Department of Energy & Climate Change

Call for evidence

EU ETS: Carbon leakage review data request

March 2013

Department of Energy and Climate Change
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For further information on this call for evidence, contact:
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Department of Energy and Climate Change
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This call for evidence can be found on the gov.uk website at:
https://www.gov.uk/government/consultations/eu-ets-carbon-leakage-review-data-request-call-for-evidence

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General information

Purpose of this call for evidence

The purpose of this call for evidence is to collect the data necessary to respond to the European Commission's data request for the carbon leakage review, which is due to conclude in 2014. The review will determine those sectors at significant risk of carbon leakage as a result of the EU Emissions Trading System. These sectors and sub-sectors will receive 100% of their benchmarked allocation for free in the form of EU allowances between 2015 and 2019.

This call for evidence will enable UK industry to provide the European Commission with the most accurate data available, and views on data uncertainties and individual circumstances at the sub-sector level to be fed in.

We are requesting that this data is submitted to DECC through trade associations using the Excel response template provided at https://www.gov.uk/government/consultations/eu-ets-carbon-leakage-review-data-request-call-for-evidence. If an organisation would like to submit data and are unable to do this through a trade association please contact the team at euets.callforevidence@decc.gsi.gov.uk.

Issued: 4 March 2013

Respond by: 25 March 2013

Enquiries to:
The EU Emissions Trading System Team
Department of Energy & Climate Change,
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3 Whitehall Place,
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Document reference: URN 13D/035 – Call for Evidence: carbon leakage review data request

Territorial extent

Policy responsibility for emissions trading lies with the Department of Energy and Climate Change (DECC) (although policy for aviation emissions trading is shared between the Department for Transport (DfT) and DECC), together with the Northern Ireland Executive, the Scottish Government, and the Welsh Government. References to the Government in this document also cover the Devolved Administrations.

Who will this call for evidence be of interest to?

This call for evidence will be of particular interest to those organisations that face high additional costs as a result of the EU Emissions Trading System, either directly or indirectly.

How to respond

We encourage data and views to be submitted through trade associations, this will aid the data collation process and ensure we only receive data at the level of disaggregation required. If you are unable to provide data via a trade association please contact the team at euets.callforevidence@decc.gsi.gov.uk.

We also would recommend trade associations frame their replies in direct response to the questions posed using the response spreadsheet provided. However, further comments and evidence are also welcome and there is allocated space for this.

The call for evidence response period will be between **4 March 2012** and **25 March 2012**, but early responses would be welcomed. Any responses received after the closing date may not be considered. If you are unable to meet this timeframe please contact the EU ETS team at euets.callforevidence@decc.gsi.gov.uk

Please send completed forms by email to the EU ETS team at the following address: euets.callforevidence@decc.gsi.gov.uk

Hard copy responses can be sent by post to the following address:
EU ETS Team
Department of Energy & Climate Change
Area 1A
3 Whitehall Place
London, SW1A 2AW

The reference for this call for evidence is: 13D/035.

Additional copies

You may make copies of this document without seeking permission. An electronic version can be found at https://www.gov.uk/government/consultations/eu-ets-carbon-leakage-review-data-request-call-for-evidence.

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection

Information provided in response to this call for evidence, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

We intend to pass information provided in response to this call for evidence to a selected contractor to collate and assess the levels of data uncertainty. This data will then be aggregated to the 3 and 4 digit NACE code levels (revision 2.0) and provided to the European Commission. The data collected through this exercise may also be used for Government research and policy development purposes in accordance with "Principle 5: Confidentiality" of the code of practice for official statistics[1].

If you would like any information supplied to be treated as commercially confidential, please indicate this clearly in writing when you send your response to the call for evidence. Please also indicate that the obligation of confidentiality does not apply to the dissemination of the information in the manner described above. Except for disclosure as described above, we will treat the information as confidential and will not disclose it to any other third party, save as required by law to do so. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses at a level of disaggregation that will not result in competitive advantage and place this summary on the gov.uk website. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance

If you have any complaints about the call for evidence process (as opposed to comments about the issues which are the subject of the call for evidence) please address them to:
DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

[1] http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html

1. Introduction

The European Union Emissions Trading System (EU ETS)

The UK Government is committed to reducing carbon emissions consistent with meeting legally binding targets – a reduction of greenhouse gas emissions by at least 80% by 2050. This requires a transformation of the UK economy while ensuring secure, low carbon energy supplies to 2050. At the same time Government is committed to ensuring that the UK economy remains competitive.

The EU Emissions Trading System (EU ETS) has created a Europe-wide market for carbon, meaning that businesses and investors are required to factor in the price of carbon when making production and investment decisions. It works on a ‘cap and trade’ basis, so there is a cap on all the emissions covered by the EU ETS. The EU ETS will deliver over 50% of the UK’s CO2 emissions reductions between now and 2020 and will stimulate low carbon investment**.**

The rationale behind emissions trading is that it enables emission reductions to take place where the cost of the reduction is lowest, thus lowering the overall cost of tackling climate change. More abatement will be undertaken by operators with lower abatement costs, therefore reducing the overall costs of meeting the emissions target (or cap) set by the trading system. The EU-wide cap on emissions will decline over time, delivering an overall reduction of 21% below 2005 verified emissions by 2020.

All operators under the EU ETS must monitor and report their emissions. At the end of each year they are required to surrender allowances to account for their actual emissions. One tonne of carbon dioxide equivalent is equal to one EU allowance (EUA). Phase III allowances are to be allocated according to community-wide harmonised rules. The methodology for free allocation is through product benchmarks, which are based on the average performance of the top 10% most efficient installations in a sector or sub-sector. The benchmarks determine how much effort individual installations have to make.

Carbon Leakage

The Government recognises that in the absence of an international climate agreement where all countries pay for the cost of carbon, there a significant risk of carbon leakage for some sectors. Carbon leakage is the prospect of an increase in global greenhouse gas emissions when a company shifts production outside a country because they cannot pass on the cost increases induced by climate change policies to their customers without significant loss of market share.

The Government is keen to ensure that these industries remain in the UK and to support their low carbon transition to enable them play a full part in the green economy. In many cases, it will be energy intensive industries providing the components for renewable energy generation or the materials required to lower the carbon intensity of consumer products. Furthermore, having investment in energy intensive industries occur overseas where it may otherwise have taken place in the UK is damaging to the UK economy, and in the absence of a global agreement on reducing carbon emissions, has negative impacts on efforts to reduce global warming.

There are two mechanisms to mitigate the risk of carbon leakage. First, EU ETS installations in sectors deemed to be at significant risk of carbon leakage receive 100% free allocation of allowances up to the sector's benchmark. This is a significant source of relief as sectors not deemed at risk will receive 80% of their allocation for free in 2013, declining annually to 30% in 2020 and 0% (i.e. full auctioning) in 2027.

Sectors are considered through a process, led by the Commission, which assesses whether sectors meet the criteria and thresholds set out in Article 10a of the EU ETS Directive. The list of sectors at significant risk of carbon leakage was last agreed in December 2009[2] and applies for the years 2013 and 2014. The list is reviewed every 5 years, with the next substantial review due to conclude in 2014.

We support the proportionate free allocation of allowances in the absence of an international climate agreement. We believe this gives relief to sectors at significant risk of carbon leakage, without raising barriers to international trade.

The second mechanism provides temporary measures to allow Member States to compensate sectors at significant risk of carbon leakage as a result of indirect EU ETS costs (i.e. through EU ETS related increases in electricity prices), providing schemes are designed within the framework set by the European Commission.

Compensation for indirect costs associated with the EU ETS forms a key element of the Energy-Intensive Industries (EIIs) package announced in November 2011, for which £250 million has been made available to March 2015, subject to EU State Aid rules[3]. The EIIs compensation package is targeted at those energy-intensive industries most at risk of carbon leakage as a result of our energy and climate change policies and will offset a proportion of the indirect costs of the EU Emissions Trading Scheme (EU ETS) and the Carbon Price Floor (CPF).

A consultation[4] on the design and implementation of this package closed on the 21 December 2012. Following detailed consideration of the responses, the Government plans to announce the final compensation scheme design later this year, subject to state aid approval from the European Commission.

[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:130:0001:0045:EN:PDF
[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52012XC0605(01):EN:NOT
[4] https://www.gov.uk/government/consultations/energy-intensive-industries-compensation-scheme

2. 2014 Carbon leakage review

The European Commission has issued a data request to Member States to allow them to determine the carbon leakage list for the period 2015-2019 as required by Article 10a(14) of the EU ETS Directive. The review will determine the sectors and sub-sectors at significant risk of carbon leakage using latest available data, and the criteria and thresholds set out in the EU ETS Directive.

The European Commission has much of the data needed for the assessment, however there are no official European Union centralised sources containing data for electricity consumption for EU ETS and non-EU ETS installations or direct emissions data from non-EU ETS installations for the years 2008-2011. The European Commission has requested Member States provide this data to enable the assessment of carbon leakage status.

Data is required for non-EU ETS installations within industrial sectors firstly because all installations within sectors face an additional cost from the EU ETS through their electricity bills, and second because other data sources the European Commission will be utilising, for example gross value added, are held at the full sector level.

The UK Government does not hold the data required to respond to this request and therefore we are providing industry with an opportunity to supply data to the European Commission via the Government.

This will enable UK industry to provide the European Commission with the most accurate data available, and allow them to feed in their views on data uncertainties and individual circumstances at the sub-sector level.

Objectives of this call for evidence

The purpose of this call for evidence is to collect the data necessary to respond to the European Commission's data request for the carbon leakage review 2014.

We are therefore requesting the following:

- Electricity consumption in terms of volume (MWh) for EU ETS and non-EU ETS installations;
- Fuel consumption data for non-EU ETS installations (the European Commission already has this data for EU ETS installations);
- Direct emissions data for non-EU ETS installations (the European Commission already has this data for EU ETS installations); and
- Qualitative information on the data uncertainties and individual circumstances at the sub-sector level.

In addition, we have given the opportunity for data and views to be provided on:

- Direct emissions data for EU ETS installations; and

- Gross value added data held by Eurostat.

We request that this data is submitted to DECC through trade associations using the Excel template provided. If an organisation would like to submit data and is unable to do this through a trade association please contact the team at euets.callforevidence@decc.gsi.gov.uk.

Carbon leakage review data return template

Please respond to this call for evidence using the response template at https://www.gov.uk/government/consultations/eu-ets-carbon-leakage-review-data-request-call-for-evidence

3. Next steps

Following the deadline for this call for evidence, we intend to work with an external supplier to collate and assess the levels of uncertainty of the data provided. As a result, the external supplier or DECC may need to contact responders with queries.

Once an accurate and robust response is produced, DECC intends to supply this data to the European Commission before the end of April 2013 to ensure it can be taken into account in the carbon leakage review, which the European Commission is expected to complete in 2014.

4. Glossary and definitions

Carbon leakage: the prospect of an increase in global greenhouse gas emissions when a company shifts production outside a country because they cannot pass on the cost increases induced by climate change policies to their customers without significant loss of market share.

Carbon price floor: a mechanism designed to top up the EU Emissions Trading System carbon price to a target minimum level for the UK electricity generation sector. This will give greater support and certainty to the price of carbon and will incentivise investment in low-carbon electricity generation. For further details, see the Government's response to the Carbon Price Floor consultation at http://www.hm-treasury.gov.uk/d/carbon_price_floor_consultation_govt_response.pdf.

Direct CO_2 emissions (tonnes of CO_2): can be estimated at the NACE level using fuel consumption data and the appropriate emission factor for obtaining energy related emissions, to which sectors' process emissions should also be added (e.g. from the national GHG emission inventories reported to the UNFCCC).

Electricity consumption in terms of volume (MWh): total electricity consumption minus electricity sold to third parties within or outside the same sector.

EU ETS: a Europe-wide cap and trade system that sets an overall cap on the total emissions allowed from all the installations covered by the System but allows trading of allowances so that the carbon price is determined by the market and emissions can be reduced at lowest cost.

Fuel consumption: breakdown of consumption by fuel type in gigajoules (GJ). Used to estimate direct CO_2 emissions.

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