Carbon Leakage project

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CEPS
What causes carbon leakage?

- Asymmetrical climate policies vs. RoW
  - Direct and indirect carbon costs
  - Renewables, grids, energy and environmental taxes, etc.
  - Lack of stable framework conditions

- Lack of ability to pass-on costs for aluminium
  - Prices globally set (London Metal Exchange)

- Electricity costs constitute 30-50% of productions costs
  - Our competitors in RoW are not exposed to carbon costs

* CEPS, Assessment of the Cumulative Cost Impact for the Aluminium Industry (ETS pass-on rate: 0.8; 2002-2012 figures; sample of plants buying electricity on market)
Impacts of Carbon leakage
Closures of plants. Value chain effect

• Most important are the Social and Economic effects
  – Job losses
  – Reduced investments
  – Negative effects on innovation
    – Increased import of goods will effect each level in the value chain

• Is Carbon Leakage* the right criteria? EU-terminology:
  – Industry’s (global) competitiveness
  – Inability to pass-on costs
  – Globally priced products
  – Trade intensity
  – Gross value added
  – Others?

• The Energy Taxation Directive, (draft) Energy and Environmental Aid Guidelines, National policies vs EU policies = different criteria create uncertainty.
  – Especially for costs exemptions to avoid «carbon leakage»

• «Carbon leakage starts when investments stops»

*Displaced economic activities from one jurisdiction with carbon constraints to another with less carbon constraints
Investments are necessary for continued operation

- Ordinary maintenance
- Large upgradings – earnings over 10-20 years
- New capacity - 30-years horizon
- Harvesting