

# The benefits of a tiered free allocation system

ENVI shadow rapporteurs meeting

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# Tiering offers three main benefits

1. Avoids windfall profits and makes polluters pay.
2. Protects acutely exposed best performers from undue costs.
3. Tightens supply, supports the carbon price, and enables higher ambition.

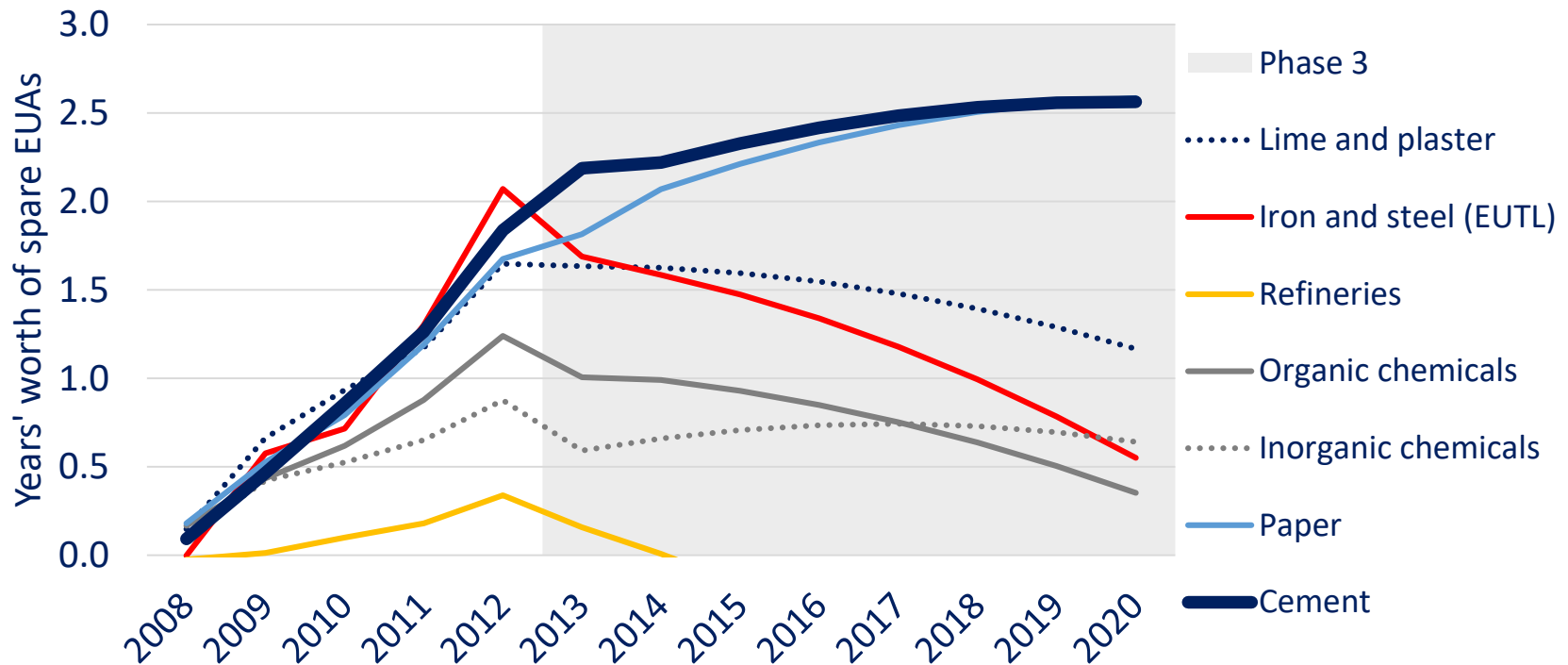
# October 2014 Council Conclusions

¶2.4 [...] The consideration to [...] *avoid windfall profits* will be taken into account.

¶2.4 [...] In order to maintain international competitiveness, the most efficient installations in these sectors *should not face undue costs leading to carbon leakage*.

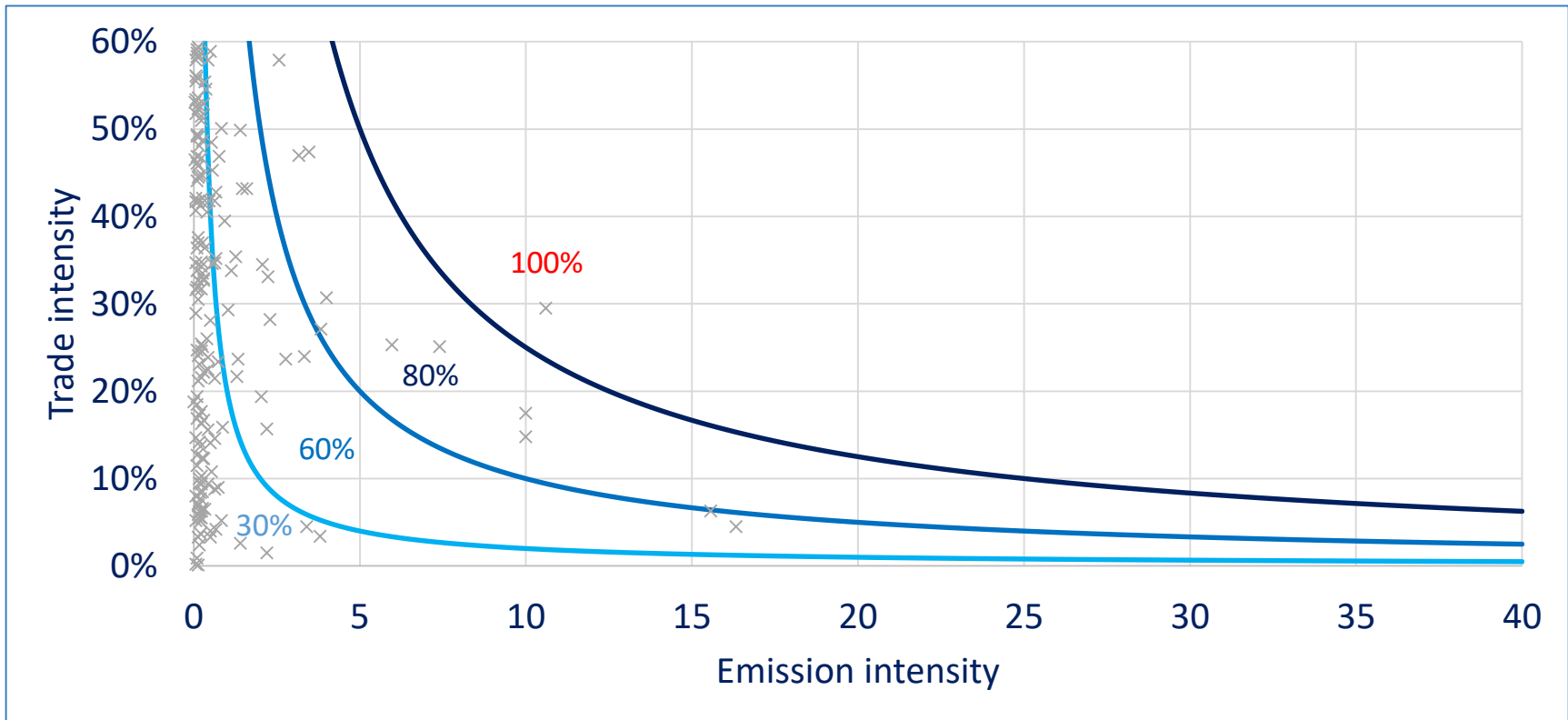
¶2. The European Council endorsed a binding EU target of an *at least 40%* domestic reduction in greenhouse gas emissions by 2030 compared to 1990.

# Current rules have led to over-allocation and windfall profits



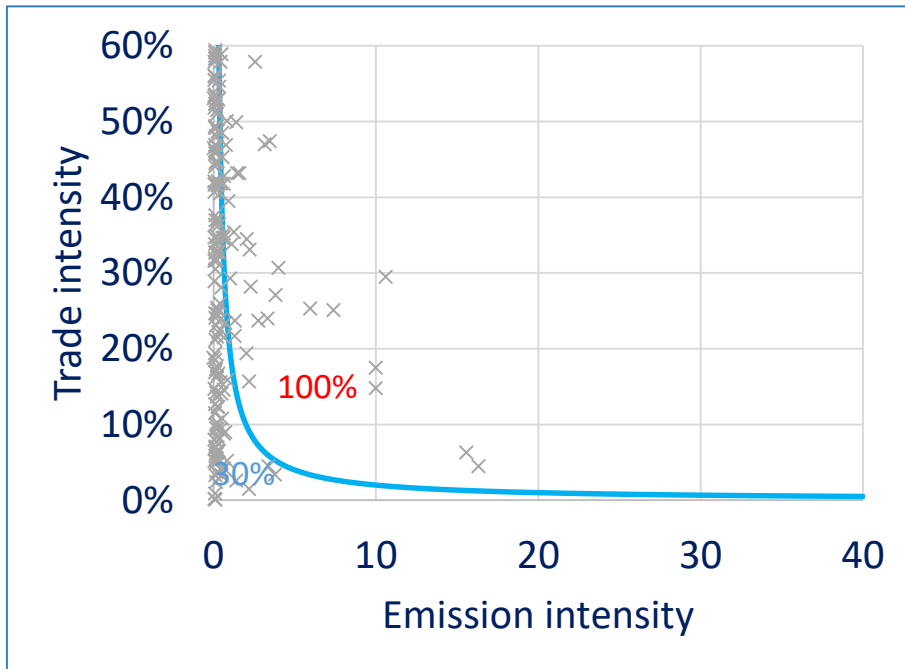
Source: EUTL (Sandbag calculations). Note: Future emissions flat at 2014 levels.

# The Commission's tiered option vs. the Commission's published proposal

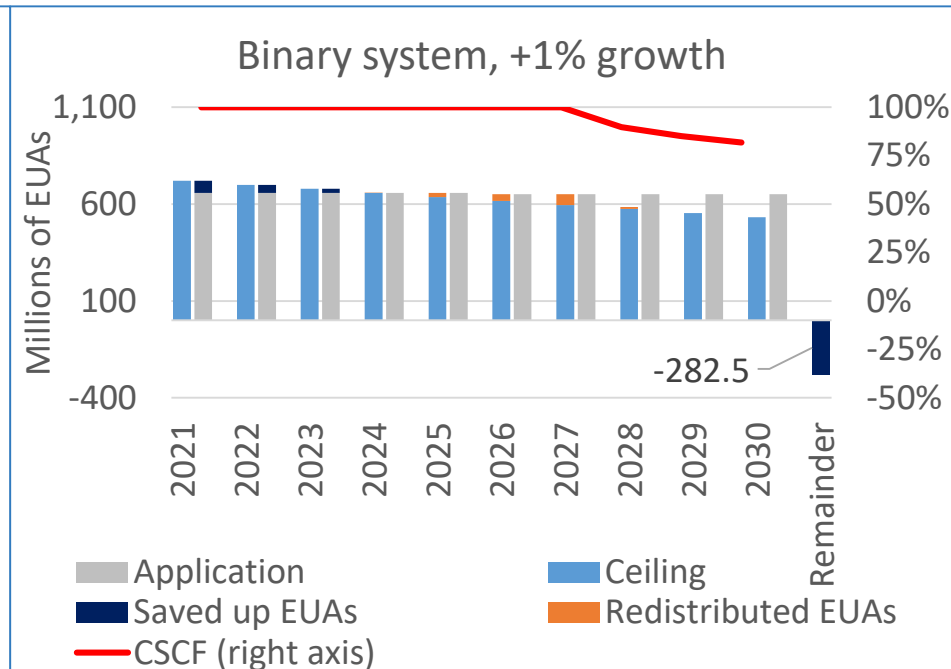


Source: European Commission (unmarked document, Sandbag calculations).

# A binary carbon leakage system is likely to trigger a correction factor

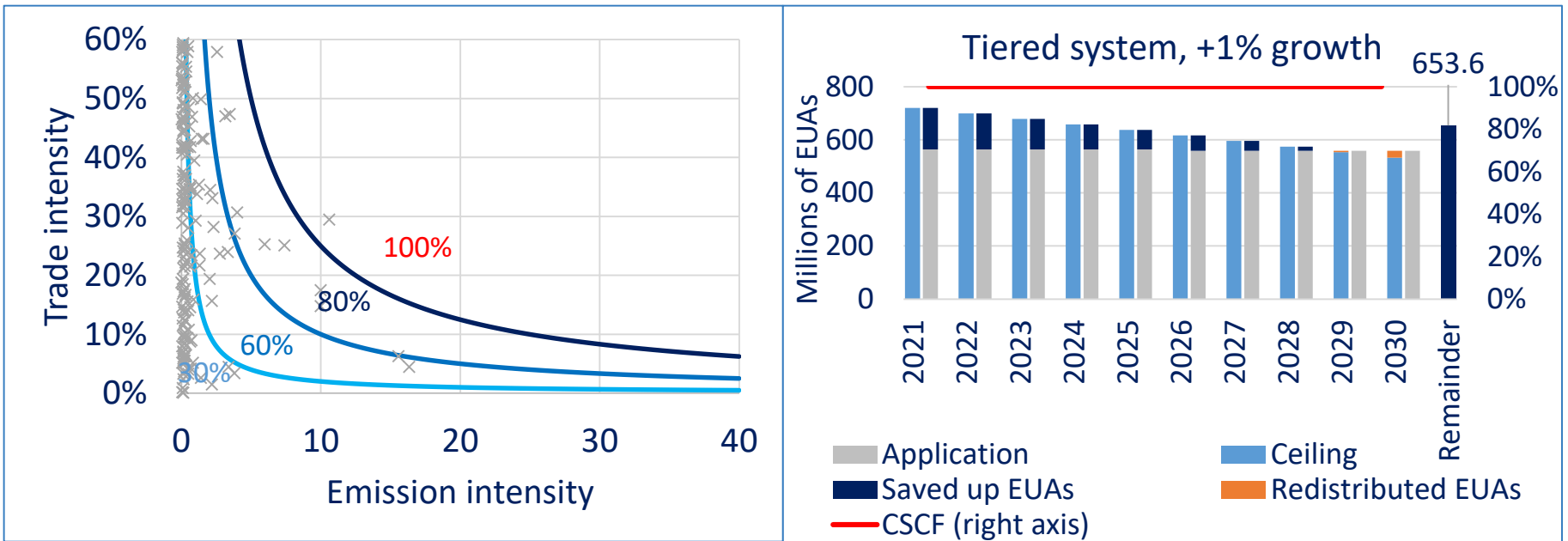


Source: European Commission (unmarked document, Sandbag calculations).



Source: EUTL (Sandbag calculations).

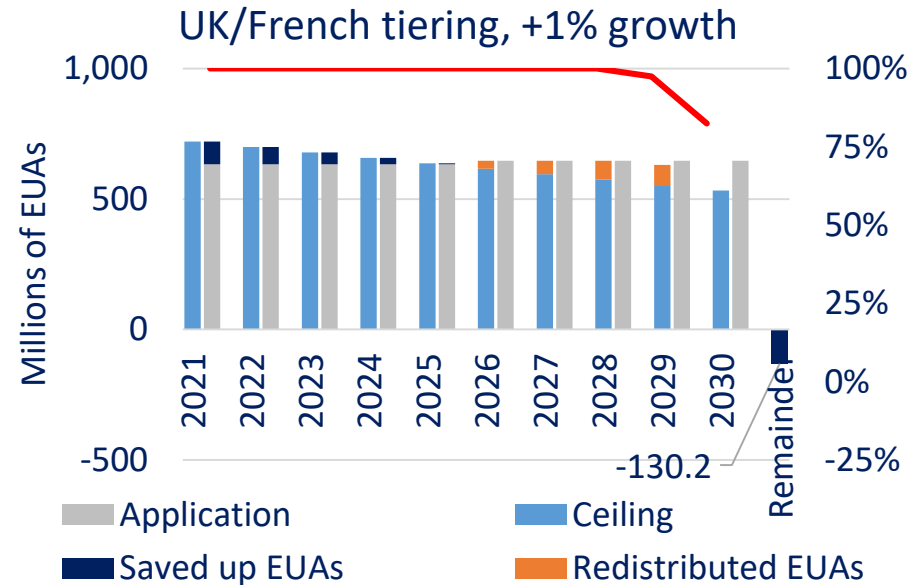
# A tiered system avoids the correction factor by a significant margin



Source: European Commission (unmarked document, Sandbag calculations).

# The UK/French tiering approach is over-optimized against the CSCF

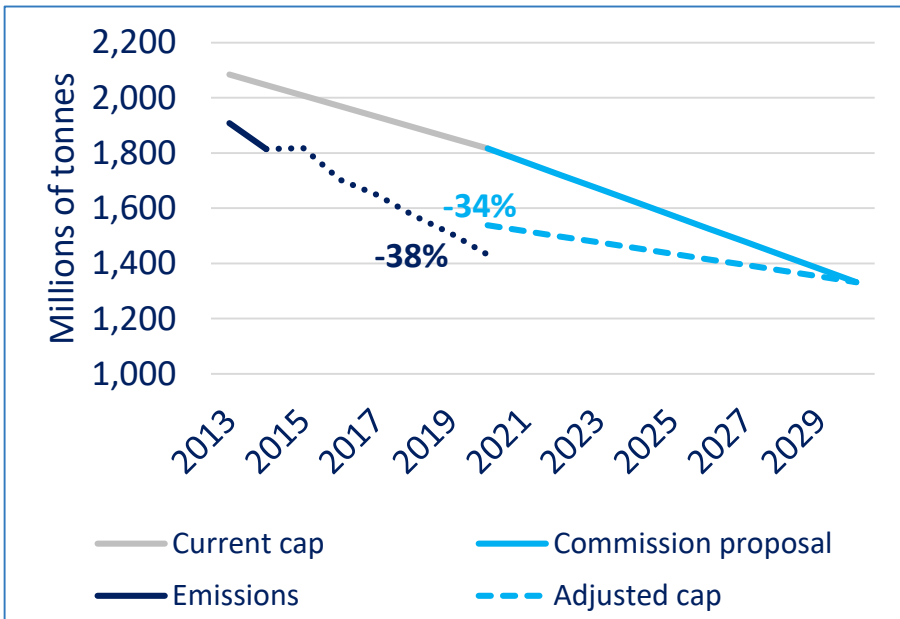
Sectors bumped up	Sectors losing slightly
Refineries	Cement
Organic chemicals	Petroleum extraction
Inorganic chemicals	Pulp and paper
Ceramics	Sugar
Lime and plaster	Various glass sectors
	Various non-ferrous metal sectors
Sectors losing a lot	
Every sector not leakage exposed during the 2015-19 period.	



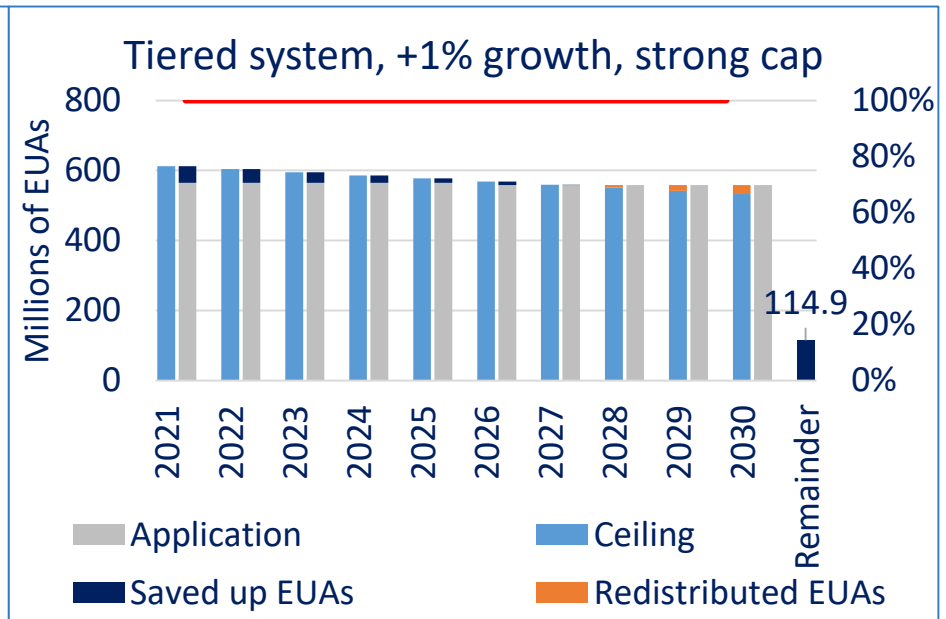
Source: EUTL (Sandbag calculations).



# Tiering enables the EU to be more environmentally ambitious



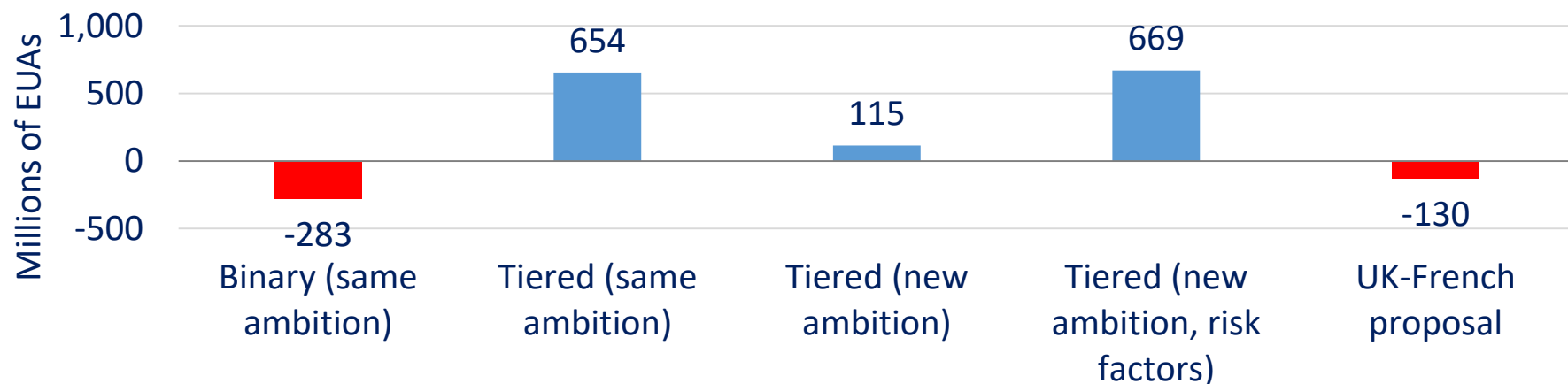
Source: Directive 2003/87/EC, European Commission SWD (2015) 135 final. (Sandbag calculations).



Source: EUTL (Sandbag calculations).

# Comparison of different options

Are there enough allowances to give everybody as much as they need (+1% growth)?



Source: EUTL (Sandbag calculations).

Thank you.

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