IETA's statement on carbon leakage provisions in the EU ETS

IETA is the leading organisation that advocates for emissions trading as the preferred policy option to reducing greenhouse gas emissions, because it delivers an environmental objective by setting a total cap on emissions, whilst providing flexibility for businesses to achieve this at least possible cost.

The EU is taking the lead in combating GHG emissions, and the EU ETS has encouraged further uptake of market-based policies in other jurisdictions for reducing emissions. Although emissions trading is the least-cost policy option to reduce emissions, operators in the EU ETS who are in direct competition with companies in jurisdictions with no equivalent climate policies in place could face competitive difficulties. If industrial production or new investments were to move outside of Europe as a result of the EU's choice to implement such climate policies, causing higher carbon-related costs than in other jurisdictions, this could be damaging for Europe's economy and counter-productive for the fight against climate change. Moreover, some European installations are very energy-efficient, so closing industrial production in Europe and increasing production outside of the EU could result in greater global emissions.

IETA expects long term, predictable and sufficient carbon leakage provisions to be in place until comparable policies to reducing emissions are introduced in Europe's major trading partners, and global product pricing has the ability to pass on adequate carbon costs. IETA believes it is important for the EU to address any established risk of carbon leakage for a number of targeted sectors or sub sectors if there is evidence that a risk occurs as a result of the EU putting in place carbon pricing policies. The purpose of the EU ETS is to encourage emissions reductions, not to relocate economic growth, investment and emissions.

This is particularly important now, as discussions are underway on reforming the EU ETS and tightening the cap of allowances in the system once the EU's GHG targets have been agreed for 2030. Industrial actors who may be at risk of losing competitiveness as a result of such policy changes are seeking clarity on the proposed rules to address carbon leakage post-2019, and are concerned about the lack of clarity on such rules - particularly for EU ETS Phase 4.

In the event that the EU's Climate and Energy policies were to cause a risk of carbon leakage, we have identified some guiding principles that might be considered to prevent such risk:

- **Harmonised rules**
    - EU-wide harmonised rules for determining which sectors and sub-sectors should benefit from carbon leakage provisions and for implementing these provisions.
- **Carbon leakage rules should reflect climate policy developments in third countries**
    - The EU's carbon leakage provisions need to reflect developments in climate policy in other jurisdictions as long as there are no climate policies in place. Carbon leakage provisions should be considered if there is a risk of competitiveness difficulties occurring due to direct and indirect costs of carbon associated with the EU ETS.
    - Carbon leakage provisions should be in place for targeted sectors or subsectors that show clear evidence of being exposed to a risk of carbon leakage. This risk would be a result of carbon-related costs, combined with an inability to pass on these costs. These costs would arise from the EU's decision to implement policies that result in a higher price on GHG emissions than in other jurisdictions.
    - The measures put forward should aim to safeguard the competitiveness of EU industry, and should not be a cause of regional protectionism.
- **Methodology and timing**
    - Achieving clarity on the carbon leakage provisions post-2019 is necessary, pending the discussions on other aspects of the EU ETS and, more generally, the EU's climate and energy policies; whilst also taking into account developments at the international level in view of reaching an international climate agreement.
    - Direct and indirect costs, including increasing costs for purchasing electricity by industry, should be taken into account when both assessing the risk of carbon leakage, and identifying the sectors which should benefit from provisions to avoid a loss of competitiveness.
    - If free allocation is to be continued as the mitigation measure for exposure to the risk of carbon leakage it should be harmonised linked to both direct and indirect emissions.

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