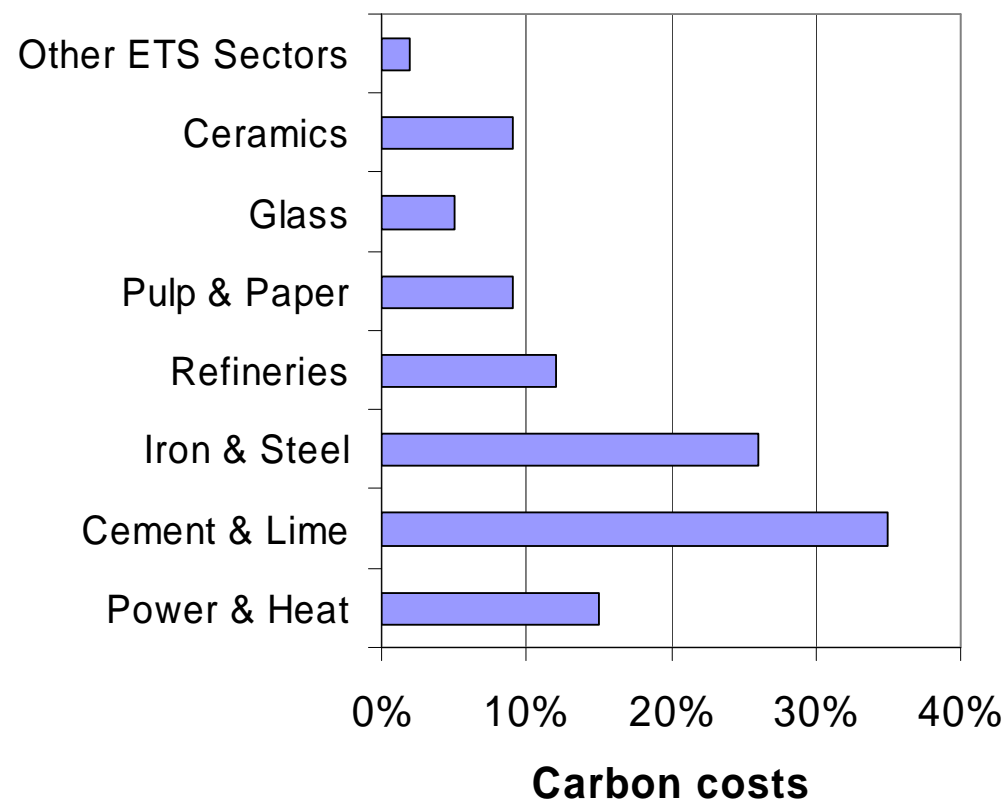
Carbon Leakage

Impact on operation



Carbon Leakage Impact on investments

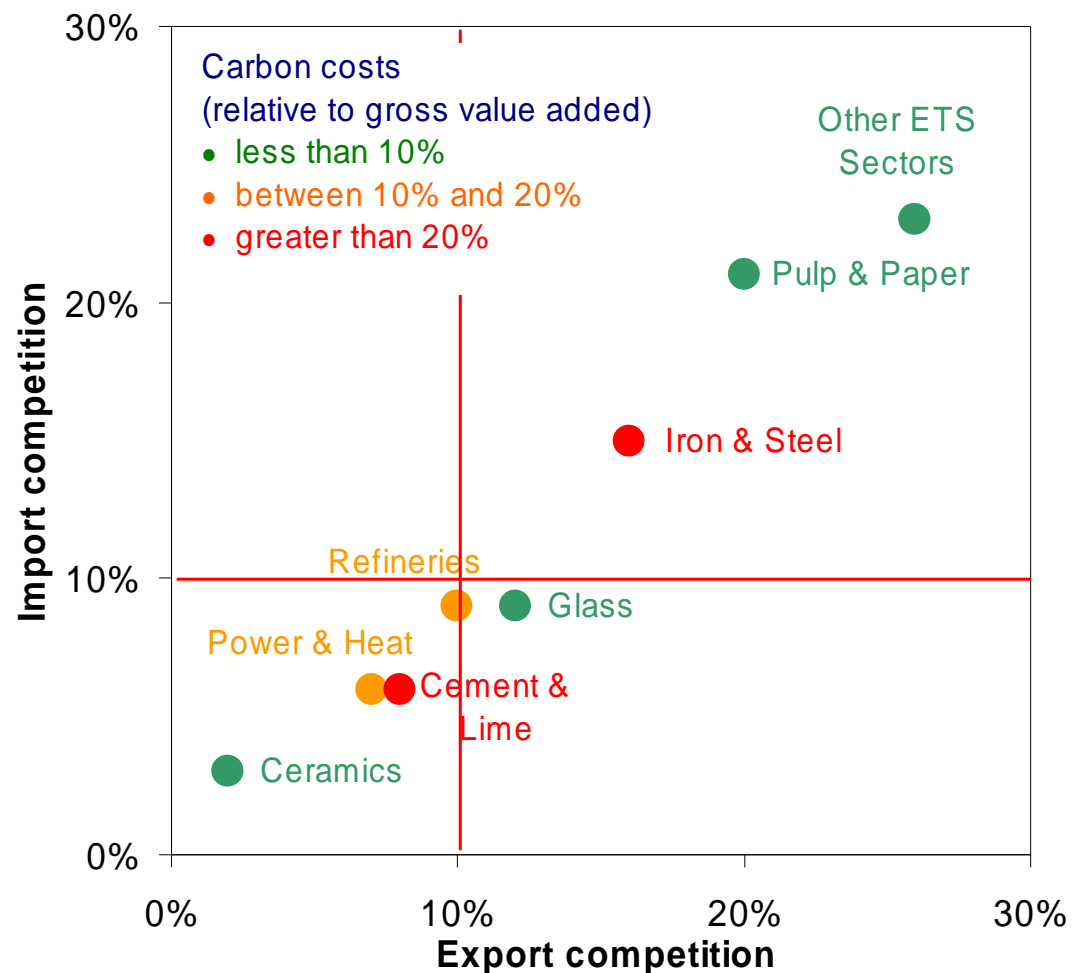
- **Carbon cost intensity**
 - **Relocation of new installations**
- **Relocation competition for new installations**
 - **Carbon costs in gross value added**

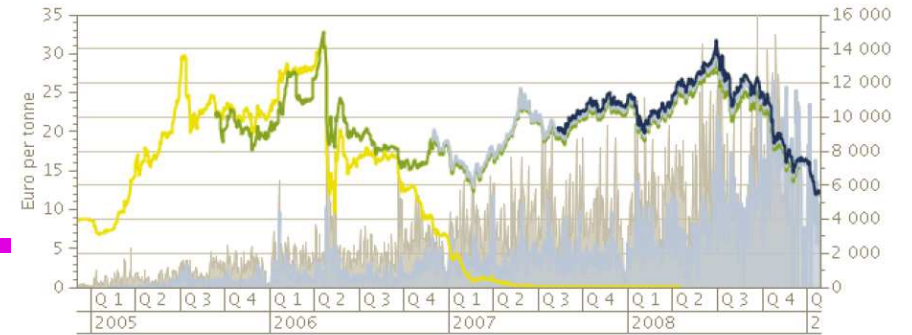


Carbon Leakage

Some indicators

- Sectors and individual product classes are exposed to carbon leakage for different reasons and to different degrees





Why the current status of the directive is insufficient for dealing with carbon leakage

Definitions of carbon cost and trade indicators are far from being operational

- Severe data problems
- Essential assumptions are missing
- Limits for indicators are rather arbitrary

Carbon cost intensity indicator (1)

Major problems with data requirements

- **Disaggregated data needed**
 - **Gross value added**
 - **Direct carbon emissions**
 - **Electricity input**
- **Problems with publicly available data**
 - **Incomplete**
 - **Limited reliability**
 - **Limited comparability among Member States**

	Relative carbon cost impact	
	CITL %	UNFCCC %
Austria	12%	13%
Belgium	8%	10%
Bulgaria	91%	94%
Czech Republic	10%	23%
Denmark		
Estonia		
Finland	9%	9%
France	17%	13%
Germany	7%	14%
Greece	4%	4%
Hungary	15%	28%
Ireland		
Italy	8%	6%
Latvia		
Lithuania		
Luxembourg		
Netherlands		
Poland	11%	22%
Portugal	5%	5%
Romania	58%	37%
Slovakia		
Slovenia	3%	4%
Spain	6%	8%
Sweden	5%	4%
United Kingdom	29%	31%



Carbon cost intensity indicator (2)

Open issues

- **What level of disaggregation?**
 - **NACE 3 or 4 will not necessarily provide homogeneous subsectors**
- **Essential assumptions are still missing**
 - **Carbon price**
 - **Impact of carbon price on electricity price**
 - **Electricity mix**

Trade intensity indicator

Open issues

- **Data requirements**
 - **Gross value of production**
- **What exports and imports are taken into account?**
 - **To/from Non-ETS countries**

Benchmarking

Far from being operational

- Can't be made operational without close cooperation of subsectors

Dealing with carbon leakage

A cooperative procedure for CL and benchmarking (1)

- Without the cooperation of sectors / sub-sectors it is hardly possible to determine reliable carbon cost indicators
- Sectors / sub-sectors which see a risk of CL are invited to opt-in for Carbon Market Monitoring
 - The opt-in procedure eliminates the need for deciding on NACE 3 or 4 categories

Dealing with carbon leakage

A cooperative procedure for CL and benchmarking (2)

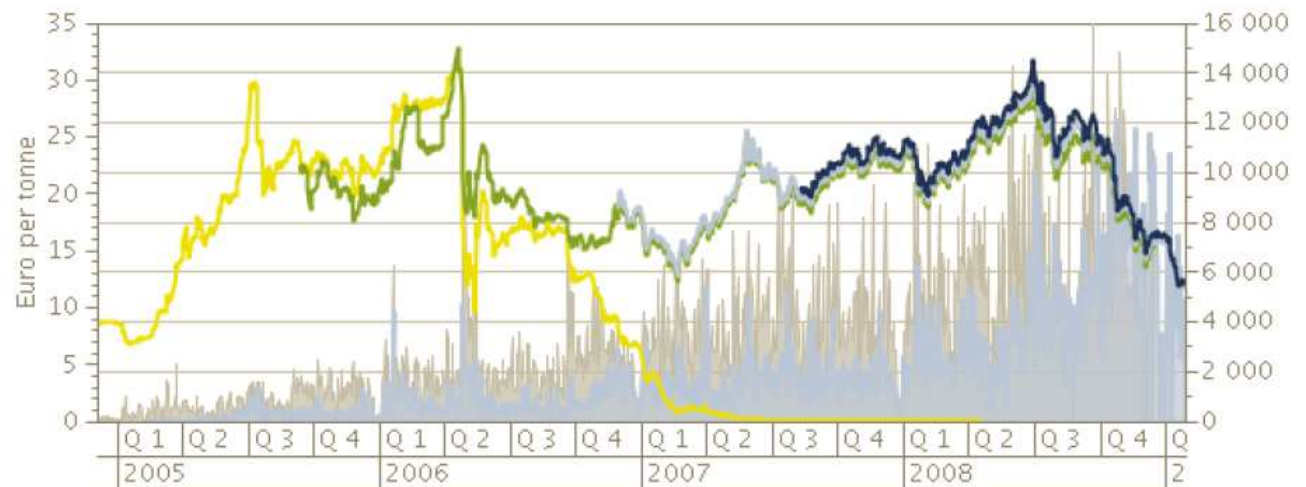
- **The CM Monitoring is done annually and determines**
 - The actual carbon cost and trade intensity indicators
 - The updated list of sectors / subsectors exposed to CL
- **The information provided for CM Monitoring also serves for the distribution of free allowances to installations by a benchmarking procedure**

Thank you.

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