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RANKED AMONG THE WORLD'S TOP 10 THINK TANKS

CEPS Thinking ahead for Europe

Benchmarking Preventing Carbon Leakage & Achieving Emission Reductions

Preliminary views of the Aluminium Industry

CEPS Task Force on Benchmarking for the EU ETS and Beyond

23 June 2009

General Objective of Benchmarking

- Benchmarking is appropriately identified by the ETS Directive as the default framework for free allocations
- Already a process that the aluminium sector uses formally to benchmark its emissions on a global level
- The ETS Directive is unambiguous in the desire to protect European industry from the risk of carbon leakage
- However the current methodology being pursued on the creation of benchmarks may not achieve this objective
- It is important to assess not only the relative position within a sector but also the overall economic impact of emission reductions for the sector

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Main issues (1): “spread factor”

- In sectors that have a large degree of variation in processes and emissions, the application of a 10% best benchmark will not protect against carbon leakage
- The spread factor: ratio between the best and worst performers can be high
- Example:

  A spread factor of 2 would mean that the worst performer would be allocated only half the number of allowances of the best performer, regardless of the ability of the installation to improve, which would probably lead to closing down

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Spread factor for all?

- The consultation paper suggests that a suitable spread factor for a single benchmark should be 1.2
- This concept should be applied as a general rule for the use of benchmarks
- However to ensure that the risk of carbon leakage is adequately mitigated the economic impact linked to the volume of emissions needs also to be taken into account
- Alternative allocation methods are needed to maintain incentives to improve performance & recognise early movers

→ Assess economic impact of benchmarks vs. alternative methods

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Main issues (2)

- Limited number of benchmarks & based on products is OK where applicable, but different alternatives may be required when there are too many products out of same process (e.g. rolling) or major differences in technology for same product

- Need to account for recycling (re-melting), to find a balance between the environmental gain from recycling vs. use of primary resources
  - Slightly higher emissions from re-melting
  - Re-melting technology (fossil fuel vs. electricity)
    - Switching not possible in all sectors, unless complete refurbishment of plants

→ Benchmarking should not lead to disincentives for environmentally beneficial processes (e.g. recycling)