



EUROPEAN COMMISSION

DIRECTORATE-GENERAL  
CLIMATE ACTION

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## **Stakeholder consultation process on Post-2020 carbon leakage provisions for the EU Emissions trading system**

In the Communication "A policy framework for climate and energy in the period from 2020 to 2030" the Commission indicated the need to continue with an improved and better focused system of free allocation post-2020, as long as there are no comparable efforts undertaken in other major economies, in order to ensure the competitiveness of Europe's energy-intensive industries. The Commission also underlined the importance of complementing free allocation with support for low-carbon innovation (e.g. in the form of the so-called NER300, focused on industry). In order to further the reflections on appropriate post-2020 free allocation and carbon leakage rules DG Climate Action and DG Enterprise and Industry plan to organise three stakeholder workshops in 2014, with the first two taking place before the summer break and the last one during the autumn. These meetings would, provisionally, have the following topics and main focus.

### Stakeholder meeting 1:

#### **Carbon leakage and competitiveness – what have we learned so far?**

One important element of the EU ETS from the very start in 2005 was the provision of free allocation to industrial installations. While up to 2012 allocation was done by means of a decentralised process determined at Member State level, since 2013 (phase 3) harmonised rules govern the free allocation.

The first stakeholder meeting will allow us to take stock of existing experience with free allocation with regard to issues like:

Does free allocation provide adequate safeguards against carbon leakage?

Does free allocation impact the incentives to innovate and reduce emissions?

What is the administrative effort for companies and authorities?

What were the key improvements in allocation methodology between phase 2 and phase 3?

Moreover, a dedicated session will be also held with the main topic being the measurement and monitoring of industrial competitiveness, addressing issues like definitions, internal market dimensions, indicators for measuring competitiveness, capturing value chains effects, data limitations.

Stakeholder meeting 2:

### **Carbon leakage and competitiveness - strategic choices post-2020 and how to make innovation support work?**

The second stakeholder meeting will allow to discuss two aspects: firstly, the major strategic choices post 2020 and secondly, low-carbon technologies innovation support.

Beyond 2020 the total number of allowances under the EU ETS issued per year will further decline. This makes the overall allowance budget available for auctioning and free allocation each year somewhat lower. At the same time, one can expect increasing efforts by other major economic players in the context of the UNFCCC negotiations for a post-2020 agreement.

The transition to a low-carbon economy requires steady innovation activities in many sectors including industry. The sectoral 2050 roadmaps have revealed some of the key technologies and innovations needed to master this transition. First movers in low-carbon innovation not only have the prospect of earning high returns on successful innovations, but also run the risk of failure. Hence support with public money seems justified, in particular for demonstration projects, to complement other EU funding possibilities. There is a case to mobilise at least part of these funds from the industry's share of the allowance budget, as successful innovation and demonstration ultimately benefit over time all players in a sector.

Based on the outcome of the first meeting, a specific follow-up discussion may be foreseen with regard to the issue of measuring and monitoring the impacts of climate and energy policies on industrial competitiveness.

The second stakeholder meeting will allow us to reflect on strategic choices like:

What share of the post-2020 allowance budget should be dedicated to carbon leakage and competitiveness purposes?

What is the relative role of free allocation and innovation support within this budget?

Are measures needed beyond free allocation and innovation support post-2020?

What innovation support is needed at which stage of the innovation process?

How can innovation support best complement free allocation?

Stakeholder meeting no 3:

### **Carbon leakage and competitiveness – what allocation modalities ?**

In its 2030 Communication, the Commission has indicated the need for an improved and better focused system of free allocation post-2020. The need for a better focus stems from the fact that the allowance budget post-2020 gradually shrinks as well as from the fact that some headroom may need to be created for innovation support. Future allocation modalities should be based on practical experience gained in developing and implementing the existing harmonised carbon leakage and free allocation rules.

The third stakeholder meeting will allow to tackle practical questions like:

Should one continue with one group of carbon leakage exposure or is some differentiation needed?

What adaptations of benchmarks and production data used for allocations in phase 4 should be considered?

Is there a case for any deviations from general harmonised rules, and what would be the risks involved?