EU could lose Eur7 bil/year from free carbon allowances: UK group

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European Union taxpayers could lose out on up to Eur7 billion ($8.8 billion) a year under current European Commission plans to give free carbon allowances to polluting companies after 2012, the UK's Centre for Economic Performance said Monday. Taxpayers would lose the money to European industry lobby groups, because many sectors incorrectly deemed at risk of "carbon leakage" will continue to receive free EU Allowances while other sectors will have to buy them at auction, according to a study by CEP, which is part of the London School of Economics. The free allocation of EUAs to these sectors would mean governments miss out on revenue that would otherwise be earned through auctioning them. The research group said fears that industrial plants regulated by the EU Emissions Trading System would close or relocate overseas to avoid paying the cost of carbon in Europe were "typically overblown." "Evidence from interviews with almost 800 managers in Europe shows that most industry sectors that will still be entitled to free emission permits would not face an increased risk of closure or relocation outside of the EU if they had to pay for permits," said CEP in a statement Monday. "Yet industry is successfully exploiting concerns about competitiveness to obtain free emissions permits according to criteria that are too lax," it warned. The study focused on managers at companies in Germany, the UK, France, Belgium, Poland and Hungary. The concerns about carbon leakage relate to the EU ETS Phase III period, which runs from 2013 to 2020. The main change to be implemented in Phase III is a massive switch away from free allocation of allowances in favor of government auctioning, but with free allocation continuing for sectors thought to be at risk. "According to this study, there is still a window of opportunity for European governments to improve the design of the ETS by removing these exemptions, which would raise additional income of Eur7 billion annually," it said. CEP said rather than providing an unspecific subsidy for industry, the revenues from EU Allowance auctions could be earmarked to finance investments and R&D that is "crucial for the transition to a low-carbon economy." "It could equally be used to mitigate the possibly regressive effects of higher carbon prices on low-income groups. Finally, it could help to balance strained government budgets in the wake of the recent financial crisis," it said. CEP said 147 sectors out of 258 manufacturing sectors under consideration will continue to be eligible for free EUAs, under the EC's plans, which were based on "flawed assessment criteria," it said. The study found that under the EC's plans, some sectors would qualify for free EUAs "that are not at all at risk of downsizing or carbon leakage." "Free permit allocation in this instance is simply a transfer of taxpayers' money to industry without any additional social benefit." This money should be reclaimed, the researchers conclude, and they propose a simple modification of the Commission's criteria for free permit allocation which could save European taxpayers at least Eur7 billion annually. The CEP study echoes similar findings by UK group Climate Strategies which was recently asked to look into carbon leakage by the Greens in the EU Parliament. It said the threat of carbon leakage was being "seriously exaggerated." --Frank Watson, frank_watson@platts.com Similar stories appear in Emissions Daily. See more information at http://www.platts.com/Products.aspx?xmlFile=emissionsdaily.xml