

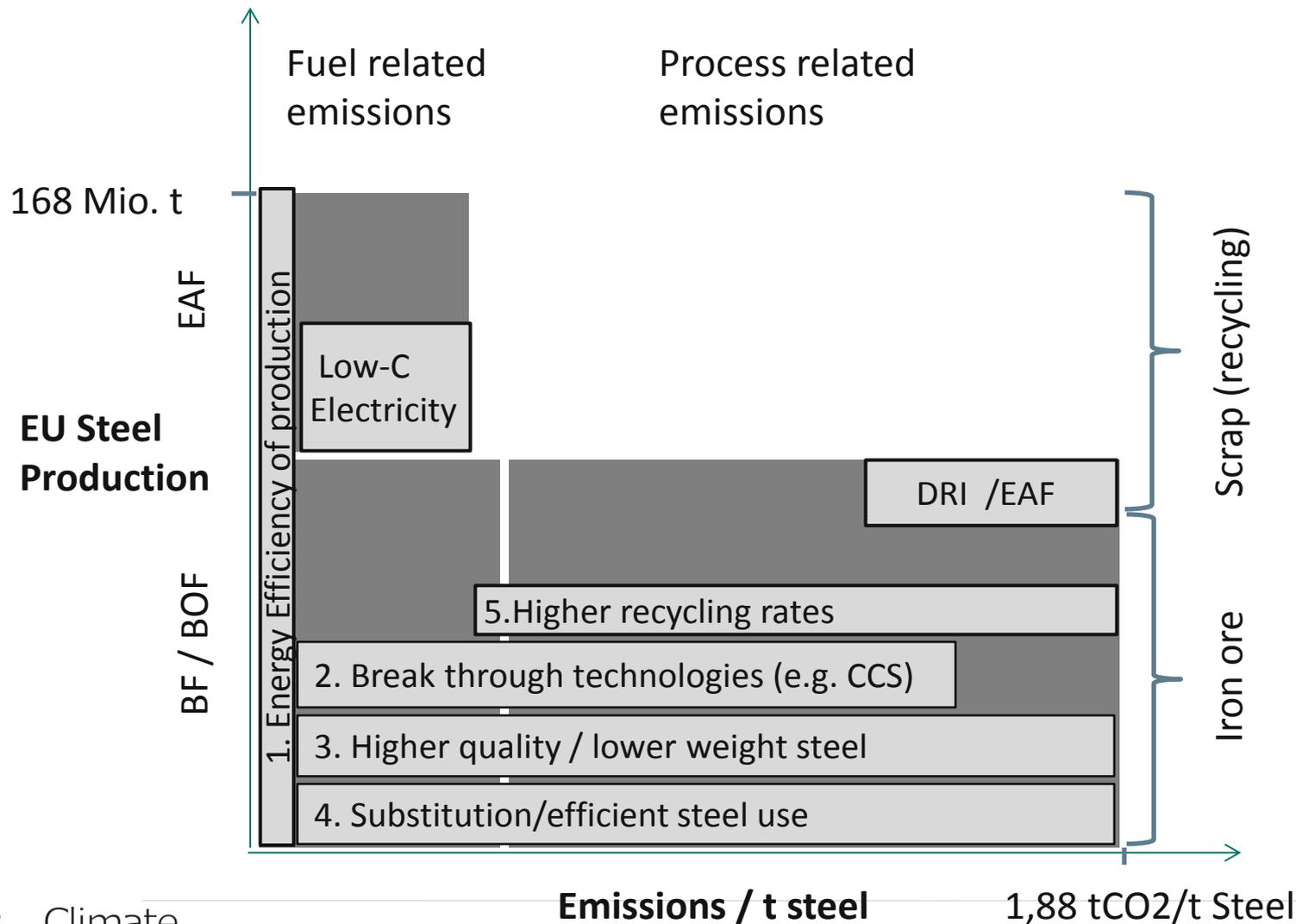
Berlin 26.1.2015

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# Inclusion of consumption in ET

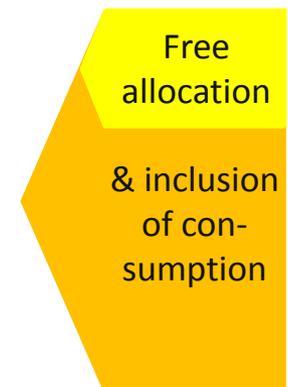
Karsten Neuhoff

Illustration

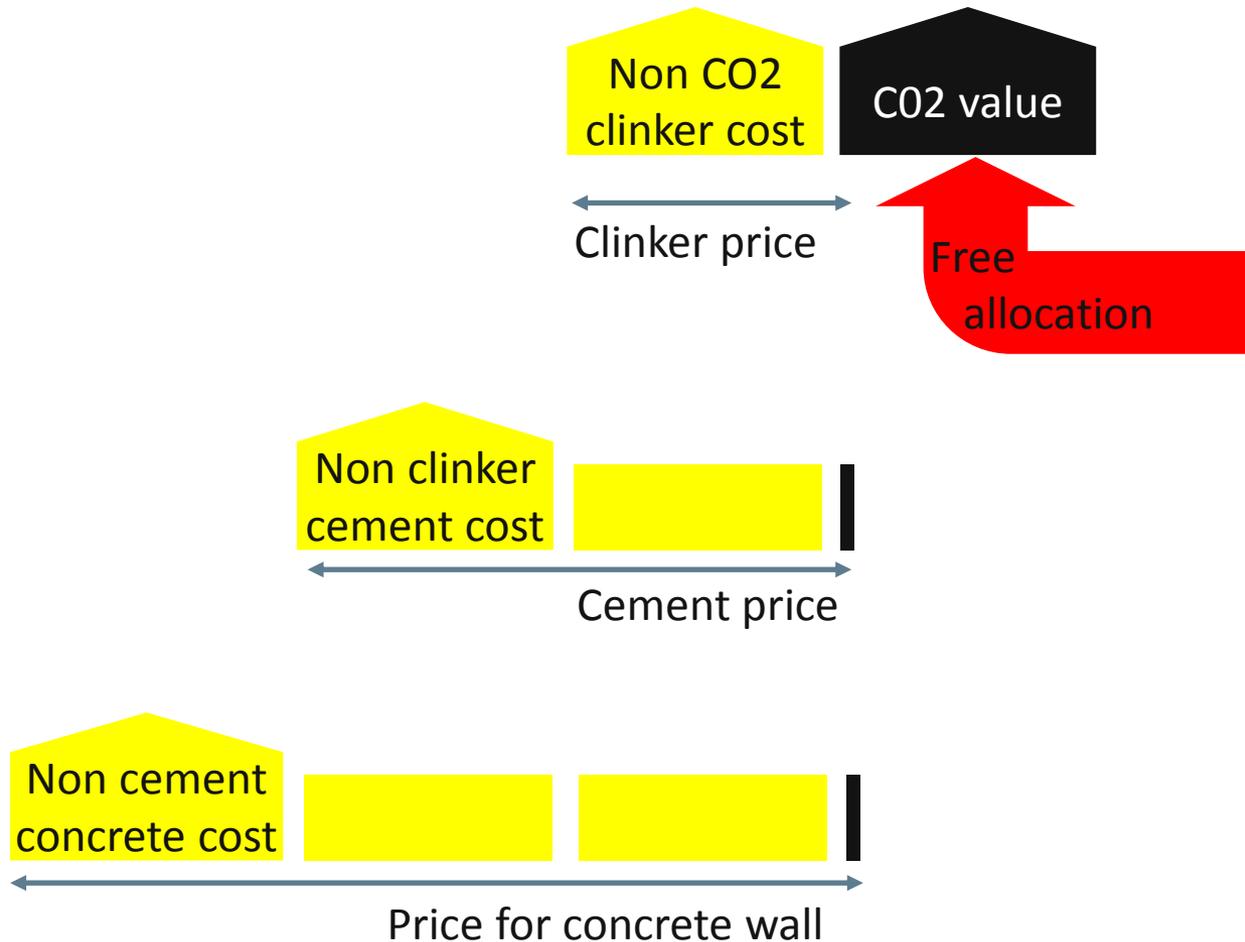


	Strengthening ETS	Carbon price along value chain	Engagement of all actors	Funding of technology innovation
Unlocking efficiency potential	X			
Business case for break-through technologies like CCS	X	X		X
Higher value steel products and efficient use	X	X	X	X
Increasing recycling rates			X	

Incentives retained with leakage protection\*:



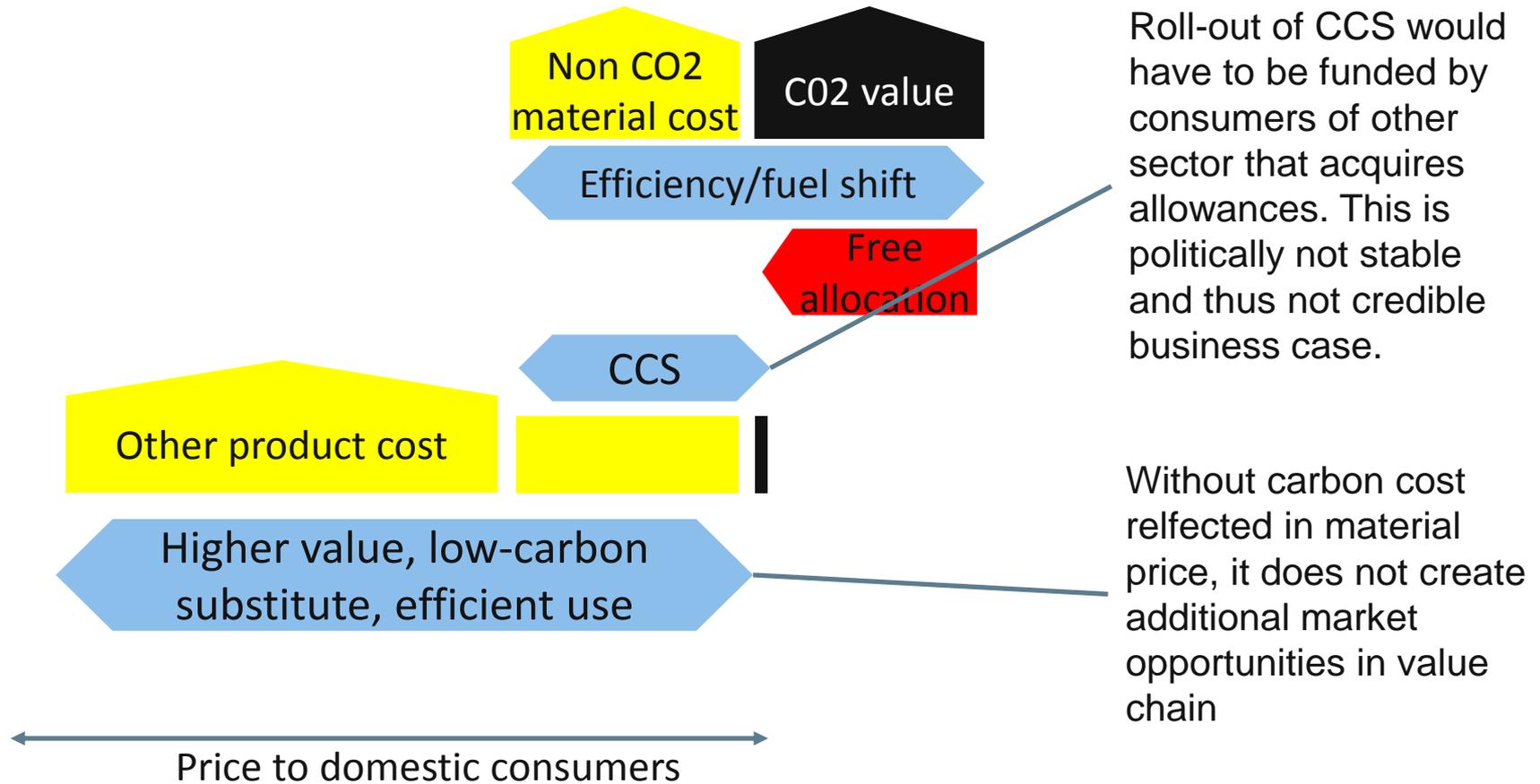
## 2 What is the economic effect of output based allocation?



Carbon costs are not reflected in prices of intermediate and final goods – other than for carbon intensity above allocation.

# 2

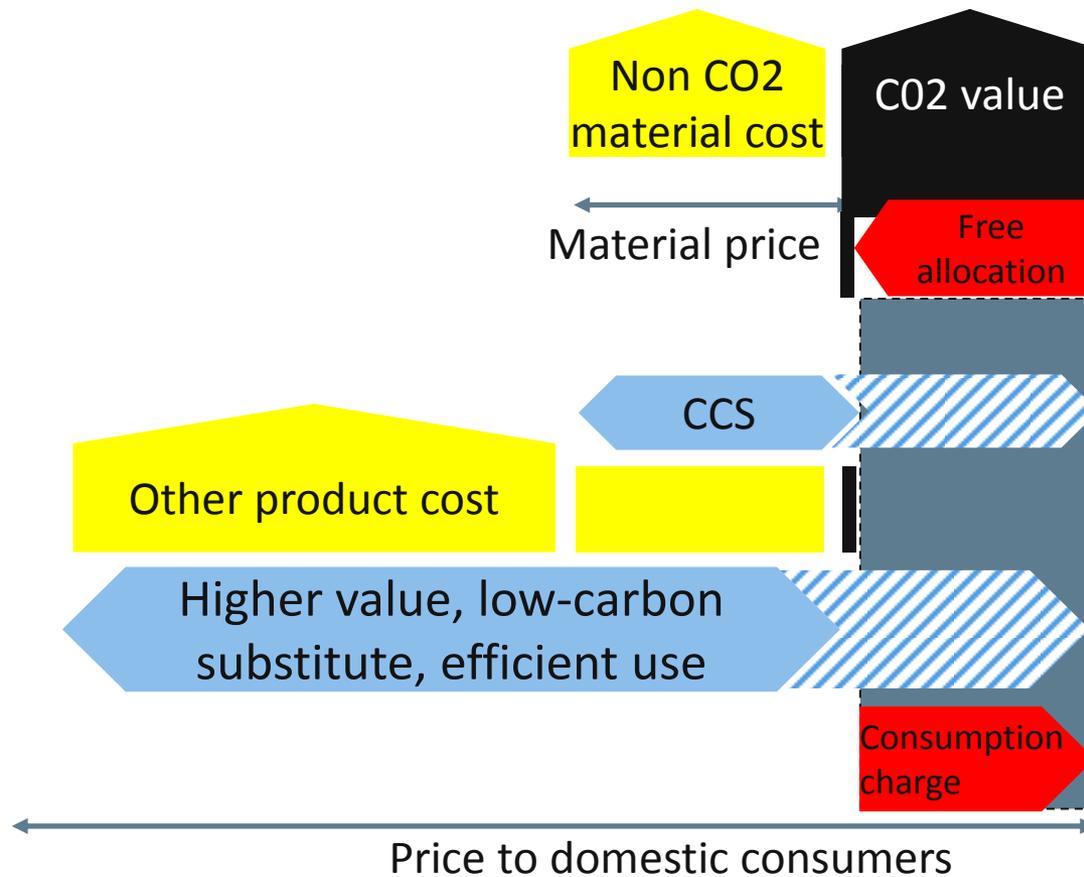
## Leakage protection with (dynamic) free allocation:



Incentives for mitigation other than for upstream efficiency are largely eliminated.

3

# Solution: Inclusion of consumption in ETS to complement dynamic free allocation



Thus ET can deliver the full incentives for all mitigation opportunities.

- Create liability with production in/import to territory
  - Measured in tons of steel, clinker .. (not steel type)
  - Embodied in imports (e.g. steel in cars above threshold)
- Trace liability with movement of material
  - Analogous to EMCS (Excise movement & control system)
  - Electronic reporting to national authority by both parties ensures correct transfer of liability
  - Liability vanishes with export from territory
- Levy charged with release for domestic consumption
  - At primary production benchmark \* ET allowance price
  - To national trust fund for climate action

- Without inclusion of consumption no incentives for mitigation in value chain
- Creates uncertainty about additional regulation in future to address short-coming

Example: Reducing free allocation in EU ETS

- to retain some incentives for abatement in value chain
- to secure auction revenue to fund climate action.
- Can be avoided with inclusion of consumption
  - full incentives across the value chain
  - recovers value forgone at auctions due to free allocation

- It is part of ET to deliver incentives towards environmental objective
- Charge is linked to carbon (bearing component) of product
- Revenue used to pursue climate action that was supposed to be funded with (forgone) auction revenue under ET
- Some revenue used to retire allowances to compensate for net-imports of carbon embodied in trade
- Level of charge based on ET allowance price
- Charge instead of obligation to surrender allowances for ease of administration

## **WTO perspective**

- Charge for final consumer irrespective of origin and process
- If implemented without discriminatory components not WTO relevant

## **Climate policy perspective**

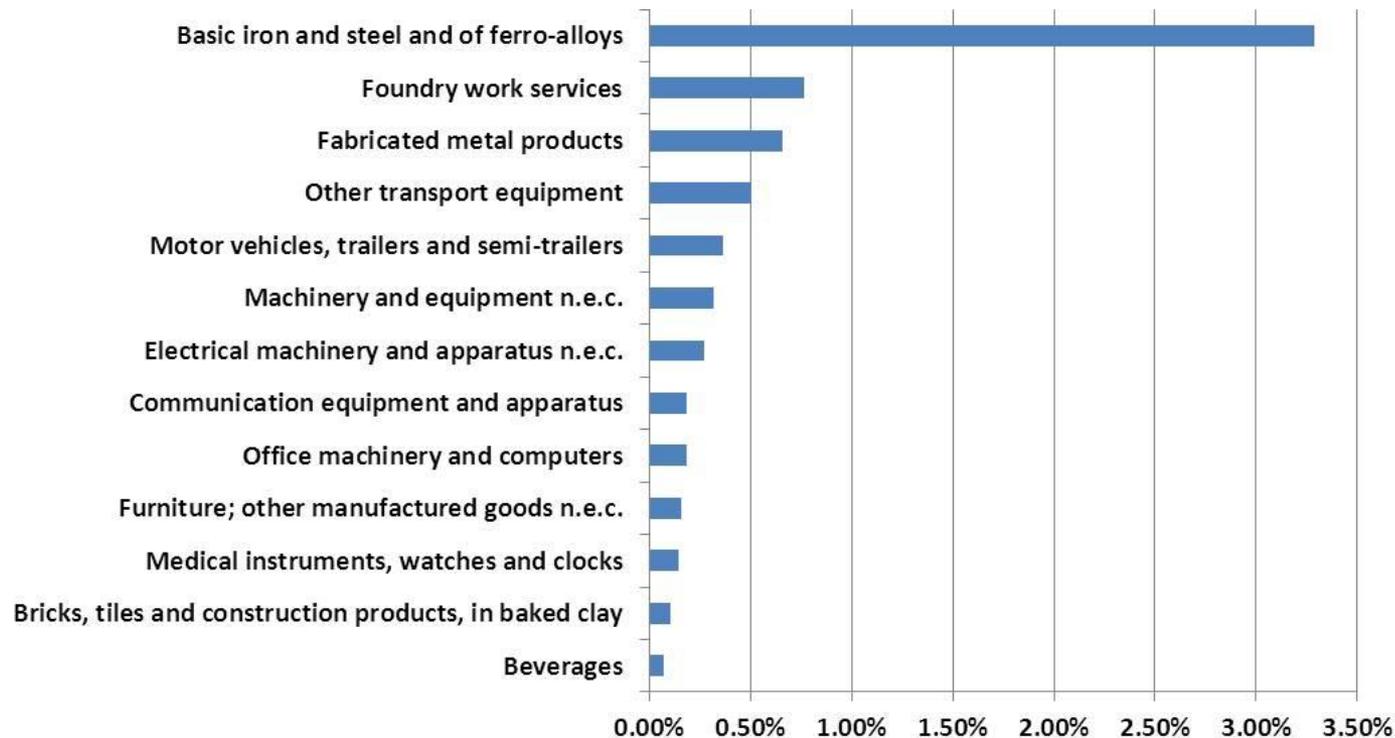
- Directly reflects aim to reduce consumption of CO<sub>2</sub>
- Paid by consumers not at border

## **Needs to be early discussed with international partners**

- to understand common challenge
- to identify possible aspects for coordination/cooperation



- Domestic: self-selection whether or not to handle material (containing products) under levy suspension arrangements
- Imports if pre-defined categories of Standard International Trade Classification (SITC) or at self reported or at average level



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