



INCLUSION OF CONSUMPTION IN EMISSIONS TRADING

Workshop: **Inclusion of Consumption for Carbon Pricing– Relevance and feasibility for the pulp and paper sector**

Draft agenda

Date: Monday, June 8, 2015
Place: CEPI - The Confederation of European Paper Industries
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Overview of the Inclusion of Consumption approach

If carbon leakage is an issue for the longer term, measures taken to avoid leakage must at the same time provide incentives for innovation and investment, and do so across the value chain. This can be achieved through Inclusion of Consumption combined with upstream free allocation.

In the proposed system, the production of carbon intensive commodities like steel, aluminium, cement (clinker) or pulp and paper would remain covered by a domestic carbon pricing mechanism. Leakage risk is addressed by free allocation of allowances. The use of benchmarks linked to recent production volumes to determine the volume of the free allocation preserves incentives for energy and carbon efficiency improvements in production of the basic material. The downside of such free allocation is that it largely eliminates the cost and price impact on materials and therefore also removes mitigation incentives at subsequent stages of the value chain.

Hence, an additional measure – and this is the key aspect of Inclusion of Consumption – a consumption charge is levied for carbon intensive commodities like clinker (cement) and steel. The charge is levied per ton of material (steel, aluminium, paper) consumed. In order to arrive at the amount of the charge, the weight is multiplied by a benchmark emissions value (carbon emissions per ton of the commodity) and the carbon price. The charge serves the purpose of including consumption in the carbon pricing scheme. It is necessary for restoring the carbon price signal for mitigation opportunities in the materials sector, other than efficiency improvements of the primary production process. This full carbon price is necessary—albeit not always sufficient—for modernization and innovation opportunities in the value chain.

The consumption charge is levied for all consumption of carbon intensive materials at the same benchmark rate – irrespective of the origin or production process of the material. Thus discrimination across different installations and distortions of production decisions are avoided, and the mechanism is not considered to be a trade related measure. This also implies that the mechanism does not create incentives for efficient production of carbon intensive materials in foreign installations. The consumption charge does however create incentives for the more efficient use of carbon intensive materials by all producers selling to the domestic market.

The Inclusion of Consumption offers three important benefits. First Inclusion of Consumption restores the carbon price signal that is muted for the subsequent value chain by the free allowance allocation resulting in a more efficient use of carbon intensive commodities and providing an incentive for innovation. Second, Inclusion of Consumption is compatible with World Trade Organization (WTO) law as long as it is implemented without any discriminatory components. Third, Inclusion of Consumption provides long-term clarity to support investment.

These aspects as well as the administration and implementation of the Inclusion of Consumption will be the focus of a high level workshop held at CEPI in Brussels on June 8, 2015. Aspects of the approach specific to the pulp and paper sector will also be discussed. An agenda for the workshop can be found on the following page.

09:45	Welcome coffee
10:00	Introduction to the Workshop and Inclusion of Consumption Project Karsten Neuhoff (DIW Berlin) Chair: Maurits Blanson Henkemans (International advisory group)
10:45	Overview of international experiences with consumption based charges to build on William Acworth (DIW Berlin) Comment: Rob Vandermeer (Heidelberg cement) (TBC)
11:15	Which Sectors and Scopes: a look at the numbers Anne Owen (Leeds University) Comment: Carl De Mare(Arcelormittal)
12:00	Lunch
13:00	EU Paper and Pulp Industry – Introduction and overview of the report Susanna Roth (IVL).
14:00	Mitigation opportunities for the sector and policy needs to address these. Marco Mensink (CEPI) (TBC)
14:15	Feasibility and relevance of including consumption fees in the pulp and paper industry. Design and key questions emerging from our experience so far. Lars Zetterberg (IVL) Comment Louise Staffas (IVL)
15:15	Coffee Break
15:30	Inclusion of Consumption legal framework and administrative costs Roland Ismer (University Erlangen-Nürnberg) / William Acworth (DIW Berlin)
16:15	Next steps for Climate Strategies analysis How to assess benefits and costs of Inclusion of Consumption Key questions emerging for implementation Open Discussion
17:00	Workshop End
17:15 18:30	Advisory Group Meeting
