

2015-11-20

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Till: Energi- och Miljödepartementet (m.registrator@regeringskansliet.se)

### **Angående: ETS (Emissions Trading System) - Reform**

Gelatinindustrin är en energiintensiv sektor. För tillfället är gelatinindustrin listad under en av de industrier som är utsatta för stor risk för koldioxidläckage (carbon leakage) enligt kommissionens beslut 2014/746/EU. Detta gäller för perioden från 2015 till 2019 och en reform håller på att ske för tidperioden efter 2019.

Från det förslagna utkastet (av Storbritannien, Tjeckien, Frankrike och Slovakien) och den senaste diskussionen mellan kommissionen och medlemsländerna förstår vi att denna reform kan komma att gå i riktningen mot en differentierad "Tiered Carbon Leakage List" (se bilagor). Detta skulle innebära stora konsekvenser för gelatinindustrin i Europa.

Gelatinindustrin är klassad under "Andra kemiska produkter". I en differentierad lista har dessa "Andra kemiska produkter" blivit kategoriserade som en "låg risk industri" och kommer att få 30% fri tilldelning.

När man beräknar handels och utsläppsintensiteten för gelatinindustrin separat, så ser vi däremot att vår industri skulle falla under "hög risk" (handelsintensitet = 30%; utsläppsintensitet = 3 kg CO<sub>2</sub>/EUR GVA). Vi skulle därmed tilldelas 80% fri tilldelning.

Notera att dagens fria tilldelning är 100%. Vad föreslår vi?

- Vi skulle vilja ha ett avslag på principen gällande differentierad "carbon leakage" listan då vi anser att den är bristfällig på många sätt.
- Om avslag inte är möjligt, så föreslår vi att listan inte appliceras på industrinivå, utan på delsektor nivå (NACE 8 siffrig).

Med vänliga hälsningar

GELITA Sweden AB

Mattias Hannen  
Verkställande Direktör

Bilagor.  
Proposal of new Directive  
Tiered approach



Council of the  
European Union

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(OR. en)

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**LIMITE**

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TRANS 342  
IND 160  
COMPET 477  
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**NOTE**

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**From:** General Secretariat of the Council  
**To:** Delegations

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**Subject:** Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments  
- Comments from delegations

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With a view to the meeting of the Working Party on the Environment on 24 November 2015, delegations will find attached a non-paper from CZ, FR, SK and UK on a Tiered Carbon Leakage List.

## Non-paper on a Tiered Carbon Leakage List in Phase IV of EU ETS

Authored by the Czech Republic, France, Slovakia, and the United Kingdom

### Summary

- The current carbon leakage list is too long, which has contributed to the introduction of a cross-sectoral correction factor (CSCF). The CSCF exposes industrial sectors to greater costs, undermining the EU ETS' objective of support those genuinely most at risk of carbon leakage.
- The European Commission's proposed carbon leakage list for Phase IV is shorter than the current list in terms of the number of sectors included, but covers a similar share of industrial emissions, making the reintroduction of a CSCF by the end of the Phase likely.
- In the context of a declining overall emissions cap and a reduced number of allowances available for free allocation in Phase IV, a tiered system of free allocation, where sectors receive free allowances according to their relative risk of carbon leakage, could be an effective, evidence-based means of distributing the available protection and avoiding an unnecessary application of a CSCF.
- This approach could both ensure that sectors at greatest risk of carbon leakage continue to receive as close to 100% free allocation as possible, and provided thresholds and allocation levels were set in an appropriate, evidence-based manner, provide support to sectors at lower risk.

### Carbon Leakage Principles

In order for carbon leakage policy in EU ETS to remain credible and effective, the system must:

1. **Not decrease the share of allowances auctioned on the open market** – this is critical to drive *cost-effective* abatement and innovation and to ensure sufficient liquidity in the marketplace for electricity producers and sectors needing to buy part of their allowances on the auctioning market.
2. **Recognise that the risk of carbon leakage varies greatly between industrial sectors** – the Phase III system treats all exposed industrial sectors as though they are all equally at risk; this is not borne out by the evidence.
3. **Focus free allocation according to the evidence of carbon leakage risk facing each industrial sector** – this is critical to ensure full support is targeted at those sectors in greatest need, while providing an appropriate level of support to sectors at relatively lower risk.
4. **Minimise and if possible remove the need to rely on blunt mechanisms which apply equally to all industrial sectors (for example the Cross-sectoral Correction Factor)** – these do not take into account differing degrees of carbon leakage risk and unnecessarily expose some sectors to competitive disadvantage.

## Lessons from Phase III of EU ETS

- The current carbon leakage list covers over 160 industrial sectors, producing around 97% of industrial emissions. As noted in the Commission's Impact Assessment accompanying its proposal for Phase IV of EU ETS, carbon leakage status has become the norm, not the exception.
- This has led to the early introduction of the CSCF from the first year of the current Phase (2013-20). The CSCF removes a fixed percentage of allowances from all installations in order to bring free allocation below the 'manufacturing cap', the limit on the total amount of free allocation which can be provided. The CSCF will reach around 17.5% by the end of Phase III; this is projected to continue to increase to almost 35% in Phase IV if no changes were made to the existing rules:

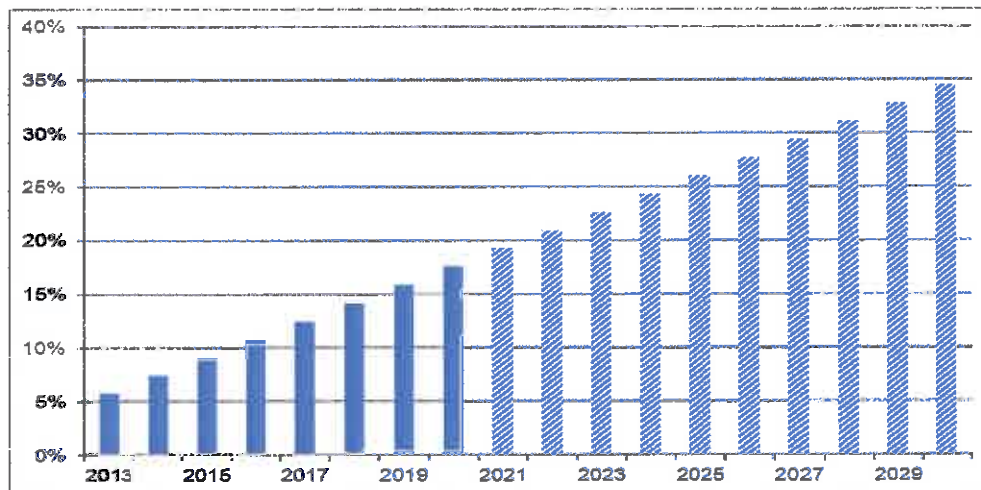


Figure 1: Indicative cross-sectoral correction factor assuming the current CSCF methodology, length of the carbon leakage list and industrial emission levels are held constant

- The CSCF removes allowances equally from all installations, including best performers and those highly exposed to carbon leakage. The continued growth of the CSCF puts at risk the competitiveness of those European industries by exposing them to increasing carbon costs, and as a result undermines the credibility of EU ETS. Finding a means to reduce the impact of the CSCF, particularly for those sectors most exposed to carbon leakage, must be a key objective of the revision of the EU ETS Directive for Phase IV.

## The Commission's Proposal for Phase IV

- The Commission's draft legislative proposal for Phase IV would significantly shorten the carbon leakage list to around 50 sectors. However, the proposed carbon leakage list would still provide sectors representing around 94% of

industrial emissions with 100% of benchmarked free allocation, only a minor reduction from the current list.

- The Commission's proposal for Phase IV includes a flat reduction to sector benchmarks, which have the effect of keeping free allocation within the manufacturing cap: for most sectors, this would represent a 15% reduction in free allocation in the first half of Phase IV, with a 20% reduction in the second half.
- Given the declining number of free allowances up to 2030, analysis by the UK, as well as by some independent carbon market analysts, suggests that even with the Commission's proposed benchmarking changes, the length of the proposed carbon leakage list means that there is still a strong likelihood that the CSCF would come into effect again during Phase IV.

### **Differences in Risk between Sectors**

- Carbon leakage can occur if the costs of operating in the EU ETS lead industries to relocate to regions outside of Europe with less ambitious climate policies. To be exposed to carbon leakage risk, evidence suggests that sectors must face significant carbon costs, and must also operate in competitive international markets which render them unable to pass through those costs. The carbon leakage risk system in EU ETS uses two metrics to measure this risk: emissions intensity (measured as tons of CO<sub>2</sub>/GVA) and trade intensity, measured as  $(\text{imports} + \text{exports}) / (\text{turnover} + \text{exports})$ .
- There is a wide disparity in trade intensity and carbon costs between sectors. We consider those sectors which score highly on both trade intensity and carbon intensity to be at greatest risk of carbon leakage. Where sectors have very high trade intensity but minimal carbon costs, these costs should not have significant implications for their international competitiveness;; conversely, sectors with high carbon costs but low trade intensity will be more able to pass through those costs.
- Given the very large variance in emissions and trade intensity between sectors, the CSCF, which removes allowances by a fixed percentage from all installations, is likely to put some sectors at much greater risk of carbon leakage than others.

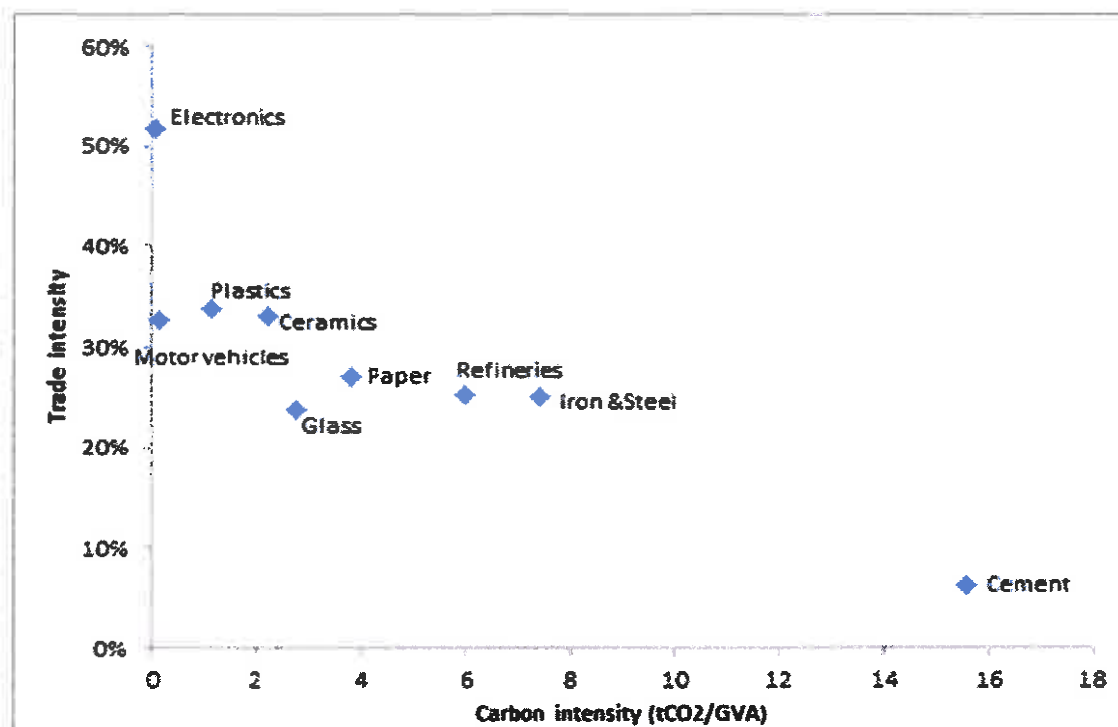


Figure 2: Disparity in risk between selected industrial sectors covered by EU ETS

### The Solution: Tiered Free Allocation

- Under a tiered approach to free allocation, sectors would be classified as being at (for example) high-, medium-, low-, or no-risk, depending on thresholds set on the basis of emissions and trade intensity criteria, although the number of tiers could be increased further. Free allowances would then be distributed to installations within industrial sectors accordingly, with high risk sectors receiving a higher share of free allocation.
- Tiering supports sectors at greatest risk by ensuring that they receive as close to 100% free allocation against their benchmark as possible. Meanwhile, sectors at relatively lower risk would, provided thresholds and allocation levels were set in an appropriate, evidence-based manner, continue to receive a proportionate level of free allocation to offset their risk of carbon leakage.
- Tiered free allocation reduces the likelihood of a cross-sectoral correction factor being applied.
- Tiering ensures a more efficient distribution of free allowances than under the current system, ensuring free allocation is targeted at industries with the greatest need, while avoiding over-allocation to some sectors, which is a risk under current rules.
- Tiering is highly feasible compared to other options such as using cost pass-through data, requiring only a minor increase in administrative complexity. A tiered approach can be created using similar methods to the current carbon



leakage list, and such a system is already in use in the California cap-and-trade system<sup>1</sup>.

- A tiered approach would reduce the need for fixed benchmark reductions as a means of reducing free allocation volumes. This would allow for a more evidence-based approach to benchmark changes to be adopted.
- Tiering has advantages over simply shortening the carbon leakage list, as sectors at medium levels of carbon leakage risk continue to receive a substantial quantity of free allocation, whereas they may receive very limited or no support under a shortened list.
- A tiered approach was rated highly in the Commission's Impact Assessment accompanying its proposal for Phase IV of the EU ETS, particularly when assessed against the criteria of avoiding undue carbon costs.

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<sup>1</sup> <http://www.arb.ca.gov/regact/2013/capandtrade13/capandtrade13isorappb.pdf>

		Total CO2 intensity	Trade intensity	Total CO2*Trade intensity	RISK CATEGORY, FREE ALLOCATION	
1	20,15	Fertilizers	10,69	30%	3,13	VERY HIGH 100%
2	20,14	Petrochemicals	3,47	47%	1,64	HIGH 80%
3	20,13	Other inorganic chemicals	2,57	58%	1,49	HIGH 80%
4	20,17	Synthetic rubber	1,40	50%	0,70	MEDIUM 60%
5	20,60	Man-made fibres	1,47	43%	0,63	MEDIUM 60%
6	20,16	Plastics in primary forms	1,13	34%	0,38	MEDIUM 60%
7	20,12	Dyes and pigments	0,77	47%	0,36	MEDIUM 60%
8	20,59	Other chemical products	0,33	55%	0,18	LOW 30%
9	20,11	Industrial gases	1,40	5%	0,15	LOW 30%
10	20,20	Crop protection	0,21	47%	0,11	LOW 30%
11	20,42	Composites	0,14	54%	0,074	LOW 30%
12	20,52	Glues	0,27	25%	0,067	LOW 30%
13	20,53	Essential oils	0,07	98%	0,059	LOW 30%
14	20,41	Soups and dressings	0,21	22%	0,050	LOW 30%
15	20,51	Explosives	0,17	23%	0,030	LOW 30%
16	20,39	Paints and varnishes	0,13	24%	0,032	LOW 30%