



CEPS Outreach Workshop

Brussels, 10/12/2013

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Key points

- 1. Free allocation and moderate carbon prices in Phases I & II prevented the worst in terms of carbon leakage**
- 2. Phase III is different**
- 3. 2030 Policies 2030 better growth-oriented and flexible**



1. Free allocation and moderate carbon prices in Phases I & II prevented the worst in terms of carbon leakage

- “No evidence for carbon leakage” when using the ETS definition – but there are diverse CL definitions! Still, ETS rewards companies for reducing output due to ‘frozen’ ex-ante allocation, needs reform.
- Global economic crisis: By October 2013 (EUROSTAT, EU28) **Europe lost 10 million jobs** since beginning of crisis in 2008 (total: 26.6 million =10.9%) **US have created additional 7.8 million new jobs** “in last 44 months” (Obama speech Nov 2013).



EU economy competes globally

- EU trade surplus in 2012 in manufactured goods: €365 billion, outstripping United States and Japan. **European Chemical Industry represents 13%** (trade surplus of €49 billion).
- New: E.g. investments of the German chemical industry outside Europe have grown in 2012 by 25% up to €7.7 billion, investments in Germany stagnated at €6.3 billion. For the first time since 2001, investments outside Europe outperform inland investments.
- Cefic Roadmap study (2013) shows: High decarbonization achievements of the past cannot be projected into the future...Further CO₂ emission reductions of at max. 0.75 % and 1.25 % per year feasible between 2010 and 2030; **not -1,74%**



2. Phase III is different

- Carbon costs were low recently...
- ...but due to stringent ETS benchmarks, linear reduction factor, and cross-sectoral correction factor, **higher EU carbon costs are inevitable**, i.e. where reduction ambitions already exceed economic efficiency potentials
- **Increasing the linear reduction factor** for EU ETS manufacturing industries **removes innovation time and resources and pushes up EU carbon costs even earlier**
- **Changing carbon leakage criteria exposes EU companies to higher risk of carbon leakage**



3. 2030 Policies 2030 better growth-oriented and flexible

- Policy tools needed that work for all, namely for the power sector AND for EU's manufacturing sectors...
...OR **do we need separate tools?**
- Heterogeneity between ETS sectors: EU's power sector represents some 70% of ETS emissions, lacks competition and investment
- Can ETS manufacturing sectors - representing some 30% of ETS emissions - finance through ETS high-cost decarbonisation investment of the power sector?



2030 framework – carbon leakage

- ✓ **Affordable, reliable and sustainable energy and feedstock**
- ✓ **Reduce ghg emissions most cost-effectively** – relative to efficient growth and to global developments

= Creating jobs and growth in Europe through competitiveness of all EU policies

Carbon leakage measures must be strengthened