



Carbon leakage risk mitigation

LIFE-DICET workshop - FSR

Milan Elkerbout

Christian Egenhofer

CEPS Energy Climate House

15 Oct 2020

Carbon leakage risk mitigation

What is the purpose?

How to measure?

What is the design?

How does it play globally?

Carbon leakage in EU ETS Phase IV

- New indicators: emissions intensity x trade intensity
- Direct carbon costs: free allocation
 - Updated benchmarks
 - More dynamic updating: 15% trigger for production levels
 - No CSCF?
- Indirect carbon costs: state aid
 - New state aid rules agreed in 2020
 - 75% max compensation
 - Remains discretionary for each member state
- **Green Deal: CBAM as an alternative or complement?**

How to account for the climate ambition of 3rd countries?

- Paris Agreement: bottom-up governance; NDCs
- Different countries, different speeds?
- Where/when will future low-carbon markets emerge?
- Will linking ever play a role?

Only carbon leakage risk matters

- Investment leakage
 - Production leakage
- *Other types of leakage are an industrial competitiveness problem but not a climate policy problem per se*
- *Shifts in investment/production can happen for a multitude of reasons*

Is there an optimal level of carbon leakage or carbon leakage risk?

- Industry: zero
 - Member states: zero for my 'champion' sectors
 - Economists: not necessarily zero?
- *Compromise between effective mitigation of risk versus not compromising efficient carbon pricing design?*

What about carbon cost pass-through?

- Can we agree on measurement?
- Should it feed into risk assessment?
- Does it affect the whole value chain?
- Is it a question of efficiency or equity?

What is the end-point of EU climate policy?

- End point for the EU ETS?
 - Net-zero cap before 2050?
 - Some volume of negative emissions credits indefinitely?
 - How many sectors to reach absolute zero?
- End point for EU climate policy?
 - Negative emissions or dealing with overshoots?
- What happens to free allocation or CBAM?

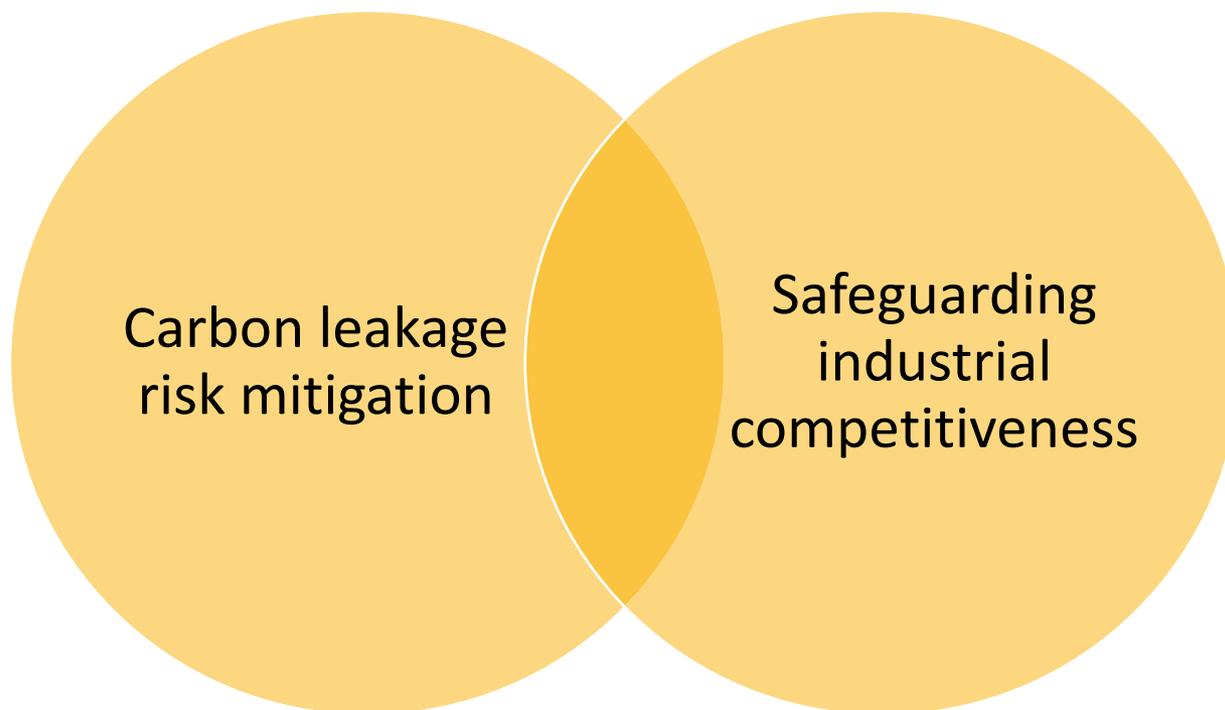
Does complexity matter?

- Benchmarks
- Benchmarks update factors
- Activity levels
- CBAM
- Indirect carbon cost compensation
- WTO compatibility
- Waste gas treatment
- Cross-sectoral correction factor
- Technology neutrality
- CCFD
- Green public procurement
- Product standards
- Capacity factors
- Linear reduction factor
- Trade intensity
- Emissions intensity
- Electricity mix CO2
- Linking
- MSR interaction
- Tiered allocation
- LDC exemptions
- Eco-design
- Circularity
- Auction shares

Political questions of design:

- Are carbon leakage risk mitigation measures transitional or permanent features?
- Is export competitiveness as important as domestic competitiveness?
- Should we differentiate risk (per sector)?
- Does history matter?
 - Historical emissions trajectories
 - Historical compensation for different sectors

Carbon leakage risk mitigation and safeguarding industrial competitiveness overlap but are not the same



- Free allocation can address both
- CBAM (should) focus on carbon leakage

Holistic view of climate-industrial policy

