



The reality of the carbon leakage risk in Europe and policy response for the few affected sectors¹ Greens/EFA political summary

The spectre of carbon leakage is continually trotted out in the EU by industry laggards and reticent policy makers as an argument against the adoption of sufficient policies to tackle climate change. They claim that meaningful, binding regulatory measures on climate change in the EU will lead to the displacement of production, and hence greenhouse gas emissions, from energy-intensive industries to countries with lower or non-existent regulation. However, there is a growing amount of research and evidence to suggest that these claims are exaggerated. In the context of current steps to strengthen the EU greenhouse gas emissions target to a 30% reduction by 2020², and ongoing steps to implement the 3rd phase of the EU emissions trading scheme, the Greens/EFA group believes it is necessary to properly assess the reality of the 'carbon leakage' risk in Europe, as well as the measures the EU has implemented to address that risk.

This study, by independent research organisation Climate Strategies, makes clear that:

- **The threat of carbon leakage for most EU energy-intensive sectors has been seriously overstated:** as few as 13 of the 164 sectors identified on the basis of the criteria introduced in the emissions trading scheme directive would truly be at risk of carbon leakage.
- **The criteria set in the ETS directive for assessing the risk of carbon leakage are fundamentally flawed** and lead to the overestimation of the leakage risk in the implementation of the EU legislation. It should be noted that the decision on the criteria was largely the result of political pressure from a handful of EU member state governments and industry lobbying.
- The policy measures for 'assisting' those sectors purportedly affected - namely **the free allocation of EU emissions permits under the emissions trading scheme - is not an effective measure for addressing carbon leakage** for many of the few sectors that are at risk. On the other hand, the disadvantages of the free allocation of emissions permits - either through dampening the carbon price signal or generating unpalatable windfall profits for polluting industries - have long been documented.
- The complexity of setting benchmarks for the free allocation of emissions permits to 164 sectors will increase industry arguments for additional measures to address competitiveness.

Clearly **'carbon leakage arguments' have been exaggerated** and cannot be allowed to influence debates on strengthening the EU's emissions target and implementing legislation.

Given the major problems associated with the free allocation of emissions permits and the fact its role in addressing leakage is limited, policy-makers must act to move to the full auctioning of emissions permits as soon as possible. It is also important that the European Commission decision on benchmarking for the allocation of permits is rigorous and new legislative loopholes are not created due to spurious carbon leakage arguments.

For most of the 13 or so sectors actually at risk of carbon leakage, free allocation is not the solution and other measures - like border adjustment - may be more appropriate. However, if at all, these should only be applied in place of - and not additionally to - free allocation.

¹ Greens/EFA political summary of the study by Climate Strategies on carbon leakage

² The European Commission is about to publish its analysis on moving beyond the EU's 20% target and the situation regarding carbon leakage.