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EU ETS debate hijacked by carbon leakage

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Opinion

By allowing industry's hunger for free allocations, EU risks repeating mistakes of the past, argues Bas Eickhout.

The EU ETS review has barely started and it already looks as if carbon leakage is the only issue under discussion.

That, for example, a surplus of two billion unallocated allowances threatens to undermine the EU's climate promises, does not seem to matter at all.

By allowing the debate to be hijacked by the industry's hunger for free allocations, we risk repeating mistakes made in the past.

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Let's take a look at what is happening under the current legislation. Between 2008 and 2020 industry will receive more than 10 billion free allowances.

The total value of these allowances is estimated at €105bn. This estimation is based on previous and expected price developments of ETS allowances, not on the true cost of the CO2 emissions borne by society.

If we compare historic emissions to the free allowances allocated between 2008 and 2014, we are left with a remainder of one billion allowances.

These allowances led to an estimated additional profit to industry of €13bn.

Now let's look at what's on the table for the 2020-2030 trading period.

The Commission proposes to fix free allocation at 43 per cent of the total allowances available, even though both technological developments and an increase in emission trading systems are decreasing the potential risk of carbon leakage.

The argument that Europe is the only one internalising the costs of CO2 is completely outdated.

The Commission has, in addition, broadened the scope of the new innovation fund compared to its predecessor.

Member states are even allowed to compensate their industries for the potential indirect costs that might occur due to increased electricity prices.

More than 150 industrial sectors are currently considered to be at risk of carbon leakage. Under the new Commission proposal this is, luckily, brought back to around 50 sectors. However, this improvement is not good enough.

Even under the newly proposed rules we are still talking about 94 per cent of the industrial emissions receiving free allocation.

For example, the cement industry remains on the list while there is no international trade in cement at all. How is it possible that such a sector is still eligible for carbon leakage provisions? I call that bad decision-making.

There is a lot of talk about carbon leakage going around even though a recent study conducted for the European Commission found that during 2005-2012 there weren't any occurrences of carbon leakage.

Other factors, such as high energy prices due to a fragmented European energy market have a proven influence on Europe's competitiveness.

Unfortunately, industry is investing little effort on this issue. The explanation for this huge contradiction is simple: generous carbon leakage rules allow for windfall profits. Don't we all prefer to pick low-hanging fruits first?

Even if carbon leakage is as real as industry would like us to think, then we still have to ask the question whether free allocation really is the best solution to the problem.

I believe there is a much more appropriate solution. EU ETS-revenues must directly flow back to industry under the condition that they are used for climate-friendly innovation.

If we do decide to allow for free allocation, we must only focus on the sectors that really need them.

We have to think ahead. That way we not only protect future generations from dangerous climate change, we also make sure that Europe remains a cutting-edge economy.

About the author

Bas Eickhout (NL) is Parliament's Greens/EFA shadow rapporteur on the Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve

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