

## Methodological choices for determining the list of sectors and subsectors deemed exposed to a significant risk of carbon leakage, for the period 2021-2030

Fields marked with \* are mandatory.

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In 2014, the European Council provided [strategic guidance](#) regarding the 2030 framework for climate and energy and acknowledged the importance of the [EU Emission Trading System](#) (EU ETS) as the main instrument to achieve the emission reduction targets of the EU. The European leaders determined that free allocation to industry will continue after 2020 as long as no comparable efforts are undertaken in other major economies.

[Free allocation](#) is thus a transitional measure foreseen to address the risk of carbon leakage which is defined as the risk of an increase in global emissions following relocation of industry due to climate policies to third countries with no/limited carbon constraints.

The Commission with support of Member States will carry out an assessment of all relevant industry to determine the level of exposure and thereafter draw up a so-called carbon leakage list. Sectors and subsectors deemed to be most exposed to this risk receive a higher level of free allocation.

The framework for the carbon leakage assessment will be determined by the ETS Directive including the criteria and thresholds for the assessments and the types of assessments possible with respective conditions. These issues are thus not discussed in the present questionnaire, which instead focuses on a number of aspects that have to be clarified before the exercise can be undertaken. The outstanding issues are specific methodological choices: first for each of the two parameters of the assessment criteria i.e. emission intensity and trade intensity, and second, on operationalising the different types of assessments.

In this context, this consultation seeks the views of the stakeholders on the issues that remain to be decided before the Commission can determine the carbon leakage list for the period 2021 to 2030. The results of [this consultation](#) will be analysed, published and incorporated in the Impact Assessment that will accompany the decision on the carbon leakage list.

Wherever possible, it would be useful if stakeholders provided references to concrete evidence and facts in support of their answers.

Please note that the process of revising the ETS Directive is on-going and might, depending on the final outcome, impact the questions presented in this questionnaire.

### General information about respondent

\* Please choose your profile:

- Business
- Trade association representing businesses
- Government institution/regulatory authority
- Academic/research institution
- Non-governmental organisation
- Citizen
- Other

\* If other, please specify:

*Text of 3 to 200 characters will be accepted*

\* Please state which sector you are part of or represent:

*100 character(s) maximum*

Is your company an SME? ([What is an SME?](#))

- Yes - medium-sized enterprise (i.e. having less than 250 staff and/or turnover below €50m and/or a balance sheet below €43m)
- Yes - small enterprise (i.e. having less than 50 staff and/or turnover below €10m and/or a balance sheet below €10m)
- Yes - micro enterprise (i.e. having less than 10 staff and/or turnover below €2m and/or a balance sheet below €2m)
- No - large enterprise
- I don't know

\* Please give your name if replying as an individual/private person, otherwise give the name of your organisation:

*Text of 3 to 200 characters will be accepted*

If your organisation is registered in the [Transparency Register](#), please give your Register ID number:

*20 character(s) maximum*

If your organisation is not registered, you can [register now](#). Please note that contributions from respondents who choose not to register will be processed as a separate category 'non-registered organisations/business'.

Please enter your contact details (address, email):

*500 character(s) maximum*

\* Please give your country of residence/establishment:

- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom
- Iceland
- Norway
- Other

\* If other, please specify:

*Text of 3 to 200 characters will be accepted*

\* Please indicate your preference for the publication of your response on the Commission's website: (Please note that regardless of the option chosen, your contribution may be subject to a request for access to documents under [Regulation 1049/2001](#) on public access to European Parliament, Council and Commission documents. In this case the request will be assessed against the conditions set out in the Regulation and in accordance with applicable [data protection rules](#).)

Under the name given:

I consent to publication of all information in my contribution and I declare that none of it is subject to copyright restrictions that prevent publication

Anonymously:

I consent to publication of all information in my contribution and I declare that none of it is subject to copyright restrictions that prevent publication

## I. General questions

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*This section includes general questions related to the carbon leakage list and free allocation.*

Phase 3 of the EU Emission Trading System covers the period from 2013 until 2020 included and is governed by harmonised [free allocation rules](#) and an [EU-wide limit on total emissions](#), as well as specific rules on addressing the risk of carbon leakage. What is your perception of the evolution of the risk of carbon leakage since the beginning of phase 3 of the EU Emission Trading System in 2013?

Increased risk

Decreased risk

No significant change

I don't know

If you wish, please motivate your answer:

*1000 character(s) maximum*

Internationally there are opposite trends regarding climate policy. Emissions trading/mitigation efforts are gaining pace in some third countries dominating EU-trade in energy intensive products such as China and Korea. The Paris Agreement could likely facilitate further development in this area. At the same time, the United States has announced its intention to withdraw from the Paris Agreement. Consequently, there seems to be no significant change to the risk of carbon leakage currently.

However, it is difficult to predict future developments in this area. If the price of allowances in the EU ETS increases in the future, this could impact the risk of carbon leakage, as the price of allowances could constitute a larger share of total costs for sectors covered by the EU ETS.

The carbon leakage list and the higher level of free allocation granted to relevant sectors and sub-sectors because of it, has been in place throughout phase 3 of the ETS. Please share your views on your administrative experience with the system, in particular whether you see scope for reducing administrative burden and/or simplification:

*1000 character(s) maximum*

The Danish Energy Agency is responsible for the administration of the carbon leakage list in Denmark. To ensure correct administration and calculation of the free allocation, the primary task is distinguishing between the 'carbon leakage exposed' and the 'not carbon leakage exposed' subinstallations when calculating total amount of allocation.

The Danish Energy Agency aims to ensure that this calculation is clearly visible in all legal decisions. Changes in the carbon leakage list will require recalculations of allocations and preparation of legal decisions to all affected installations. The database and IT-system, EDO (EnergyDataOnline), used for the administration of EU ETS by the competent authority are not developed to administrate changes in sector/installation statuses from CL to non-CL. Consequently, all data in the system will have to be updated manually by the administrator.

## II. Methodological choices

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*Please bear in mind that the main elements and criteria of the assessment to determine the carbon leakage list are foreseen in the provisions of the [EU ETS Directive](#). There are only certain methodological aspects left to be decided and they are the subject of this part of the consultation. In order to maximise the impact of the views expressed, you are therefore strongly encouraged to address the questions below while keeping in mind the aspects which are already decided on, as explained in the introductory part of this consultation.*

The emission intensity of a sector is part of the criteria for assessing its exposure to carbon leakage risk. The emission intensity takes into account both direct and indirect emissions. To calculate the indirect emissions (emissions linked to the electricity consumed by the sector), electricity consumption needs to be converted into emissions by using an electricity emission factor representing the emission intensity of the electricity generation. Please share your views on the electricity emission factor to be used (In this case, electricity emission factors can either refer to average values or marginal values. The average value refers to the amount of emissions relative to the electricity produced taking into account all the different emission intensities (linked to fuel used). The marginal value reflects the incremental change in CO<sub>2</sub> emissions linked to the last unit of electricity consumed and differs from the average values due to the heterogeneous structure of the electricity production (certain power plants producing base load and others peak load.)):

- average value – EU average emission intensity derived from electricity generated from the total fuel mix that includes all sources of energy in Europe
- average value – EU average emission intensity derived from electricity generated from fossil fuel
- marginal value – marginal emission factor for the electricity generation determined by the specific CO<sub>2</sub> emissions of the 'last kWh electricity consumed'

If you wish, please motivate your answer:

*1000 character(s) maximum*

When determining the CO<sub>2</sub> emissions linked to the electricity consumption, it is important that values are used consistently throughout all member states and that they encourage the use of renewable energies.

Consequently, instead of choosing between the three options above, we would suggest a value reflecting estimated discounted future average emissions intensity 2021-2030 from PRIMES. This is the generating mix industry quite likely will face from 2021 to 2030.

In your view, how would you assess international climate policy and action in 2018 compared to 2013, in particular in light of the Paris Agreement?

- Significant progress
- Some progress
- No progress
- I don't know

Assessing the exposure of a sector to the risk of carbon leakage includes calculating the trade intensity of the sector. In this context, it would be useful to have a reflection on whether climate policies in countries outside the EU can be considered comparable with the EU ETS at this stage since carbon leakage can by definition only occur when production moves to areas with less strict climate policies than the EU. Do you consider that countries or regions outside the EU have climate/energy policies that can be considered comparable with the EU ETS?

Please explain following the guiding sub-questions below.

1. Which countries or regions do you consider to have comparable policies to the EU ETS?
2. Which elements of climate/energy policies worldwide should be considered in determining the comparability to the EU ETS?
3. Which elements of climate/energy policies worldwide would you find more or less ambitious than the EU ETS?
4. What do you think is the optimal way to reflect developments in climate policies in countries and regions outside of the EU in view of the facilitative dialogue and the global stocktake mechanisms foreseen under the Paris Agreement, as well as other relevant initiatives (e.g Action agenda)?

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There are promising trends with emissions trading systems in third countries such as China and some states such as California. However, it is difficult to assess the comparability of these policies, as this would depend on elements such as coverage of sectors and price signal/costs. Taking these elements into consideration, there seems to be few countries with comparable policies at current.

Consequently, the regulation should be based on current knowledge of comparable policies and should be adaptable to reflect future developments in climate policies. The review envisaged in Article 30 of the ETS-directive will keep under review the measures to support certain energy intensive industries that may be subject to carbon leakage

In your view, how would you assess the improvement of carbon emission intensities in production in manufacturing industry, in the EU compared to worldwide, including as regards the evolution of low-carbon investments and innovation?

- More progress in the EU compared to worldwide
- Less progress in the EU compared to worldwide
- Same level of progress
- I don't know

Please explain:

*2000 character(s) maximum*

We do not have the necessary information on the development of carbon emission intensities in production in manufacturing industry worldwide in order to make such an assessment.

The EU ETS Directive foresees the possibility for qualitative assessments of sectors in view of determining their exposure to the risk of carbon leakage. The criteria and the eligibility for these assessments are laid down in [the Directive](#). In order to ensure that such assessments are as robust, fair, transparent and equitable as the default assessments (where quantitative criteria and thresholds clearly indicate which sectors should be included in the carbon leakage list), what would you consider a good approach in terms of process? Please explain:

*2000 character(s) maximum*

The Danish competent authority of the EU ETS manages quantitative data and has as such no authority to undertake qualitative assessments of sectors' risk of carbon leakage.

In order to ensure assessments that are robust, fair, transparent and equitable, the Commission should undertake the assessments on the basis of objective data. However, it should be taken into consideration that for all sectors it is beneficial and profitable to be covered by the carbon leakage list, if individual sectors are to provide qualitative data themselves. Furthermore, we would propose that the Commission's assessments are made public before final adoption of the CL-list with the necessary justification/reasoning in order to promote transparency and debate.

Which parameters would you consider as most relevant to assess the ability of a sector to pass through carbon costs into product prices beyond trade intensity? Please explain:

*1000 character(s) maximum*

It is difficult to assess the ability of a sector to pass through carbon costs into product prices beyond trade intensity, as this is much dependent on the specific sectors and their market characteristics. However, one element of consideration could be the relationship between costs of transportation from third countries and product prices.

The EU ETS Directive foresees the possibility to assess products and sub-sectors rather than sectors in certain cases. The criteria, eligibility and level of assessment are laid down in [the Directive](#). In such cases of lower levels of disaggregation, there is no official publicly available data. In order to ensure that such assessments are as robust, fair, transparent and equitable as the default quantitative assessments, what would you consider as a good approach for assessment of products and sub-sectors? Please explain:

*2000 character(s) maximum*

As stated in the ETS-directive, any such assessment should be based on duly substantiated, complete, verified and audited data for the five most recent years. In this context, it should be taken into consideration that for all sectors it is beneficial and profitable to be covered by the carbon leakage list.

To ensure robust, fair, and transparent assessments, data has to be gathered, assessed and analysed on an aggregated EU-level on the basis of reliable and official sources, such as national statistics and tax information. Furthermore, sub-sectors should be able to demonstrate that the data/activities are clearly linked to the specific subsector/product and separate from the production of other products. However, if the approach of assessment of products and sub-sectors are to be based on data which are not official and publically available, it is crucial to set up a system of independent control and data verification. This will result in extensive administration and extra workload for the competent authority and the affected installations.

In terms of process, we would suggest that the Commission approves the quality of data as well as performs the quantitative assessment. Member States should be informed of the results of assessments.



