



Department
of Energy &
Climate Change

Carbon leakage in the EU Emissions Trading System

Paul van Heyningen
Head, EU ETS, United Kingdom



Carbon leakage – evolution of discussion

- Increase in global emissions
- Impact on industrial competitiveness
- ‘Low carbon’ leakage



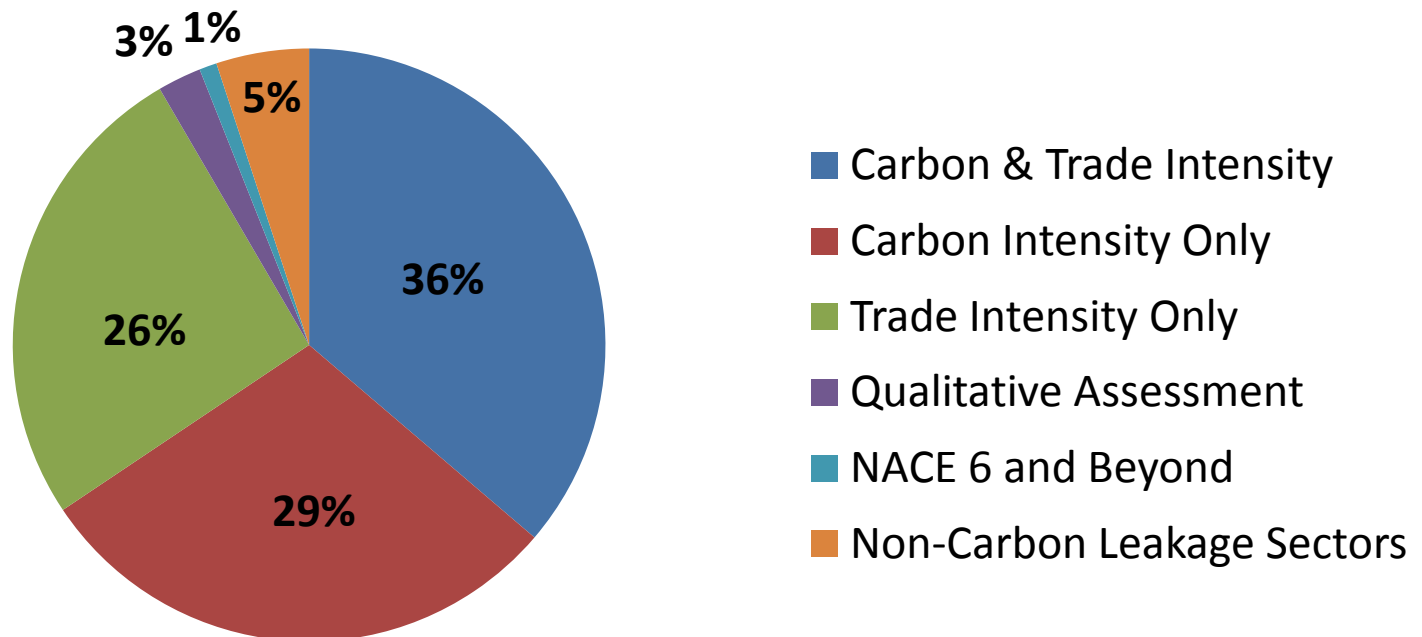
UK position

- Strongly committed to the EU ETS as a key mechanism to achieve emission reduction goals in a cost-effective manner.
- Recognise the risk of carbon leakage and support measures to minimise it.
- Support the free allocation of allowances to mitigate the risk.
- We will continue to monitor and evaluate the risk of carbon leakage, and to consider any competitiveness impacts of proposals for structural reform.
- Proportion of allowances auctioned should increase over time.



Current situation

Percentage of Industrial Emissions*

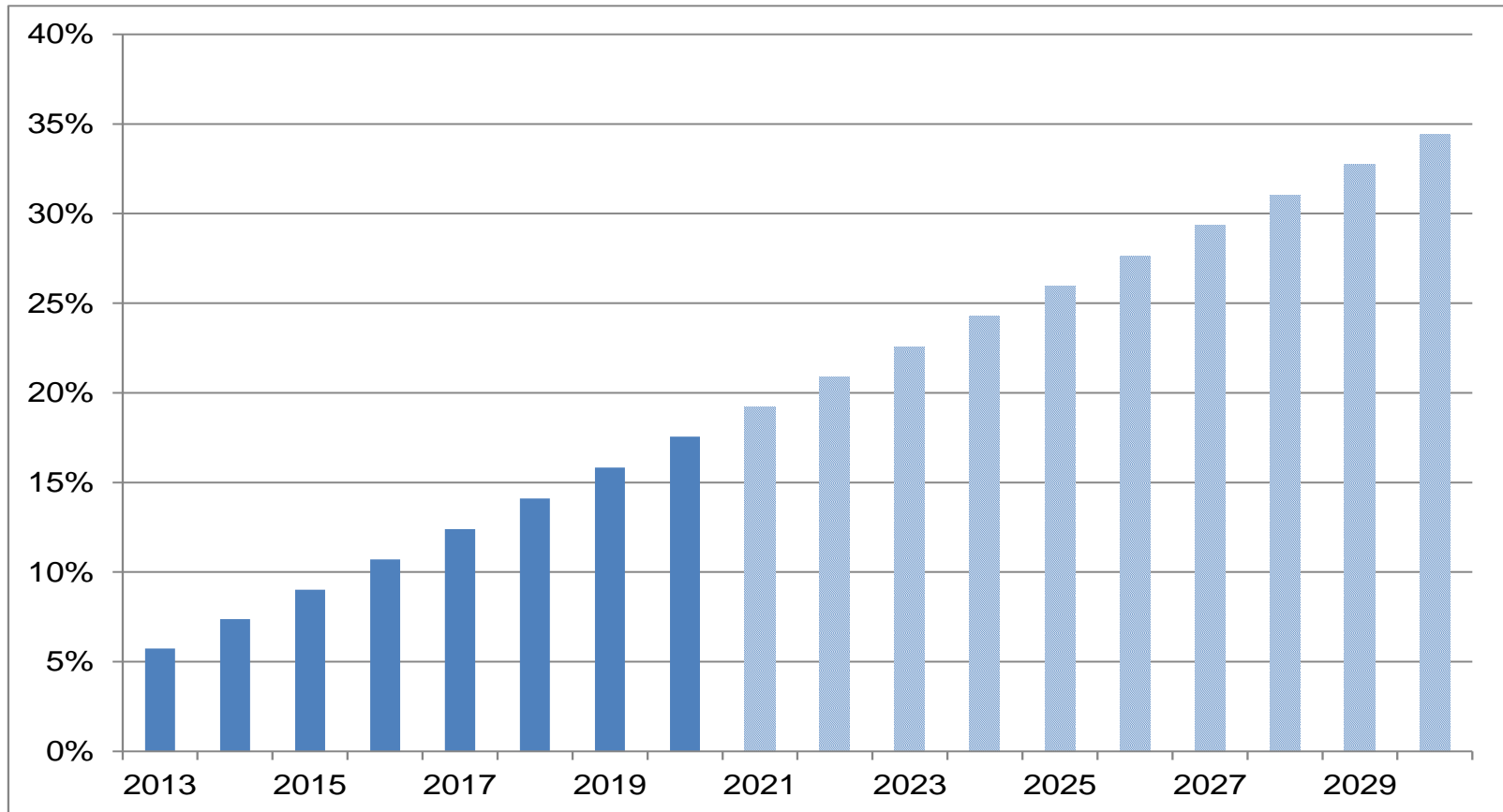


*Source: CE Delft (2013) – based on 2009 carbon leakage list of 154 (+8 at NACE 6) sectors. Sixteen sectors included in ‘Trade Intensity Only’ would also qualify under ‘Carbon & Trade Intensity’.



Current situation

- 6.6 billion allowances to be freely allocated over the course of Phase III – 43% of total cap - but cross sectoral correction factor (CSCF) still required.
- The CSCF would reach over 30% by 2030 under current rules and levels of industrial emissions.
- Concern that those most at risk may not be compensated sufficiently in the future unless existing rules are reformed.



Indicative cross sectoral correction factor assuming current CSCF calculation methodology and industrial emissions levels held constant



UK position

- Evidence suggests that only a small number of sectors are likely to be at high risk of carbon leakage.
- We want to ensure that energy-intensive industries receive sufficient support during the transition to a low-carbon economy.
- Compensation should be focused on those sectors which evidence demonstrates are at most risk.



What does the future hold?

- ‘Banded’ free allocation?
- Revisions to assessment criteria?
- Update of assumptions used in assessment of risk?
- Update of benchmarks?
- Re-assessment of assumption of 100% free allocation in CSCF calculation?

Questions for potential consideration only – this does not represent the official view of the UK Government



Vivid Economics Report

- **Literature review**

Review of findings from theoretical and empirical studies

- **Modelling of risk of carbon leakage**

Carbon price impact modelled for 24 sectors at €5, €15, €30 & €50

- **Analysis of current carbon leakage criteria**

Assessment of carbon and trade intensity criteria, current thresholds, and assumptions used in assessment process

- **Analysis of policy options for mitigating leakage**

Assessment of the free allocation mechanism and alternative mechanisms



Department
of Energy &
Climate Change

Thank you