

Briefing: The lack of evidence for carbon leakage

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Introduction

This document aims to provide clarity to the ongoing debate on Europe's industrial competitiveness and the effect of climate policies.

Over the last years, concerns from the energy intensive companies regarding the effect of climate and energy policy on competitiveness have been one of the main hurdles to progress. Several energy intensive sector groups have claimed that EU climate action results in "carbon leakage," or the supposed flight of EU business to other locations where there are less strong climate policies. To accommodate these concerns, EU policymakers have decided for instance to decrease the ambition level of emission reductions (20% instead of 30% reductions by 2020) and allocate emission allowances in the EU's Emissions Trading Scheme for free to sectors "at risk of carbon leakage". However, over the last years we have witnessed that many industrial sectors have gained unjustified advantages from the design of EU climate policies. Contrary to claims by energy intensive sector groups, European industries (including steel firms and refineries) have passed on costs related to the EU's emissions trading scheme to consumers¹. Moreover, energy intensive industries, and in particular cement and steel firms, have built up a major reserve of carbon emission allowances that they obtained for free. This reserve is expected to grow further up to 2020, and can also be used for compliance post-2020.

Evidence and main conclusions

There is very little factual evidence substantiating that the risk of carbon leakage is real. The following studies arrive at very similar conclusions:

- According to recent analysis by the **European Commission's DG for Industry and Enterprise** there is little evidence to support the concept that the decision by firms to offshore is the result of excessive regulatory costs². Indeed, for manufacturing sectors, differences in tax structure and labour costs, as well as shifting consumer trends and local market conditions, are far more relevant factors in investment decisions than increases in energy prices and climate policies in Europe. According to the EC's own research, the major contributor to energy price increases is the commodity price of fuel. Thus, industry relocation cannot be tackled by 2030 EU climate and energy targets, and requires other economic and industrial policies.
- A recently published report, the "**Carbon Leakage Evidence Project**"³, commissioned to Ecorys by the **European Commission's DG Clima**, concludes that there is no evidence detected for the occurrence of carbon leakage as defined by the ETS Directive in the EU ETS Trading Period I, 2005-2012. In some, but

1 Does the energy intensive industry obtain windfall profits through the EU ETS? Publication of CE Delft, 2010
http://www.ce.nl/publicatie/does_the_energy_intensive_industry_obtain_windfall_profits_through_the_eu_ets/1038

2 European Commission (2012), European Competitiveness Report, see:
http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european-competitiveness-report/index_en.htm

3 Carbon Leakage evidence Project, September 2013, Ecorys
http://ec.europa.eu/clima/policies/ets/cap/leakage/docs/cl_evidence_factsheets_en.pdf



not all, assessed sectors increasing imports and/or decreasing exports were observed, driven mainly by global demand developments and input price differences.

- **The CE Delft study “Carbon leakage and the future of the EU ETS market”⁴** shows that applying more realistic assumptions (on carbon prices) than those used by the European Commission in 2009, would result in a drastic reduction of the number of industrial sectors deemed at risk of carbon leakage. The total number of sectors would have fallen from the current 60% of sectors, representing 95% of industrial emissions, to a mere 33% of sectors, accounting for only 10% of emissions.
- **The international Energy Agency (IEA), in their 2013 Energy outlook⁵**, foresees that the EU will experience a loss of global market value of energy intensive industries. However, the IEA also expects the EU to remain the single biggest exporter of energy intensive goods until 2035, with around 26% of the market share. While this is a 10% reduction from today, the loss is not due to low energy prices in the US, but rather by industrialising developing countries including China that are competing with developed countries in all areas.
- **A recent letter sent⁶ to Barroso from the Institutional investors Group on Climate Change**, states the following: *“As shareowners in energy intensive companies, we have discussed with them the competitiveness risks of the EU ETS for their European operations and they have reported that this is not an issue.”*

Nevertheless, as some pieces of analysis show, there will be a very limited number of energy-intensive subsectors that may be exposed to competitiveness impacts as a result of increase energy prices and an ambitious 2030 climate and energy framework. The European Commission must therefore identify these (sub) sectors on the basis of fact-based independent economic assessment. The fact that many industries can still reduce energy costs (and related emissions) with a net gain must be taken into account, as well as the possibility for industries to pass on carbon costs to consumers.

Solutions do exist all along the supply chain to deliver radical improvements in carbon and resource productivity. It is therefore essential to conduct an open and transparent debate about the real extent of competitiveness concerns and to identify ways to incentivise innovation, substitution and rapid improvement. The global markets for resource efficient infrastructure and renewables are huge and innovative policy in this area could drive strong competitive advantage for EU firms in emerging markets.

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Climate Action Network Europe is Europe's largest coalition working on climate and energy issues. With over 120 member organisations in more than 25 European countries, CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.

4 [Carbon leakage and the future of the EU ETS market, CE Delft, April 2013](#)

5 World Energy Outlook 2013 Factsheets, International Energy Agency
www.iea.org/media/files/WEO2013_factsheets.pdf

6 http://caneurope.org/resources/doc_download/2319-iigcc-letter-president-barroso-9-january-2014