

# Emissions embodied in international trade: an application to the French case

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## 1 Introduction

Environmental progress achieved by a country depends on the scope given to the greenhouse gas (GHG) emissions inventory. In United Nations Framework Convention on Climate Change (UNFCCC) territorial-based inventories, the emissions embodied in international trade are not assessed while they warn about carbon leakage and represents a lever to understand competitiveness concerns.

The assessment of emissions incorporated in international trade remains unpopular for stakeholders because there are uncertainties about their use in policy actions, and because they also minimize the effort done for emission reductions. Beside political consideration, these estimates are not obvious. In the literature, different methods exist to evaluate alternative emissions inventories. However, methods are data-intensive and models mainly rely on existing global databases with balanced bilateral trade flows. The control of these databases and the articulation with country-scale prospective models remain difficult.

The aim of this paper is to propose a single-region method to account CO<sub>2</sub> emissions with different perspectives of inventories, moving them from a production-based to a consumption-based point of view. To do so, the method also assesses emissions embodied by its external

trade while taking into consideration major specificity of partner countries. Furthermore, for each inventories, sectors that drive emissions, and thus that represent a lever for environmental efforts, are identified. The technique relies on hybrid national-scale data to then be articulated with a prospective general equilibrium model.

The procedure is applied as a study case to France (2010) which energy transition law now provides for territorial emissions reduction targets without increasing embodied emissions in its imports. The results show that the differences between French CO<sub>2</sub> emission inventories, taking or not into account emissions embodied in international trade, are not substantial. It also appears that if France had produced its own imports, it would have caused fewer CO<sub>2</sub> emissions. Finally, assessing different accounting system of CO<sub>2</sub> emissions lead to different sectoral distribution although results are sensitive to the level of initial description.

The paper is structured as follows. Section 2 addresses a review of existing approaches for accounting emissions with a consumption point of view. Section 3 proposes a method for a single country relying on previous hybrid data work. Section 4 is an application of the method on France (2010) and discusses French emissions inventories with different point of views. Section 5 concludes.

## 2 Review of main approaches

Since UNFCCC creation, signatory countries have to establish regular national inventories of emissions which are used for the commitment to GHG reductions under Kyoto Protocol. The geographic boundary of these inventories corresponds to “*general greenhouse gas emissions and removals taking place within national territory and offshore areas over which the country has jurisdiction*” (IPCC, 2006). Thus, there are *territorial-based inventories* that rely on technologies used within territories to quantify the amount of emissions.

However, it appears that such inventories give biased information on the responsibility of a country in global emissions. Indeed, countries satisfy their consumptions not only thanks to their production, but also thanks to their imports. Thus, a significant share of global emissions transit through the international trade embodied in the form of products or services - 26% of CO<sub>2</sub> global emissions in 2008 (Peters et al., 2011). In a globalisation context, this share tends to increase, and it becomes important to take into account the role of international trade in emissions to evaluate effectiveness of environmental measures and to design global sustainable actions. Thus, alternative emissions inventories, which connect production to consumption between regions, emerge from studies and are generally identified as *consumption-based inventories* or *carbon footprint*. These inventories give new opportunities to well analyze the risk of carbon leakage and competitiveness issues under unilateral climate policies, but

their estimates are not straightforward. Indeed, they are no direct quantification for those emissions which involve more complex calculations than the territorial-based inventories. A large number of analyses with slightly different methods account for consumption-based emissions (Sato, 2013). They rely mainly on two types of approaches: the "top-down" approach, and the "bottom-up" approach.

### **The "bottom-up" approach**

It essentially corresponds to the lifecycle assessment (LCA), which estimates the environmental "footprint" of products or services by accounting the carbon emitted during their production processes, their distributions, and also their uses and their recycling or destructions (Hertwich, 2005). LCA describes a wide scale of different products, and thus it embarks very specific technologies. The counterpart of this precise description is that LCA requires a large amount of input data. Furthermore, with LCA approach, it remains difficult to link economies between each other and thus to quantify the role of international trade in emissions.

Hence, this approach is not the main focus of the review since our aim is to focus on the role of imports in emissions for a given country in a global economic framework.

### **The "top-down" approach**

It is mainly based in Input-Output analysis (IOA), which no more involves a product-specific description but gives an economic-compatible description since it relies on Input-Output table (IOT).

As a first step, this approach requires *production-based inventories* consistent with System of National Accounts (SNA) description, and that provide the assessment of emissions from monetary flows. To do so, each purchase of energy is associated with a quantity of emissions. Hence, these emissions are allocated to different economic sectors corresponding to the IOT nomenclature. In national emissions inventories under the UNFCCC, the assessment is more based on direct measures or energy statistics. and its nomenclature is then origin-emission-oriented. Beyond nomenclatures differences, Peters and Hertwich (2008) emphasizes that "*production-based inventory is related to, but different from the IPCC definition*", and results in a conversion of "technological-based" inventories. Official statistic agencies have made some efforts to develop environmental extended IOTs compatible with the economic nomenclature, as for the European NAMEA accounts <sup>1</sup> (United Nations et al., 2003; Moll et al., 2007).

The second step of this approach consists in a reallocation of the production-based inventories to the *consumption-based inventories* by using the IOA technique, as illustrated in figure 1. The consumption-based inventory is "conceptually" equivalent to the carbon footprint, since "*the consumption-based approach considers the environmental pressures arising from a product it can*

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<sup>1</sup>NAMEA is part of the European environmental accounting program conducted by Eurostat.

be considered as a generalization of life-cycle assessment to the aggregated consumption of a country” (Peters and Hertwich, 2008).

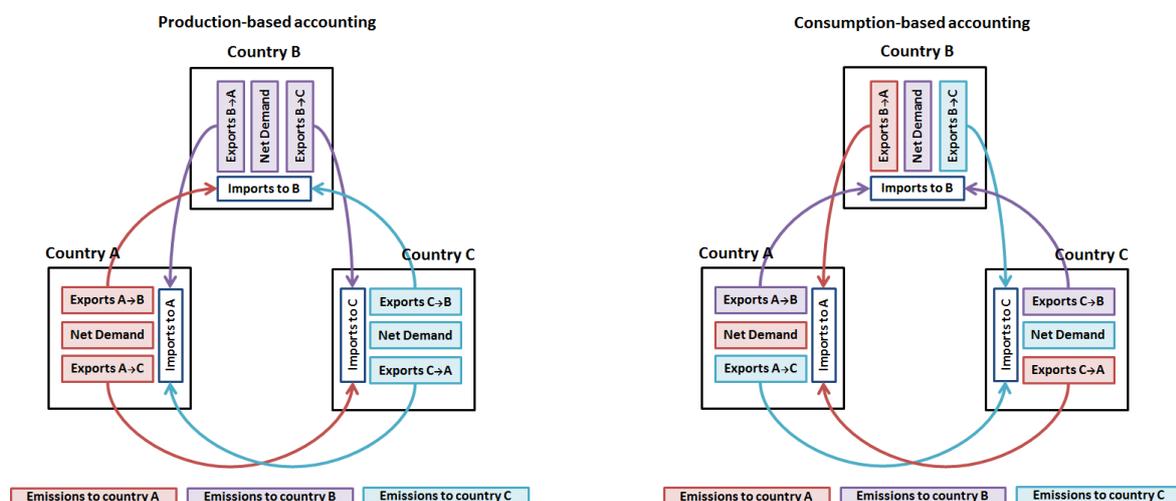


Figure 1 – Overview of the production-based and consumption-based accounting system for emissions

At this stage, the differences between methods are twofold and link by data requirements: (i) the geographical and sectoral scale used, and (ii) the precise technique of IOAs conducted. Most of studies are lead at the global scale, and thus rely on global balanced database such as GTAP (Bureau and Mougeot, 2004), but they are limited by the sectoral level of the database used, whose granularity of industries may be inadequate depending on the purpose of the study (Caron, 2012). Regarding the technique of IOAs, there two main methodologies to assess consumption-based inventories, and so emissions embodied in trade:

- **The embodied emissions in bilateral trade (EEBT)** analysis describes all trade between each countries represented within the modeling system. Distinct emission intensity factors are given to all international flows according to their origin and their specific production systems. It gives the emissions induced by the total domestic consumption (households, government, and investment), and also assesses the emissions embodied in imports and exports. The main assumption here is that international flows go directly to final consumption (households, government, and investment).
- **The multi-regional input-output (MRIO)** analysis is more complex but similar than the EEBT analysis. Indeed, in this case, international flows are split between final consumption and intermediate consumption. The international flows for intermediate consumption are then reprocessed to the production of goods within another territory, and so the emissions intensity factors given to those flows are different. This approach captures all the feedback effects of imports that are re-exported - in theory (Sato, 2013).

Both of these approaches required global database well balanced for all international flows. Such database is more and more developed. However, data control and uncertainties are difficult to assess. Weber (2008) mentioned that MRIO is a “minefield”. Sato (2013) discusses the lack of methodological transparency of those models.

Relying on what exists in terms of methods to set consumption-based inventories, we have to go a little beyond regarding some aspects, and relax other assumptions not necessary for our studies. Approaches described are based on historical dataset, and give descriptive analysis. Alone, they do not allow to understanding the relationship between: (i) climate policy options, (ii) emission reductions depending on accounting methods, (iii) possible changes in production systems, and (iv) international trade and competitiveness issues. However each of its aspects are closely linked. Thus, next section proposes a single-region method relying on hybrid data work to embark the level of description required for the aim of study, and that can further be articulated with prospective exercises at regional scale.

### **3 A method for a single region**

As the study mainly focus on one region, we do not seek to quantify emissions through "closed-loop" models, like MRIO or EEBT models do. Such models require a significant amount of information harmonized at the global level. Even if global databases exist to easily build such a model, our aim is to develop a method that relies on the hybrid work of IOT (citepLefevre2014), to be consistent with the overall objectives of regional analysis and prospective studies.

Thereby, this section describes an IOA method around the hybrid IOT of France (see appendix A in section 6) to estimate emissions embodied in its imports while incorporating sufficient information on the main French trading partners. The procedure is drawn from Pasquier (2010) works which it calls himself a "multi-regional and unilateral" Input-Output (IO) method (Lenglart and Pasquier, 2010). Besides domestic economic data, the method also requires extra information on technical coefficients of French partners as well as CO<sub>2</sub> intensity of their production. It also needs to identify the uses of imports within the French economy represented by the hybrid IOT. The large framework of the procedure and data sources are given in figure 2. Thus, to allocate emissions to different components of the economy, we must follow some steps. First, we distinguish imported goods into uses of the hybrid IOT. We describe this in the sub-section 3.1. With the resulting input-output accounting system, we allocate national emissions to final demand. We explain this calculation in the sub-section 3.2. Finally, with assumptions on the French partners for imports, we formulate the embodied emissions in imports (sub-section 3.3).

The method proposed here is present with French perspectives. However, as the hy-

bridization procedure, this method can be easily applied to other countries or regions. This is a simplified description of embodied emissions in trade or consumption but that remains sufficient in the studies we conduct.

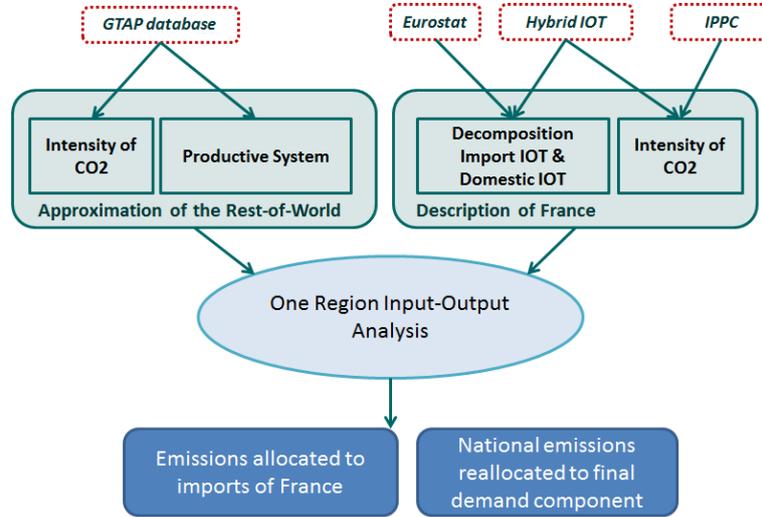


Figure 2 – General framework of the developed method

### 3.1 Description of the use of imports

The hybrid monetary IOT can be synthesized in the form of several matrix blocks as shown in figure 3a.

$IC$  is the square matrix of intermediate consumptions, whose size depends on the sectoral granularity to describe the economy. The matrix  $FC$  is composed by the vectors of final consumption (households consumption  $C$ , government  $G$ , investment  $I$ , and exports  $X$ ).  $VA$  is the matrix of the value-added components.  $Y$  is the outputs at basic price<sup>2</sup>, and corresponds, for a given sector, to the sum of its intermediate consumptions and the value-added.  $M$  describes imports expressed in free on board (FOB) price.  $MARG$  is a matrix composed by the trade margins  $CM$  vector, and the transport margins  $TM$  vector. The matrix  $TAX$  describes the fiscal revenues: from the tax on energy products  $T_{EnT}$  ( $T_{EnT_{FC}}$  for the revenues from final consumption, and  $T_{EnT_{IC}}$  for the revenues from intermediate consumption), the value-added tax  $T_{VAT}$ , and the excise taxes other than the energy product tax  $T_{OPT}$ .  $MARG$  and  $TAX$  are revenues either from domestic production and imports.

In this global IOT framework,  $IC$ ,  $FC$ ,  $MARG$ , and  $TAX$  do not distinguish the origin of the transaction: domestic or imported. The imports  $M$  are represented without details on their uses in the economy. Thus, the first steep is to decompose the IOT between import and

<sup>2</sup>The basic price is the amount received by the producer less the taxes on the products and plus any subsidies on the products. The purchase price is the amount paid by the purchaser, including taxes and excluding subsidies.

domestic purchases as described in figure 3b. The  $^{imp}$  exponent is given to the purchases related to imports while the  $^{dom}$  exponent is related to purchases from the domestic productions.

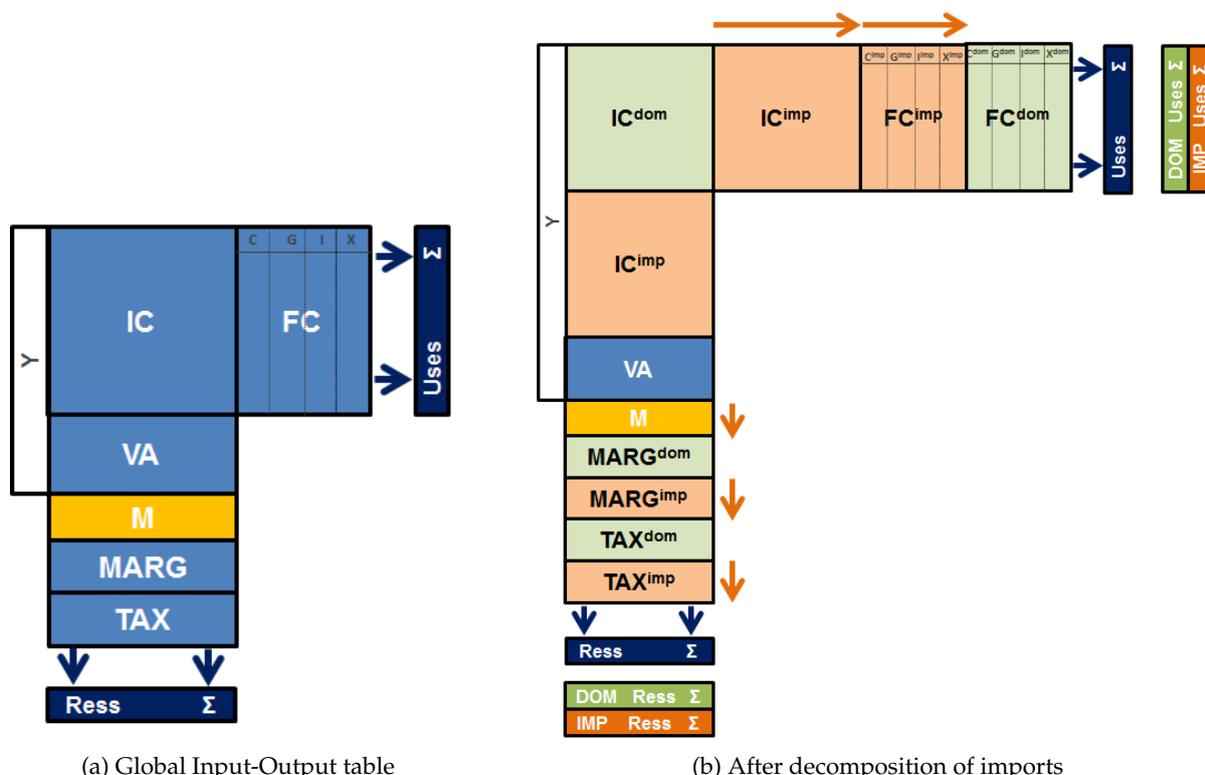


Figure 3 – Components and notations of the Input-Output table

The decomposition process may respect two basic balances :

- A) The import resources must balance the import uses.
- B) Domestic and import purchases must be consistent with the aggregated purchase given in IOT. For the sake of clarity, we sum-up this balance to a unique equation represented by the transaction  $Z$  which can either be  $IC$ ,  $FC$ ,  $MARG$  or  $TAX$ .

Thus, these balances are formulated as follows:

$$A) \quad M + MARG^{imp} + TAX^{imp} = \sum_{row} IC^{imp} + \sum_{row} FC^{imp} \quad ^3 \quad (1)$$

$$B) \quad Z = Z^{dom} + Z^{imp} \quad (2)$$

<sup>3</sup>The operator noted as  $\sum_{row}$  returns the sum of a matrix along the row dimension, giving as a result a row vector. Symmetrically, in the following, the operator noted as  $\sum_{col}$  returns the sum of a matrix along the column dimension, giving as a result a column vector.

### Decomposition of intermediate and final consumption

In order to disaggregate flows in the hybrid IOT, we use additional information from Eurostat that provides symmetric input-output tables showing the use of imports. Thanks to this database, we assess for each goods purchases the proportion of imports in each one its uses - either for intermediate consumption ( $\tau^{IC^{imp}}$ ) or final consumption ( $\tau^{FC^{imp}}$ )<sup>4</sup>.

Then, the assessment of these rates is used to define intermediate and final consumption of imported goods in the hybrid IOT as follows:

$$IC^{imp} = \tau^{IC^{imp}} \cdot IC \quad 5 \quad (3)$$

$$FC^{imp} = \tau^{FC^{imp}} \cdot FC \quad (4)$$

As Eurostat dataset are not available at purchase price, we do not have the information required on taxation or margins to distinguish the share related to imports. So, to disaggregate these components of the IOT, some assumptions are made.

### Decomposition of margins and revenues from taxes on intermediate consumption

Regarding the margins components  $MARG^{imp}$ , transport and trade margins from imports ( $TM^{imp}$  and  $CM^{imp}$ ) are assessed in proportion of the weight of imports within net resources (the amount of output  $Y$  and imports  $M$ ). The same assumption is used to assess revenues of taxes on intermediate consumptions from imports :

$$Z^{imp} = Z \cdot [M / (M + Y)] \quad 6 \quad (5)$$

where  $Z$  can be either  $TM^{imp}$ ,  $CM^{imp}$ ,  $T_{EnTIC}^{imp}$ , or  $T_{OPT}^{imp}$ .

Implicitly, we assume that the margins rate and the intermediate consumption tax rate are the same for imported and domestically produced goods.

### Decomposition of revenues from taxes on final consumption

Regarding revenues of taxes on final consumption from imports, we suppose that they are in proportion the weight of final consumption from imports within total final consumption. So,

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<sup>4</sup>The Eurostat IOT are symmetric tables in the sense that they are product-by-product tables at basic prices. The hybrid IOT developed is at purchase prices since policy analyses carried out with it require the description of tax revenues. Thus, to keep consistency, we convert domestic and imports tables from Eurostat at the purchase price. So,  $IC_{Eurostat}$ ,  $FC_{Eurostat}$ ,  $IC_{Eurostat}^{imp}$  and  $FC_{Eurostat}^{imp}$  are at purchase prices and are resulting from author's calculations, based on original IOT of Eurostat

<sup>5</sup>The operator noted as " $\cdot$ " means a multiplication, term by term, of two vectors or matrices, with at least a dimension equal.

<sup>6</sup>The operator noted as "/" means a division, term by term, of two vectors or matrices, with at least an equal dimension.

we formulate :

$$Z^{imp} = Z \cdot [(C^{imp} + G^{imp} + I^{imp} + X^{imp}) / (C + G + I + X)] \quad (6)$$

where  $Z$  can be either  $T_{VAT}^{imp}$  or  $T_{EnT_{FC}}^{imp}$ .

### Adjustment for imports balance

However, the previous assumptions do not ensure the total market balance for imports described in equation 1 at first try. Because there are differences between Eurostat IOT, that we convert at purchase prices, and the hybrid IOT we developed, we need to introduce a  $\delta$  parameter to restore imports balance.

The  $\delta$  parameter is an adjustment variable of the share of imports in intermediate and final consumption from Eurostat as follows:

$$\hat{\tau}^{IC^{imp}} = \delta \cdot \tau_{Eurostat}^{IC^{imp}} \text{ and } \hat{\tau}^{FC^{imp}} = \delta \cdot \tau_{Eurostat}^{FC^{imp}} \text{ with } \delta \in [0, 1].$$

There is only a unique set of  $\delta$  parameter that balances the resources and uses of imports (equation 1) <sup>7</sup>. Concretely, we adapt the information drawn from Eurostat to keep the aggregated information contained in the hybrid IOT.

Thereby, in describing all components, we get the following equality:

$$M + \underbrace{CM^{imp} + TM^{imp}}_{MARG^{imp}} + \underbrace{T_{EnT_{IC}}^{imp} + T_{EnT_{FC}}^{imp} + T_{OPT}^{imp} + T_{VAT}^{imp}}_{TAX^{imp}} = \sum_{row} IC^{imp} + \underbrace{C^{imp} + G^{imp} + I^{imp} + X^{imp}}_{FC^{imp}} \quad (7)$$

For the following, we set  $\hat{M}$ , the value of imports at purchase price as:

$$\hat{M} = M + CM^{imp} + TM^{imp} + T_{EnT_{IC}}^{imp} + T_{EnT_{FC}}^{imp} + T_{OPT}^{imp} + T_{VAT}^{imp}$$

### Description of domestic and imports balances

Therefore, since domestic and imports uses are consistent (equation 2), the "global" detailed balance of the hybrid IOT represented in figure 3a can be decomposed as follows :

$$Y + M + \underbrace{CM + TM}_{MARG} + \underbrace{T_{VAT} + T_{EnT_{IC}} + T_{EnT_{FC}} + T_{OPT}}_{TAX} = \sum_{row} IC + \underbrace{C + G + I + X}_{FC} \Leftrightarrow \quad (8)$$

$$\hat{Y} + \hat{M} = \sum_{row} IC^{dom} + \sum_{row} IC^{imp} + C^{dom} + C^{imp} + G^{dom} + G^{imp} + I^{dom} + I^{imp} + X^{dom} + X^{imp} \quad (9)$$

<sup>7</sup>The parameter  $\delta$  is set at 1 at first try.

where  $\hat{Y}$  is the value of outputs at purchase price :

$$\hat{Y} = CM^{dom} + TM^{dom} + T_{VAT}^{dom} + T_{EnT_{IC}}^{dom} + T_{EnT_{FC}}^{dom} + T_{OPT}^{dom}$$

Finally, the balance of IOT get in the equation 9 can be symplified by removing import balances given by the equation 7. To summarize, we thus obtain two market balances, for domestic and import purchases, formulated as follows:

$$\hat{Y} = \sum_{row} IC^{dom} + C^{dom} + G^{dom} + I^{dom} + X^{dom} \quad (10)$$

$$\hat{M} = \sum_{row} IC^{imp} + C^{imp} + G^{imp} + I^{imp} + X^{imp} \quad (11)$$

In literature of Input-Output analysis, studies are based on tables at basic prices. For the following, we make the assumption that developing this analysis for a single country using matrices at purchase prices does not affect substantially results.

### 3.2 Reallocation of national emissions to final demand

Through the decomposition of the input-output table, we now allocate national emissions to final demand components by using the Leontief input-output technique. This is equivalent to conversion of a territorial-based emissions inventory to a production-based emissions inventory.

From the matrices of intermediate consumption ( $IC^{dom}$  and  $IC^{imp}$ ) and the output  $\hat{Y}$ , the technical coefficients  $A^{dom}$  and  $A^{imp}$  are assessed:

$$A^{dom} = IC^{dom} / \hat{Y} \Leftrightarrow \sum_{row} IC^{dom} = A^{dom} \times \hat{Y} \quad (12)$$

$$A^{imp} = IC^{imp} / \hat{Y} \Leftrightarrow \sum_{row} IC^{imp} = A^{imp} \times \hat{Y} \quad (13)$$

These matrices identify the input proportions required to produce a unit of product. Thus, they represent direct interactions between industries.

Therefore, we can rearrange the equations 11 and 10 as follows:

$$\hat{Y} = (I - A^{dom})^{-1} \times [C^{dom} + G^{dom} + I^{dom} + X^{dom}] \quad (14)$$

$$\hat{M} = A^{imp} \times (I - A^{dom})^{-1} \times [C^{dom} + G^{dom} + I^{dom} + X^{dom}] + [C^{imp} + G^{imp} + I^{imp} + X^{imp}] \quad (15)$$

with  $I$  corresponds to the identity matrix.

The  $(I - A^{dom})^{-1}$  matrix represents the domestic Leontief matrix. It represents the total direct and indirect input requirements of any industry from an additional unit of final demand (Leontief, 1970) <sup>9</sup>.

To reallocate emissions to final demand, emissions intensities ( $F$ ) of each industry are required. This corresponds to the amount of  $CO_2$  emitted by spending one euro of final. This can directly be estimated using the hybrid energy IOT in tonne of oil equivalent (toe) and emission factors given in Intergovernmental Panel on Climate Change (IPCC) report (Gómez et al., 2006). First, the direct  $CO_2$  emissions is estimated from energy inputs of each sector  $CO2_{sec}^{dir}$ . Then, emissions intensities are defined as follows :

$$F = CO2_{sec}^{dir} / \hat{Y} \quad (16)$$

Finally, the reallocation of national  $CO_2$  emissions to final demand, for each industry, are deduced from equation 14 :

$$CO2_{FC} = F \times (I - A^{dom})^{-1} \times [ |C^{dom} + G^{dom} + I^{dom} + X^{dom}| ] \quad ^{10} \quad (17)$$

$CO2_{FC}$  is a vector with all sectors described within the economy.

The reallocation can be also done for each component of final demand:

$$CO2_C = F \times (I - A^{dom})^{-1} \times |C^{dom}| \quad (18)$$

$$CO2_G = F \times (I - A^{dom})^{-1} \times |G^{dom}| \quad (19)$$

$$CO2_I = F \times (I - A^{dom})^{-1} \times |I^{dom}| \quad (20)$$

$$CO2_X = F \times (I - A^{dom})^{-1} \times |X^{dom}| \quad (21)$$

We have perfect decomposition, so we have:  $CO2_{FC} = CO2_C + CO2_G + CO2_I + CO2_X$ .  
With the aim to distinguish production-based emissions and consumption-based emissions, we also define the emissions allocated to final demand net-of-exports :

$$CO2_{FC_{netX}} = CO2_C + CO2_G + CO2_I \quad (22)$$

<sup>8</sup> The exposant  $Z^{-1}$  designe the inversion of the matrix  $Z$ .

<sup>9</sup>The Leontief matrix can be developed as  $(I + A + A^2 + A^3 + \dots + A^{+\infty})$  to distinguish the direct and the indirect requirements.

<sup>10</sup>The operator noted as " $|$ " means a diagonalization of a vector.

### 3.3 Assessment of embodied emissions in imports

The previous sub-section gives domestic emissions induced by the production of one euro of domestic final demand. We now want to assess emissions embodied in the imports. Those emissions should account for direct emissions in a foreign country  $r$  from energy consumption of industries, but also indirect emissions occurring in the upstream process of industries within the region  $r$ , induced by the demand of imports. Thus, this calculation requires additional information on trade partners.

At this stage, information on the rest of the world are required. For each French's trade partner  $r$ , we need the sectoral emission intensities ( $F_r$ ), the technical coefficient matrix ( $A_r$ )<sup>11</sup>, and the share of imports from region  $r$  by industry. Then, the emissions embodied in French imports can be estimated by the sum of emissions occurring in each region  $r$  to satisfy French imports :

$$CO2_M = \sum_r [(F_r \times (I - A_r)^{-1}) \times |\hat{M}_r|] \quad (23)$$

with

$$\hat{M} = \sum_r \hat{M}_r \Leftrightarrow \hat{M} = \hat{M} \cdot \sum_r \tau_{M_r} \quad (24)$$

where the vector  $\tau_{M_r}$  represents the share of import from region  $r$  by industry ( $\sum_r \tau_{M_r} = 1$ ).

So, the equation 23 can be arranged as follows:

$$CO2_M = \underbrace{\sum_r [(F_r \times (I - A_r)^{-1}) \times \tau_{M_r}]}_{COEF_{RoW}} \times |\hat{M}| \quad (25)$$

where the necessary data on the rest of the world are gathered in a global coefficient noted  $COEF_{RoW}$ .

Finally, by replacing the imports in equation 25 by its expression given in equation 15 , we asses foreign emissions induced by national demand:

$$CO2_M = COEF_{RoW} \times [A^{imp} \times (I - A^{dom})^{-1} \times |(C^{dom} + G^{dom} + I^{dom} + X^{dom})| + |(C^{imp} + G^{imp} + I^{imp} + X^{imp})|] \quad (26)$$

This equation can be decomposed in two components :

<sup>11</sup>  $A_r$  is the matrix of technical coefficients for the region  $r$  without distinguishing the uses of imports.

- The emissions embodied in imports used for intermediate consumptions:

$$CO2_M^{IC} = COEF_{RoW} \times [A^{imp} \times (I - A^{dom})^{-1} \times |(C^{dom} + G^{dom} + I^{dom} + X^{dom})|] \quad (27)$$

- The emissions embodied in imports for direct domestic final consumptions:

$$CO2_M^{FC} = COEF_{RoW} \times [(C^{imp} + G^{imp} + I^{imp} + X^{imp})|] \quad (28)$$

We note that the emissions accounting in equation 28 include emissions induced by imports that are used for exports ( $X^{imp}$ ). However, these emissions are not necessary taken into account for the consumption-based inventories. They corresponds to emissions in foreign country for consumption in another foreign country. So, for not accounting these emissions, we define the emission embodied in imports, net of exports:

$$CO2_M^{FC_{netX}} = COEF_{RoW} \times [(C^{imp} + G^{imp} + I^{imp})|] \quad (29)$$

Finally, we settle the 'avoided emissions' by imports. They are fictional  $CO_2$  emissions that would have occurred within the territory, if imports had been produced locally. They are computed by using the domestic emissions intensities ( $F$ ) and the Leontief matrix of France ( $(I - A)^{-1}$ ):

$$CO2_M^{av} = F \times (I - A)^{-1} \times [A^{imp} \times (I - A^{dom})^{-1} \times |(C^{dom} + G^{dom} + I^{dom} + X^{dom})| + |(C^{imp} + G^{imp} + I^{imp} + X^{imp})|] \quad (30)$$

The procedure describe here for accounting embodied emissions in imports is not strictly "closed". Indeed, we only assess emissions occurring in foreign countries for satisfying intermediate and final consumption of France, but we do not assess emissions occurring for French exportations, that are used for intermediate consumption in the rest of the world, and then may be re-imported in France, like MRIO models do. The box below gives more details on the implicit assumption made here.

#### THE ASSUMPTION OF A "QUASI-CLOSED ECONOMY" FOR THE REST OF WORLD

The method defined differs from methods described in section 2. It is kind of "half way" between EEBT and MRIO models regarding what it accounts for embodied emissions in trade.

Indeed, the EEBT method accounts for emissions occurring in one region  $A$  to produce trade flows to a region  $B$  (that is to say: export from region  $A$  to region  $B$ ). However, the method does not describe where the flows go within region  $B$ : if there are for intermediate or final consumption. This is not the case in the method developed. In fact, the imports from the rest of the world are decomposed between intermediate and final consumption flows inside the French economy. However, regarding French exports to the rest of the world, we do not distinguish the share that goes to intermediate consumption from the share that goes to final consumption.

The MRIO method fully describes these flows. By not making this distinction, it implicitly amounts to considering that all export flows from France to the rest of the world are used for final consumption, and therefore are never then "re-imported" into France. We assume implicitly that the world is a "nearly-closed" economy.

Analytically, compared to a MRIO model, this amounts to fix the technical coefficients of imports to almost zero for each region  $r$  we take into account:  $A_r^{imp} \approx 0 \Rightarrow A_r \approx A_r^{dom}$ .

This may be justified by the size of the French economy compared to the rest of the world: France is a small country. Pasquier (2010) calls this method a "unilateral multi-regional" approach: "multi-regional" because specificities of major French trading partners are taken into account, "unilateral" because specific data of a given region  $r$  which exports to France are taken into account, although the origin of the imports of this same region  $r$  is not described, and therefore its specificities either.

## 4 CO<sub>2</sub> emissions inventories : application to France (2010)

The procedure described in section 3 is applied to the hybrid IOT.

To assess the rest of world coefficients  $COEF_{RoW}$ , we use the GTAP database using available specific information for the fifteen first French partner countries, and the rest of the world aggregated as one region. The fifteen countries has been identified thanks to Eurostat database and represent more than 70% of the total value of French imports in 2010. Values and ratios of French imports from those countries are given in table 1.

Because the naming of different indicators, and scopes of emissions inventories may slightly change from one publication to another, we remind the following terms:

2010 France	Imports in billion of Euros <sup>a</sup>	Ratio
Germany	79051.8	17%
China	37435.3	8%
Belgium	35933.5	8%
Italy	34801.2	8%
Spain	28314	6%
United States	26672.1	6%
UK	19841.9	4%
Netherlands	19262.2	4%
Russia	12205.7	3%
Swiss	10857.7	2%
Japan	8918.6	2%
Poland	6971.7	2%
Ireland	5886.2	1%
Sweden	5695.6	1%
Norway	4908	1%
Rest of the world	120103.2	26%
Total	456858.7	100%

<sup>a</sup>Source: Eurostat database

Table 1 – Major French trade partners for imports

- **National direct emissions of CO<sub>2</sub>**

They correspond to the emissions from territorial fossil fuel combustion. It can be assessed by using the energy hybrid iot (see appendix A in section 6).

National direct emissions of CO<sub>2</sub> are decomposed into:

- *Direct emissions of households* correspond to final energy use, mainly for transports and residential consumptions ( $CO2_{HH}^{dir}$ ).
- *Direct sectoral emissions* correspond to intermediate use of energy in production ( $CO2_{sec}^{dir}$ ).

- **Production-based emissions of CO<sub>2</sub>**

The total amount of production-based emissions is equivalent to that of national direct emissions. However, sectoral distribution is not the same. Indeed, in that case, the total amount of direct sectoral emissions are reallocated to the final demand components (households, government, capital formation, and exports).

Production-based emissions of CO<sub>2</sub> are decomposed into:

- *Direct emissions of households* as defined above.
- *Emissions allocated to final demand* correspond, for a given sector, to the emissions from the direct use of energy in proportion of its output that goes to final demand, and the 'indirect' emissions from other sectors' energy use that provide intermediate inputs ( $CO2_{FC}$ , equation 17).

- **Consumption-based emissions of CO<sub>2</sub>**

This accounting system is decomposed into:

- *Direct emissions of households* as defined above.
- *Emissions allocated to final demand net of exports* correspond to emissions allocated to final demand, as define above, but without taking into account emissions allocated to exports ( $CO2_{FC_{netX}}$ , equation 22).
- *Emissions embodied in imports* account for emissions occurring in foreign countries to satisfy domestic demand.

We distinguish emissions embodied in imports for intermediate uses ( $CO2_M^{IC}$ , equation 27) and emissions embodied in imports for final demand of imports, net of exports ( $CO2_M^{FC_{netX}}$ , equation 29).

Emissions embodied in imports are compared to fictional emissions if imports have been produced locally. It is a way to estimate the gain or loss of trade for the environment. We name these emissions as the '*avoided emissions*' ( $CO2_M^{av}$ , equation 30).

## 4.1 Global results

### National direct emissions of $CO_2$

The energy IOT (29 sectors) is combined with emission factors from the IPCC report (Gómez et al., 2006) to assess national direct emissions of  $CO_2$ . The evaluation, based on energy statistics, provides a sectoral and households allocations of direct emissions corresponding to economic classification. It is therefore consistent with 'official' inventory given by NAMEA accounts.

Thus, we first compare global direct emissions of  $CO_2$  resulting from our own calculations with the estimate from the NAMEA accounts. Results are given in table 2.

2010 France, $MtCO_2$	Hybrid IOT	NAMEA	Statistical gap
Direct sectoral emissions	258.6	254	1.7%
Direct emissions of households	127.0	130.3	-2.5%
Total	385.6	384.5	0.3%

Table 2 – National direct emissions of  $CO_2$

Our own estimate of total national emissions gives satisfactory results with a national quantity of  $CO_2$  emissions close to the quantity given by NAMEA accounts. The gap is of 0.7%. The breakdown between emissions from production (direct sectoral emissions) and household emissions is less accurate but remains acceptable. The emissions from production estimate are slightly overestimated in our account (1.7%) compared to NAMEA while direct

emissions of households are underestimated (−2.5%). The difference can be mainly explained by the assumption made for the disaggregation of energy consumption in transport between transport services and households.

### CO<sub>2</sub> emissions allocated to final demand

As described in section 3, IOA allocates direct sectoral emissions from production (258.6 MtCO<sub>2</sub>) to the components of final demand. Figure 4 shows the share of each component in monetary final demand, and the share of emissions allocated to each of these components in overall direct sectoral emissions.

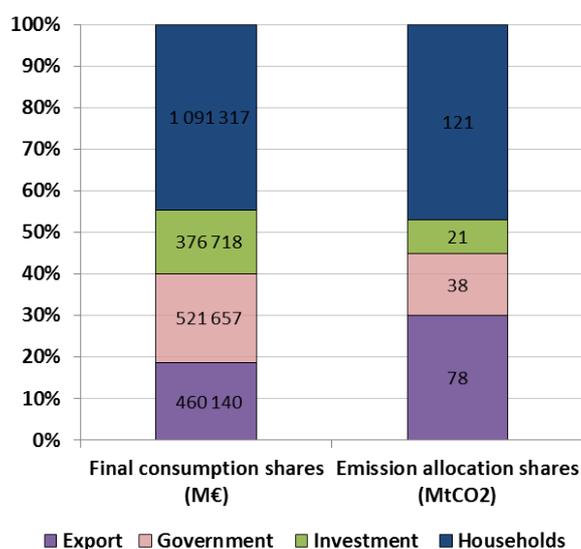


Figure 4 – Final demand and emissions allocated shares

45% of the French final consumption corresponds to households demand. The share of emissions allocated to households consumption reaches a similar proportion (47%). With a share of 19%, exports are the third component of final demand. However, the share of emissions allocated to exports is more significant and represents 30% of the emissions from production. This may be due to the fact that exports are driven by industries which are highly intensive in emissions but not so much valuable in the final demand.

### Production-based emissions versus consumption-based emissions of CO<sub>2</sub>

The total amount of national direct emissions (386 MtCO<sub>2</sub>) described in table 2 are equivalent to the production-based accounting system. We compare this amount of emissions with the consumption-based emission allocations.

By applying the method described in section 3, we estimate emissions embodied in imports (net of exports) at 202 MtCO<sub>2</sub>. Then, we set up the consumption-based emission attributions.

The figure 5 synthesizes the two emissions budgets.

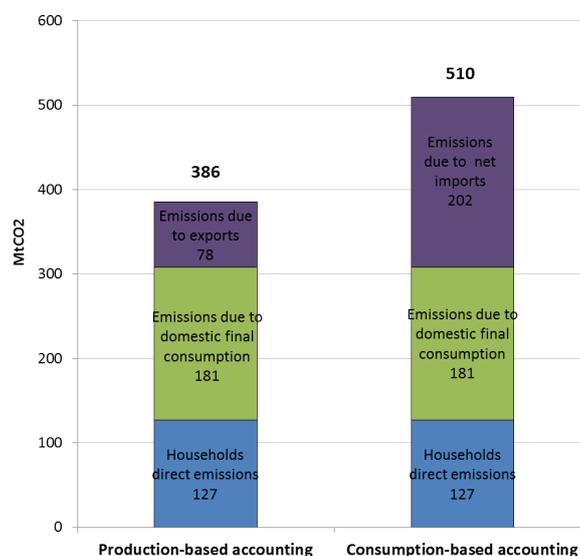


Figure 5 – Production-based vs. consumption-based emission allocations

It appears clearly that moving from the production-based inventory to the consumption-based inventory increases the French contribution to the global emissions. The total consumption-based emissions inventory of the country amounts to 510 MtCO<sub>2</sub>. Compared to the 386 MtCO<sub>2</sub> emissions of the production-based budget, the gap is not marginal, and it corresponds to an increase of 32% of the French emission inventory. This results confirms that it is important to focus not only on direct emissions from territories but also on tracking emissions embodied in imported goods.

Furthermore, if the imported products would have been produced domestically, in France, we estimate that their production would have induced the emission of 135 MtCO<sub>2</sub><sup>12</sup> instead of 202 MtCO<sub>2</sub> of emissions embodied in imports. We could say that globalization has generated additional 67 MtCO<sub>2</sub> emissions.

## 4.2 Sectoral distribution

After estimating emissions at the macro level, we explore now the contribution of the various productive sectors to those aggregated results. Indeed, in the context of climate policy analysis, it seems crucial to have a good picture of which activities would be impacted, what drives their emissions, and if they have a key role in carbon leakage and competitiveness issues. Thus, we now analyze the sectoral distribution of previous aggregated results.

<sup>12</sup>To assess this quantity of emission, we change in equation 26 the  $COEF_{RoW}$  by the French emission factors and the domestic Leontief matrix.

## Comparison of sectoral distribution between direct emissions and emissions allocated to global final demand

We observe how emissions allocated to final demand are distributed between sectors, without distinguishing the origin of final demand (households, public administration, investment, exports).

Figure 6 gives this sectoral distribution of emissions driven by final demand and compared it to the distribution of direct sectoral emissions<sup>13</sup>.

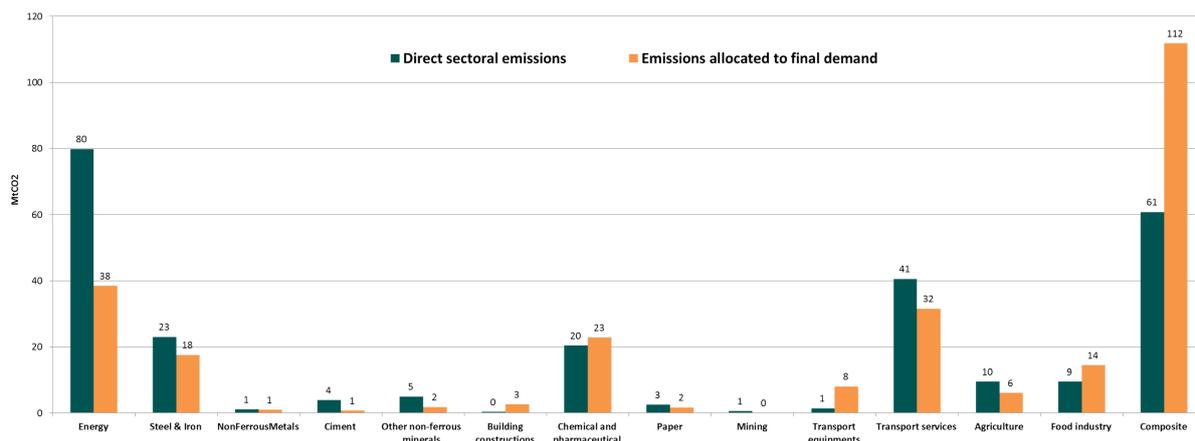


Figure 6 – Direct sectoral emissions vs. emissions allocated to final demand by sectors

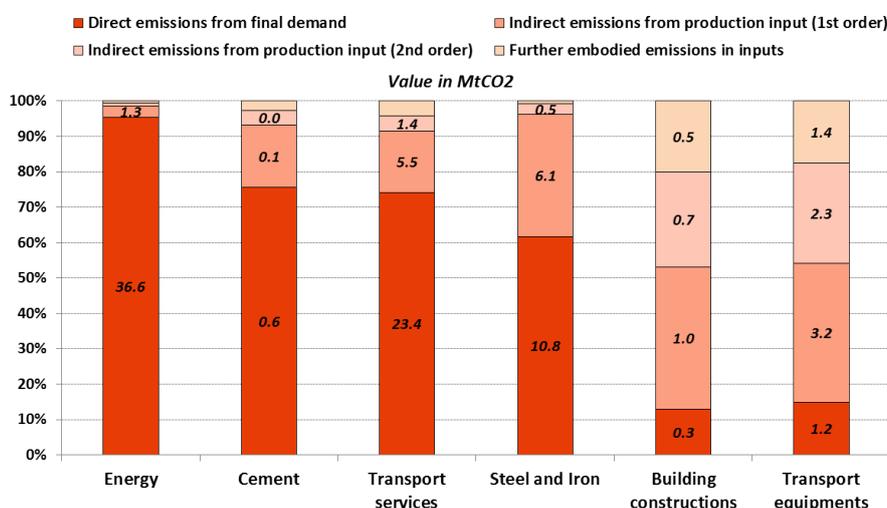


Figure 7 – Drivers of emissions allocated to final demand for some key sectors

The two accounting methods highlight some drastic differences in the allocation of emissions.

First, we see that for most energy-intensive and trade-exposed (EITE) sectors and the energy

<sup>13</sup>The assessment provide a breakdown of the 29 sectors of the hybrid IOT. For the sake of clarity and readability, the results are aggregated to 14 sectors.

sector, the allocation is lower for emissions induced by final demand than for direct production emissions:

- **The energy sector:** it emits 80 MtCO<sub>2</sub> for its production and represents 35% of total emissions from production (258MtCO<sub>2</sub>). However, reallocate emissions to final demand reduces by almost half emissions from energy sector (38 MtCO<sub>2</sub>). This is due to the fact that energy (including electricity) is very used as an intermediate goods. Thus, a major part of its emissions occurring during production process are reallocated to the other sectors which use it, explaining the lower attribution observed. Among the 38 MtCO<sub>2</sub> allocated to final demand, a significant part (95%) are related to direct energy uses by final demand components, mainly households (see figure 7). The inputs of energy sectors emitted 1.3 MtCO<sub>2</sub> to satisfy final energy demand. These 1<sup>st</sup> order indirect emissions from inputs correspond to the auto-consumption of the energy sectors. Similar mechanism is observed for energy-intensive sectors.
- **The cement sector:** its production emits 4 MtCO<sub>2</sub> from energy consumption but the emissions allocated to its final demand barely amount 1 MtCO<sub>2</sub>. As shown in figure 7, most of these 1 MtCO<sub>2</sub> (78%) are directly induced by the final uses of the sector (households and exports - in comparable proportions). The inputs required to produce final demand only amounts 18%: as for the energy sector, these emissions are mainly due to the auto-consumption in cement production.
- **The transport services sector:** direct emissions from transport services amount to 41 MtCO<sub>2</sub>, while their emissions attributed to final demand amount to 32 MtCO<sub>2</sub>. Much of this latter figure (74%) is directly attributable to final uses of the sector (households and exports). The sector's inputs account for 5 MtCO<sub>2</sub> mainly due to the use of energy in intermediate consumption.
- **The steel and iron sector:** it emits 23 MtCO<sub>2</sub> for its French production but by allocating emissions to final demand, the sector is "responsible" for 18 MtCO<sub>2</sub>. Among these 18 MtCO<sub>2</sub>, about 11 MtCO<sub>2</sub> are directly due to final uses of steel (exportation), while the inputs required steel production induced 6 MtCO<sub>2</sub> - mainly because of the intermediate consumption of coke.

The opposite mechanism occurs for sectors that use many energy-intensive inputs in their production and are mainly intended for intermediate uses :

- **The building construction sector:** it uses many intensive-energy goods for its production, which tends to increase its allocation of emissions to final demand up to 3 MtCO<sub>2</sub> while direct emissions from the sector are very low. Indeed, only 13% of these 3 MtCO<sub>2</sub> are due to final demand of building construction (investment), but the inputs required for

the sector to reach final demand represent 40%. This is due to the consumption of steel, cement, and other minerals in the production process of building construction.

- ***The transport equipments sector:*** it emits 1 MtCO<sub>2</sub> for its French production, but reallocate emissions to final demand increases its emission balance to 8 MtCO<sub>2</sub>. Only 15% of the emissions allocated to final demand directly occurs for final uses, while the required inputs for transport equipments sectors are "responsible" of almost 40%, mainly because of the intermediate use of steel in production process. But the manufacture of this steel input itself requires energy. Thus indirect "second-order" emissions (figure 7) account for 28% of the emissions reallocated to transport equipments final demand.

For these sectors, the convergence towards the emissions allocated to final demand is less immediate than for previously observed sectors because of their use in the economy and their required intermediate consumption.

The following box gives deeper analytical details on the difference between direct sectoral emissions and the allocation to final demand.

**ANALYTICAL COMPARISON BETWEEN DIRECT SECTORAL EMISSIONS ( $CO2_{sec}^{dir}$ ) AND EMISSIONS ALLOCATED TO FINAL DEMAND ( $CO2_{FC}$ )**

To understand the meaning of the positive or negative gaps for a given sector between its direct emissions, and the emissions allocated to its final demand, we draw analytically the differences between these two indicators. By developing the Leontief matrix (equation 17) and introducing the definition of the emissions intensities (equation 16), we have :

$$CO2_{FC} = \underbrace{(CO2_{sec}^{dir}/\hat{Y}) \times I \times \left| \sum_{col} FC^{dom} \right|}_{CO2_{FC}^{1st}} + \underbrace{(CO2_{sec}^{dir}/\hat{Y}) \times [A + A^2 + \dots + A^{+\infty}] \left| \sum_{col} FC^{dom} \right|}_{CO2_{FC}^{2nd}}$$

$CO2_{FC}^{1st}$  corresponds to direct sectoral emissions in proportion of its output that goes to final demand.  $CO2_{FC}^{2nd}$  accounts for the 'indirect' emissions from other sectors' energy use that provide intermediate inputs.

First, we compare  $CO2_{sec}^{dir}$  with  $CO2_{FC}^{1st}$ . So, we get :

$$CO2_{sec}^{dir} - CO2_{FC}^{1st} = (CO2_{sec}^{dir}/\hat{Y}) \times \left| \sum_{col} IC^{dom} \right|$$

The gap corresponds to direct sectoral emissions in proportion of its output that goes to its intermediate uses. This a positive term, so this inequality is always verified :

$$CO2_{sec}^{dir} \geq CO2_{FC}^{1st}$$

Thus, we give the following explanation to understand the sign of the difference between  $CO2_{sec}^{dir}$  and  $CO2_{FC}$ :

- $CO2_{sec}^{dir} \geq CO2_{FC} \Leftrightarrow (CO2_{sec}^{dir}/\hat{Y}) \times \left| \sum_{col} IC^{dom} \right| \geq CO2_{FC}^{2nd}$

Direct emissions of the sectors allocated to intermediate uses are higher than the emissions induced by the production of goods needed to produce those intermediate consumption.

- $CO2_{sec}^{dir} \leq CO2_{FC} \Leftrightarrow (CO2_{sec}^{dir}/\hat{Y}) \times \left| \sum_{col} IC^{dom} \right| \leq CO2_{FC}^{2nd}$

Direct emissions of the sectors allocated to intermediate uses are lower than the emissions induced by the production of goods needed to produce those intermediate consumption.

## Emissions allocated to each final demand components

Figure 8 provides further decomposition by distinguish final demand components <sup>14</sup>.

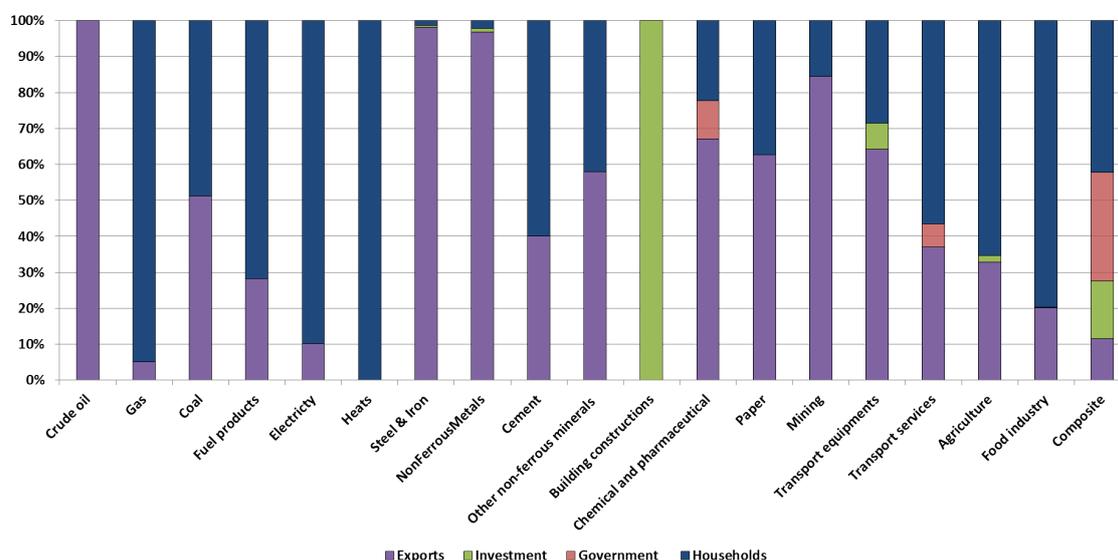


Figure 8 – Distribution between component of final demand of allocated emissions

As we have seen at the macro level, it is the household consumption which drives emissions in France for a number of sectors. However, export demand is largely "responsible" of the emissions allocated to final demand for many sectors. These emissions will be imputed when accounting for consumption-based inventory. Furthermore, we see that final demand of energy-intensive sectors such as steel and iron, or non-ferrous-metals sectors have induce emissions mainly because of exports. This tends to reduce the footprint of France when accounting emissions with a consumption-based point of view. The cement does not have the same profile. Indeed, cement is not so much exported, because of transport costs, and the emissions allocated to final demand are mainly due to household demand. Some other sectors like building construction sector mainly responds to investment, which then drives the allocated emissions.

## Emissions embodied in international trade

The table 3 gives the sectoral emissions allocated to exports, and emissions embodied in imported goods. The net import balance of  $CO_2$  of France is the sectoral difference between those two assessments.

We note that for many sectors, the  $CO_2$  emissions allocated to exports offset the emissions embodied in imports. This reflects the intra-industry trade. Intra-industry trade means the

<sup>14</sup>The assessment provide a breakdown of the 29 sectors of the hybrid IOT. For the sake of clarity and readability, the results of energy sectors are aggregated revealing 19 sectors in the figure.

2010 France, MtCO <sub>2</sub>	Emissions allocated to export	Embodied emissions in net imports	Emissions "leakage"
Crude oil	0.002	0.001	-0.001
Gas	0.01	1.18	1.17
Coal	0.5	0.09	-0.42
Fuel products	4.32	14.08	9.76
Electricity	2.2	1.98	-0.23
Heats	0	0.04	0.04
Steel & Iron	17.22	2.01	-15.21
NonFerrousMetals	0.94	1.03	0.09
Cement	0.3	0.13	-0.17
Other non-ferrous minerals	1.06	1.23	0.17
Building constructions	0	2.85	2.85
Chemical and pharmaceutical	15.32	25.45	10.14
Paper	1.04	1.53	0.49
Mining	0.06	0.03	-0.02
Transport equipments	5.16	28.28	23.12
Transport services	11.67	5.47	-6.2
Agriculture	2.25	4.95	2.7
Food industry	2.76	12.43	9.68
Composite	12.93	98.9	85.98
Total	77.74	201.68	123.93

Table 3 – Emissions of CO<sub>2</sub> due to French international trade

2010 France	Export <sup>a</sup> (million Euros)	Import <sup>b</sup> (million Euros)	Trade balance (million Euros)	Import penetration rate <sup>c</sup> (%)
Crude oil	13.8	28 740.3	-28 726.6	98.6
Gas	513.3	9 798.7	-9 285.3	57.0
Coal	32.1	2 148.3	-2 116.2	67.1
Fuel products	11 325.3	13 593.6	-2 268.2	42.4
Electricity	2 236.8	1 025.3	1 211.5	3.5
Heats	0.0	0.0	0.0	0.0
Steel & Iron	7 575.8	6 038.8	1 537.0	79.6
NonFerrousMetals	6 810.9	11 426.0	-4 615.1	48.0
Cement	265.3	297.3	-32.0	8.2
Other non-ferrous minerals	3 841.3	5 731.0	-1 889.7	29.9
Building constructions	0.0	0.0	0.0	0.0
Chemical and pharmaceutical	70 451.8	57 974.2	12 477.7	87.9
Paper	6 205.9	9 016.2	-2 810.3	45.1
Mining	411.1	2 355.1	-1 944.0	38.4
Transport equipments	77 281.7	62 213.4	15 068.3	62.4
Transport services	16 011.5	2 553.3	13 458.1	3.1
Agriculture	13 386.0	9 551.2	3 834.8	14.9
Food industry	24 876.0	26 736.1	-1 860.1	21.3
Composite	187 559.3	232 109.8	-44 550.5	8.6
Total	428 798.0	481 308.7	-52 510.7	14.4

<sup>a</sup>Domestically produced

<sup>b</sup>Net of re-exported imports

<sup>c</sup>Defined as the value of imports divided by the value of net-of-export demand

Table 4 – French international trade in value

France, tCO <sub>2</sub> /million Euros	Intensity Export	Intensity Import
Crude oil	111.4	0.0
Gas	22.4	120.9
Coal	15 708.3	40.7
Fuel products	381.8	1 035.9
Electricity	984.5	1 927.5
Heats	nan	nan
Steel & Iron	2 272.4	332.2
NonFerrousMetals	138.0	90.3
Cement	1 123.0	422.2
Other non-ferrous minerals	275.8	214.3
Building constructions	nan	nan
Chemical and pharmaceutical	217.4	439.0
Paper	168.3	170.1
Mining	143.7	14.7
Transport equipments	66.8	454.6
Transport services	729.1	2 143.7
Agriculture	168.2	518.7
Food industry	110.7	465.1
Composite	68.9	426.1
Total	181.3	419.0

Table 5 – Trade CO<sub>2</sub> intensities

import and export of similar products between countries. According to the Organisation for Economic Co-operation and Development (OECD), such trade is becoming more pronounced in developed countries mainly between members countries of the European Union <sup>15</sup>.

However, for some sectors, there is a significant gap between emissions allocated to exports and the emissions embodied in imports that make France is a net importer of CO<sub>2</sub> (124 MtCO<sub>2</sub>):

- **The composite sector:** it is largely responsible of the CO<sub>2</sub> net importer statut of France (86 MtCO<sub>2</sub>). This sector aggregates industries and services in the French economy that we have not described during the hybridization procedure. It includes all services, but also some industries such as textiles and electronics industry which France is a net importer, and whose production must be CO<sub>2</sub> intensive abroad.
- **The transport equipment sector:** the gap of emissions from the transport equipment sector is also striking (23 MtCO<sub>2</sub>). Nevertheless, the table 4 shows that export in value for this sector are quite higher than imports in monetary value, and the corresponding CO<sub>2</sub> emission-intensity (see table 5) is important for imports. We assume that the most emission-intensive part in the value chain of this sector is produced abroad, and France exports quasi-finished products that are more valuable.

In contrast, for other sectors, France is net exporter of CO<sub>2</sub> :

<sup>15</sup> From the book "Perspectives économiques de l'OCDE Volume 2002", chapter 6.

- **The cement sector:** exports involves more emissions than imports (−88%) but in monetary value, exports are lower (see table 4). The differences in emissions are due to striking difference in emission intensity which is directly due to hybridization procedure. The cement sector is originally aggregated with the other non-metallic minerals sector. The resulting aggregate sector, the non-metallic minerals, has a lower average emission intensity. Hybridization makes it possible to isolate these intra-sector heterogeneity. The GTAP database used to calculate emissions embodied in imports does not provide the sectoral granularity that isolates the cement sector. It is therefore an average intensity that emerges.
- **The steel & iron sector:** exports involves more emissions than imports (−88%). Regarding monetary value, the table 4 shows that France also exports far more steel than it imports. This is a result of the hybridization procedure that revealed much higher exports in quantities. However, the magnitude of the balance in value (and quantities) does not explain the magnitude of balance in emissions. It is rather explained by the difference in emission intensity of this sector between imports and exports, which is in fact a consequence of the hybridization procedure (see 5). Indeed, we attribute a significant portion of energy as intermediate consumption of the sector, especially for coke, which is the most polluting coal products, which increases the emission intensity of exports. However, regarding imports, the calculations of emissions intensity of the rest of-world are assessed from a energy product aggregate in GTAP database, and may be underestimated because of a coal average emission intensity. At that stage, it becomes difficult to comment on figures from a database that we do not control.

We emphasize here again the interest to build our own hybrid IOT, although this remains possible only at the regional scale. Indeed, applying the method at the global scale is a too much data-intensive and time-consuming exercise. Nevertheless, we need to be careful by comparing these results because differences may come from the hybridization procedure that has only been applied for domestic flows and not for imports, which are described only in monetary terms and whose sectoral granularity do not fit studied sectors here.

### 4.3 The role of aggregation

Relevant theoretical literatures (Morimoto, 1970; Kymn, 1990), as well as applied literatures Majeau-Bettez et al. (2016); Su et al. (2010), stress the aggregation bias issue for IOAs. Majeau-Bettez et al. (2016) argue that the heterogeneous aggregation does not keep the balance of the analysis and it introduces bias. Su et al. (2010) observe that “*studies are often conducted at a specific level [...] and the choice made to a large extent is dictated by economic and energy data availability*”. The paper studies the sector aggregation effect on result and assumes that “*approximating the “ideal”*”

Hybrid IOT	AGG_IndEner	AGG_4Sec	AGG_EnComp
Crude oil	Crude oil	Primary Energy	All Energies
Natural gas	Natural gas	Primary Energy	All Energies
Coking coal	Coal	Primary Energy	All Energies
Bituminous coal	Coal	Final Energy	All Energies
Coke	Coal	Primary Energy	All Energies
Other coal	Coal	Final Energy	All Energies
Gasoline	Fuel products	Final Energy	All Energies
LPG	Fuel products	Final Energy	All Energies
Jetfuel	Fuel products	Primary Energy	All Energies
Fuel	Fuel products	Final Energy	All Energies
Fuel oil	Fuel products	Final Energy	All Energies
Heavy fuel oil	Fuel products	Final Energy	All Energies
Other fuel products	Fuel products	Final Energy	All Energies
Electricity	Electricity	Final Energy	All Energies
Heat, Geothermal & Solar Th	Heat, Geothermal & Solar Th	Final Energy	All Energies
Steel & Iron	Steel & Iron	Industries & Agriculture	Rest of sectors
Non Ferrous Metals	Non Ferrous Metals	Industries & Agriculture	Rest of sectors
Cement	Cement	Industries & Agriculture	Rest of sectors
Other Minerals	Other Minerals	Industries & Agriculture	Rest of sectors
Buildings construction	Other Industries	Industries & Agriculture	Rest of sectors
Chemical & Pharmaceutical	Other Industries	Industries & Agriculture	Rest of sectors
Paper	Other Industries	Industries & Agriculture	Rest of sectors
Mining	Other Industries	Industries & Agriculture	Rest of sectors
Transport Equipment	Other Industries	Industries & Agriculture	Rest of sectors
Transport services	Other Industries	Industries & Agriculture	Rest of sectors
Agriculture & Forestry	Agriculture	Industries & Agriculture	Rest of sectors
Fishing	Agriculture	Industries & Agriculture	Rest of sectors
Food industry	Other Industries	Industries & Agriculture	Rest of sectors
Composite	Composite	Composite	Rest of sectors

Table 6 – Aggregation levels and correspondences with original hybrid IOT

*situation the hybrid data treatment approach produces better results than the uniformly distributed data treatment approach”.*

We analyze here the sensitivity of the results to the aggregation level. In our previous results, the assessments are made on the hybrid IOT at its most disaggregated level (see table 6). We compare these results to the three higher levels of aggregation described in table 6. The first level (*AGG\_IndEner*) consists in an aggregation of main energy products. The aggregation level noted *AGG\_4Sec* distinguishes primary and final energy, the aggregation of all originally described sectors in the hybrid IOT, excluding composite, and the composite sector. The last level (*AGG\_EnComp*) aggregates all energies on one hand, and all the rest of the economy on the other hand.

Using the three corresponding IOTs, we run the same calculations as before. We focus on two original results which are : (i) the embodied emissions in net imports, and, (ii) the ‘avoided’ emissions, if imports had been produced in France. The results are shown in table 7 and seem at first sight to strongly depend on the level of aggregation for both indicators.

We first analyze the gaps between the different levels of aggregation for the assessment of the 'avoided' emissions. These assessments give to imports the domestic production system as well as the domestic emission factors.

By aggregating coal and fuel products from the hybrid IOT (*AGG\_IndEner*), the estimate of 'avoided' emissions is drastically different (312 MtCO<sub>2</sub>) and increases by 131% compared to the estimate based on the original disaggregated hybrid IOT (135 MtCO<sub>2</sub>). The aggregation into four sectors (*AGG\_4Sec*) gives a result closer to the original case (191 MtCO<sub>2</sub>) but with a gap even of 41%. By compacted the economy into two sectors (*AGG\_EnComp*), the estimate of 'avoided' emissions is of the same order as the one that describes 29 sectors (135 MtCO<sub>2</sub>).

At level *AGG\_IndEner* of aggregation, we define an average domestic emission intensity which is very different than emission intensities of each coal types. In fact, some values of coal emission intensities are artefacts due to the production case of France. Specifically, emission intensities of coking coal and bituminous coal have been defined as zero since their French production is zero. The resulting 'avoided' emissions in France by importing coking and bituminous coal are then nil since the estimate is based on a zero domestic emission intensity factor. However, by aggregating coal products, it gives to each euro of imported coal (including thus coking and bituminous coal) a non-zero average emission intensity. This explains the higher estimate for the aggregation level *AGG\_IndEner* and *AGG\_4Sec*. By aggregating the economy into only two sectors, the energy sector and the rest *AGG\_EnComp*, average domestic emissions intensities re-balance to give a close result of 'avoided' emissions to the result based on hybrid IOT.

At last, speaking of 'avoided' emissions can be misleading because the results strongly depend on the domestic productive structure and also the level of description of it.

We now explain the gaps observed for the results of the embodied emissions in imports. As for 'avoided' emissions results, we show a same type of aggregation bias. However, for this indicator, the gap with the hybrid IOT continually increases with the level of aggregation. With the two sector description (*AGG\_EnComp*), we get 292 MtCO<sub>2</sub> of embodied emissions in imports (+45%) and with four sectors (*AGG\_4Sec*), we get 268 MtCO<sub>2</sub> (+33%). Not as for 'avoided' emissions, the result is less sensitive to the only aggregation of coal and oil products (+6%).

By assessing emission intensity factors for the French partners, we rely on the GTAP database that does not give the same level of description on energy products that we have in the hybrid IOT. In particular, the database describes the coal sector and petroleum products sector without distinguishing the different products into these two sectors. We therefore estimate average emission intensities for coal and petroleum products (weighted by the French partners). Consequently, we allocate to each euro of imports of the various coal products (coking coal, bituminous coal, etc.) or petroleum products (gasoline, jetfuel, fuel oil, etc.) of the hybrid case, the same estimated average intensity. Therefore, aggregating these products does not change in a significant way the outcome for the first level of aggregation (*AGG\_IndEner*). This is less the case by aggregating more and more the economy to few sectors. We then attribute

2010 France, $MtCO_2$	'Avoided' emissions	Embodied emissions in net imports
Hybrid IOT	135.2	201.7
AGG_IndEner	312	214.3
AGG_4Sec	190.9	268
AGG_EnComp	134.9	292.3

Table 7 – Allocated emissions to imports by level of aggregation

$A^{dom}$ matrix raised to $n$ power	$A^{dom}$	$A^{dom^2}$	$A^{dom^3}$	$A^{dom^4}$	$A^{dom^5}$
Hybrid IOT	0.503	0.256	0.107	0.043	0.017
AGG_IndEner	0.483	0.194	0.076	0.030	0.012
AGG_4Sec	0.343	0.131	0.056	0.022	0.009
AGG_EnComp	0.392	0.155	0.061	0.024	0.010

Table 8 – Highest coefficient of domestic  $A^{dom}$  matrix raised to  $n$  power by aggregation level

to imports average intensities very different of what are initially estimated.

We observe that some results are very sensitive to the initial sectoral description of the study. However it is not the only level of description that could biased the analysis. Thus, it would be interesting to analyze if the level of French import partners embedded in the assessment of the rest of-world emission intensity ( $COEF_{RoW}$ ) changes much these results. This could be the subject of future studies for probation of the developed method described in section 3

Finally, in a qualitative way, we observe the behavior of the Leontief matrix because results may also be affected by the speed at which the technical coefficients matrix raised to the  $n^{th}$  power tends to zero as  $n$  approaches infinity. Indeed, results are intimately linked to the Leontief matrix which can be analytically developed as :  $I + A^{dom} + A^{dom^2} + A^{dom^3} + \dots A^{dom^{+\infty}}$  So, we sum up in table 8 these qualitative differences by stressing the highest elements of the technical coefficient matrix, for different level of aggregation, and for different power given to the matrix.

According to the level of aggregation, we see that the behavior of the technical coefficient matrix raised to the  $n^{th}$  power is not the same, and therefore, it must introduce a bias in the results. When the matrix is squared, the highest resulting coefficient is 50% lower than the one in the matrix  $A^{dom}$  for the disaggregated case of hybrid IOT. For all cases of aggregation, the highest resulting coefficient is 60% lower than the one in the matrix  $A^{dom}$ . At the power of 3, the gap is widening.

We can imagine that, the more quickly the coefficients resulting of the technical coefficient matrix raised to the  $n$  power, converge to zero zero, the less the emissions induced by the consumption of a goods by another goods are significant. This quantitative analysis could lead to an analytical calculation.

## 5 Conclusion

This paper proposes a method to highlight the different attributions of  $CO_2$  emissions for a given country, and their repartitions between sectors. We show that the responsibility -in terms of emissions- at national or sectoral scale, differ depending the accounting system used for inventories. The allocation is often implicitly a territorial or production-based inventory. However, we show that diagnosis changes if we consider a consumption-based accounting system. This is a significant fact because it changes the weight of a country or sector within global emissions, and this may influence negotiations for any attempt to implement environmental policies to reduce emissions.

In explaining the method used, we show that assessing dual accounting system of emissions is very data-intensive, either for France or for the rest-of-world description in order to give a good picture of emission balances at base year. If we re-built our own database for France, we rely on exogenous harmonized database for the description of the French partners. While this is saving-time, once we look at how the results are sensitive to data, it becomes difficult to control information.

In this work, we only observe the impact of the sectoral level description of the results. Still, it would be interesting to analyze the hypothesis made on the description of the rest of world. We assume that setting up the description on the first fifteen French partners covering 75 % of its imports would capture largely emissions embodied in imports. Moreover, we assume that the rest-of-world is equivalent to a "quasi-closed" economy to France. Thus, we neglect the export flows from France which are then re-imported into the country. The robustness of these two hypotheses might be explored by observing if any revision of these assumptions affect significantly the assessment of embodied emissions in imports.

Finally, this paper provides an overview of different emission allocation schemes without harmonizing the whole world description. Beyond this "inventory" at a base year, we developed a method that we can easily articulate with the *IMACLIM-S FRANCE* computable general equilibrium (CGE) model to analyze how any regional French policy can influence results related to international trade, in value, as well as, in emissions terms. In this context, the assumptions made previously regarding the description of rest-of-world are justified. The idea is not to develop of harmonized MRIO model, but really to focus our method on the initial description of France, which is the core of the *IMACLIM-S FRANCE*.

## 6 Appendix A: technical details of the IMACLIM hybridization procedure illustrated on the example of France for 2010

### Step 1: Elaborating supply-use tables in physical units for energy

Before getting dual accounting systems for some intensive industries, we begin the procedure with energy sectors. Because tables of resources and uses of energy flows and prices are not available from statistical institutes in a standardized manner, they must be built through the collection of different data sources.

2010 - Million ton oil-equivalent, Mtoe		Primary energy	Final energy	Non-valuable energies	Total
R1	Production	1	121	13	135
R2	Imports	68	94	0	162
R3	Exports	-0	-33	0	-33
R4	Marine & Aviation bunkers	0	0	0	0
R5	<b>Total Primary Energy Supply</b>	<b>69</b>	<b>182</b>	<b>13</b>	<b>265</b>
R6	Transformations	-69	-17	-0	-86
R7	Energy industry own use	0	-10	0	-10
R8	Losses	0	-4	0	-4
R9	<b>Total Final Consumption</b>	<b>0</b>	<b>151</b>	<b>13</b>	<b>164</b>
R10	Iron and steel	0	4	0	4
R11	Non ferrous metals	0	1	0	1
R12	Non metallic minerals	0	4	0	4
R13	Construction	0	1	0	1
R14	Chemical and petrochemical	0	6	0	6
R15	Paper, pulp and print	0	2	1	2
R16	Mining and quarrying	0	0	0	0
R17	Transport equipment	0	1	0	1
R18	Other industries	0	9	1	11
R19	Transport	0	48	0	48
R20	Residential	0	36	8	45
R21	Agriculture and forestry	0	4	0	4
R22	Fishing	0	0	0	0
R23	Other sectors	0	27	3	30
R24	Non-energy uses	0	8	0	8

Source : IEA, 2010

Table 9 – Simplified structure of the IEA energy balance

The methodology, explained as follows, has been carried out for those energy sectors : Crude oil/ LNG/feedstocks, Natural gas, Coking coal, Bituminous coal, Coke oven coke, Other coal products, Gasoline, LPG, Jet Fuel, Diesel and heating oil, Heavy fuel oil, Other petroleum products, Biomass & Waste, Biofuels, Electricity, Nuclear, Hydro, Wind/Solar PV/Tide, Heat/Geothermal/Solar Th. For the sake of simplicity we illustrate the method with only two aggregated energy types: primary energy and final energy.

Starting from IEA energy balance, statistical gaps and stock changes are first distributed

between primary supply and consumptions (transformations or final consumption). Then, we isolate in marine and aviation bunkers, the consumption corresponding to national company to return those volume of energy in the sector of transport. The amounts of remaining energy are returned to exportation. After those pre-treatments, we can identify (Table 9) domestic production (R1), international trade (R3-4), transformation processes and the distribution of final consumption across activities (R10-24).

Difficulties of the transformation from the energy balance to a supply-use format are twofold. On the one hand, the energy balance does not distinguish between intermediate consumption of productive sectors and households' final demand because it does not include information whether energy consumption serves to produce goods or directly the final consumer's needs (for mobility, heating, etc.). This question arises essentially for transport (R19) and residential (which mixes residential and tertiary-R20), and the decomposition for these two activities is dependent upon the availability of complementary datasets (e.g., transport and households' surveys). On the other hand, energy flows must be explicitly reconstituted to exclude the elements of the balance that do not correspond to commercial energy uses (e.g., non-energy uses, renewable energies, transformation by autoproduction of secondary heat or electricity).

In practice, the elaboration of physical accounting systems can be divided in three sub-steps:

**Sub-step 1.1** : disaggregating the description of certain products or uses. This step requires additional information from external statistical sources to define the split of quantities reported in an aggregate manner in the balance (in the absence of information, ad-hoc assumptions must be made). In the case of France, an important feature is, for example, to distinguish fuels used for households' mobility of those used for transport sectors. To this aim, the description of refined products in the energy balance must be complemented by more precise information on the details of uses. Table 10 illustrates the disaggregation of the transport sector (R19-20) using external sources of information.

**Sub-step 1.2** : delineating the domain of analysis. In practice, this comes down to isolating the crucial components of the balance for the question under consideration. This means suppressing the rows and columns that correspond to activities outside the core analysis without introducing disequilibria in the balance. For example, the withdrawal of renewables and wastes is not problematic because it is a rather independent production process and it is then sufficient to add the volume of electricity produced from these sources . On the contrary, suppressing non-energy uses requires an equivalent decrease of resources.

2010 - Million ton oil-equivalent, Mtoe		Primary energy	Final energy	Non-valuable energies	Total
R1	Production	1	121	13	135
R2	Imports	68	94	0	162
R3	Exports	-0	-33	0	-33
R4	Marine & Aviation bunkers	0	0	0	0
R5	<b>Total Primary Energy Supply</b>	<b>69</b>	<b>182</b>	<b>13</b>	<b>265</b>
R6	Transformations	-69	-17	-0	-86
R7	Energy industry own use	0	-10	0	-10
R8	Losses	0	-4	0	-4
R9	<b>Total Final Consumption</b>	<b>0</b>	<b>151</b>	<b>13</b>	<b>164</b>
R10	Iron and steel	0	4	0	4
R11	Non ferrous metals	0	1	0	1
R12	Non metallic minerals	0	4	0	4
R13	Construction	0	1	0	1
R14	Chemical and petrochemical	0	6	0	6
R15	Paper, pulp and print	0	2	1	2
R16	Mining and quarrying	0	0	0	0
R17	Transport equipment	0	1	0	1
R18	Other industries	0	9	1	11
R19	<b>Transport - Households</b>	<b>0</b>	<b>24</b>	<b>0</b>	<b>24</b>
R20	<b>Transport - Sectors</b>	<b>0</b>	<b>24</b>	<b>0</b>	<b>24</b>
R21	Residential	0	36	8	45
R22	Agriculture and forestry	0	4	0	4
R23	Fishing	0	0	0	0
R24	Other sectors	0	27	3	30
R25	Non-energy uses	1	12	0	13

Source : IEA, Odyssee Enerdata - 2010

Table 10 – Energy balance after sub-step 1.1

**Sub-step 1.3** : aggregating and allocating quantities of the energy balance in Table 10 according to the nomenclature of the final input-output matrix. This imposes to adopt a level of aggregation compatible with the nomenclature of national accounts, which comes down to aggregating columns and rows consistently with the level of description adopted in the input-output matrix. In our illustrative example, the columns have not to be modified because they directly correspond to the level of disaggregation of energy in national accounts; but, concerning rows, the study being focused on industries and households, intermediate consumption by tertiary activities must not be isolated and can then be aggregated with the consumption of other sectors.

Sub-steps 1.2 and 1.3 cannot be completely automated because they involve a number of tradeoffs depending on available datasets, the context and the question under consideration. The most important choices concern:

1. **How to assign final energy use.** When surveys on consumption per use are missing, it becomes necessary to use information from similar economies where these data exist (e.g. Odyssee, Eurostat, or Enerdata database for transport sector) or to deduct the

diffracting coefficients from national accounts by adapting the Leontief technique (Moll et al., 2007).

2. **How to establish input-output description consistent with the level of aggregation.** Volumes of energy must be allocated in accordance with the concepts of supply and use tables (Resources, Uses and Intermediate Consumption). The way to do this assignment depends on the level of aggregation used. In the example of France, only cross-sectoral exchanges associated with refining are described (disaggregated industry), other processing methods are not detailed (aggregated sector) .
3. **How to assign own uses.** Most of the time, the amount of own used energy is not linked to any economic transaction, but must be recognized because it account for the estimation of technical coefficients, CO<sub>2</sub> emissions, and the opportunity cost they represent during the introduction of the carbon price (because losses and own uses reduce the net efficiency of the transformation). In particular, it seems consistent to identify own uses with distribution losses for coal, gas and electricity, and to transformation processes for refineries.
4. **How to describe the processes of co-productions.** The relationship between coproductions is not described in the symmetrical input-output tables, which conventionally postulates a separation of the conditions of goods' production. This assumption is not acceptable for some sectors (for example, in studies of agricultural production systems) and flows of co-production must then be described as well as the technical fundamentals which link the productions. In the example of France, this question remains of second order: in the circuit of commercial energies, only a small amount of refined products and industrial gases are by-products of other production processes (petrochemicals and inorganic chemistry) and we treat them as domestic resources into refined products and gas.

From sub-steps 1.1 to 1.3, we are finally able to get the input-output table in physical unit, represented in Table 11. For the sake of simplicity, for next explanations, and next illustrations, non-energy sectors have been aggregated into one composite sector. However, this work has been carried out keeping all following sectors isolated from the composite sector : nteel and iron, non ferrous metals, minerals, buildings construction, chemical and pharmaceutical, paper, mining, transport equipment, transport services, agri-forestry, fishing, food industry

2010 - Million ton oil-equivalent, Mtoe	Intermediate consumption			Final consumption			Total uses
	Composite	Primary energy	Final energy	Final demand	GFCF*	Export	
Primary energy	-	-	70.2	-	-	0.1	70.3
Final energy	86.6	0.04	18.9	60.0	-	32.8	198.5

Production	Import
2.4	67.9
109.1	89.4

\* Gross fixed capital formation

Table 11 – Energy Input-output table

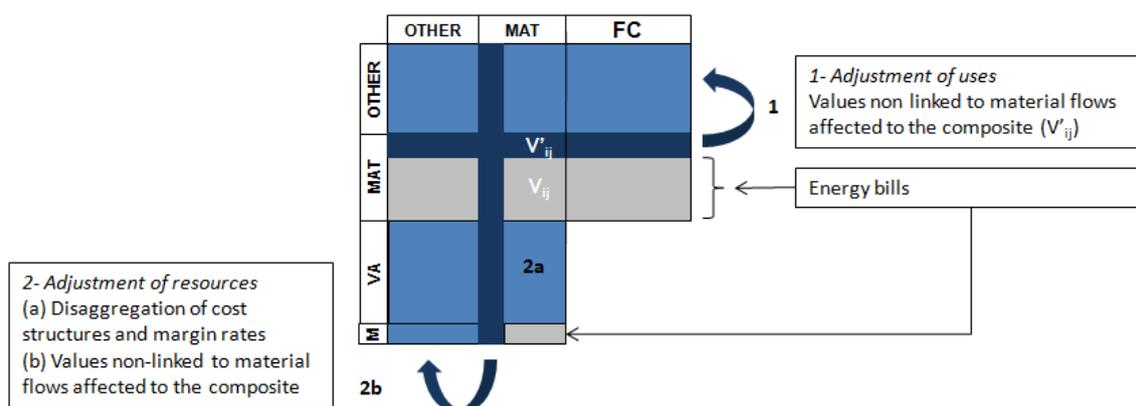


Figure 9 – Principles of alignment of material balances and monetary flows

**Sub-step 1.4** : computing the energy expenses and resources of the economy in monetary values. It simply consists in multiplying on a one-to-one basis the input-output tables in quantities and prices to obtain a table in monetary units which corresponds to energy bills at the desired level of aggregation (Table 12). This table is fully consistent with the energy statistics on the diversity of prices, energy consumption, carbon content, etc.

2010 - Million of euros	Intermediate consumption			Final consumption			Total uses
	Composite	Primary energy	Final energy	Final demand	GFCF*	Export	
Primary energy	-	-	29 986.0	-	-	43.8	30 030
Final energy	59 386.9	18.9	4 224.3	72 288.6	-	16 612.1	152 531

Imports	29 535.0	28 305.8
---------	----------	----------

\* Gross fixed capital formation

Table 12 – Balance of energy bills

## Step 2: Aligning monetary and physical matrices

Once the input-output table that describes the economic circuit of energy flows in quantity, value and price have been built, it remains to integrate it into the national accounts input-output table without changing the important variables for empirical analysis. This is the hybridization step *per se* (Figure 9) that can be analyzed in two stages: a set of actions on the rows of the table (1 - adjustment of uses) to insert the monetary sub-table resulting from step 1 and inform the energy expenses of the economy; and a set of actions on the columns (2 - adjustment of resources) to provide the description of the content of energy expenses: the cost structure of one litre of fuel purchased, one kWh, etc.. These columns describe the fixed and variable costs of industries that supply, process and distribute energy to consumers.

The result is a modified input-output table in which the value added of energy flows is isolated from those corresponding to non-energy products from “energy branches” aggregated

in the composite sector. This rearrangement in the nomenclature maintains the total value added of the economy as well as its sub-totals (wage bill, gross operating surplus, etc.), total imports and totals of final uses (Households' consumption, exports) while specifying the description of energy circulation.

To carry out this step 2 in the case of France, we start from the input-output table obtained from National Accounts (Table 13).

Millions of euros	Intermediate consumption			Final consumption			Total uses
	Composite	Primary energy	Final energy	Final demand	GFCF	Exports	
Composite	1 576 798	263	27 077	1 532 623	376 721	444 564	3 958 046
Primary energy	1 698	0	39 270	-	-	1 255	42 224
Final energy	78 302	11	49 340	80 350	-	14 334	222 338
Value added	1 710 991	264	30 160				4 222 607
Total production	3 367 789	538	145 847				
Imports	448 519	41 539	22 606				
Taxes	141 738	147	53 885				
Total resources	3 958 046	42 224	222 338	4 222 607			

Table 13 – Input-Output tables in National Accounts

**Sub-step 2.1 : adjustments of uses.** Starting from the IOT (Table 13), we replace the values of energy branches (R2, R3 in orange) by the values of reconstructed energy bills from Table 12. Differences are added to uses and imports of composite (all R1 and R6-C1, in dark blue). These operations do not affect the total value of uses, but change those of different products. Therefore, the supply-use balances are broken for individual sectors.

Millions of euros	Intermediate consumption			Final consumption			Total uses
	Composite	Primary energy	Final energy	Final demand	GFCF	Exports	
R1 Composite	1 668 256	434	10 454	1 540 684	376 721	443 497	4 040 047
R2 Primary energy	-	-	29 986	-	-	44	30 030
R3 Final energy	59 387	19	4 224	72 289	-	16 612	152 531
R4 Value added	1 710 991	264	30 160				4 222 607
R5 Total production	3 438 634	717	74 824				
R6 Imports	454 823	29 535	28 306				
R7 Taxes	141 738	147	53 885				
R8 Total resources	4 035 195	30 398	157 014	4 222 607			
Resources - Uses	-4 852	368	4 484				
	C1	C2	C3	C4	C5	C6	

In this example, the intermediate consumption of the composite good for the production of energy (first row, second or third column: R1-C3(2)) is estimated in order to keep the input ratio Composite/Energy for energy products given by the IOT national accounts (R1-C3(2) / [R2-C3(2) + R3-C3(2)]). The balance of inputs is assigned to the composite consumption good for the production of composite (R1-C1).

Table 14 – Input-Output table after adjustments of uses

**Sub-step 2.2 : adjustment of resources.** Balances between uses and resources are restored by manipulating the cost structure of industries (columns of the IOT). Values of imports and intermediate consumption are given by the energy statistics and other cost components - value added, margins, taxes on products - are adjusted to restore equality of resources with uses

Millions of euros	Intermediate consumption			Final consumption			Total uses
	Composite	Primary energy	Final energy	Final demand	GFCF	Exports	
R1 Composite	1 688 256	434	10 454	1 540 684	376 721	443 497	4 040 047
R2 Primary energy	-	-	29 986	-	-	44	30 030
R3 Final energy	59 387	19	4 224	72 289	-	16 612	152 531
R4 Value added	1 715 843	-104	25 676				4 222 607
R5 Total production	3 443 486	348	70 340				
R6 Imports	454 823	29 535	28 306				
R7 Taxes	141 738	147	53 885				
R8 Total resources	4 040 047	30 030	152 531	4 222 607			
Resources - Uses	0	0	0				
	C1	C2	C3	C4	C5	C6	

Table 15 – Input-Output table after adjustments of resources

(Table 15). Since, in our example, energy taxation is known (R7-C1/C2), the adjustment is made by value added (R4). Finally, in the case of France, the margin rate is modulated according to buyers, which helps to distinguish the purchaser prices of energy products. After this last step, all accounting identities of the hybrid description are satisfied.

It is useful to keep in mind some principles to guide the choice of adjusting resources. We can offer a procedure to select the set of assumptions to be used to isolate the cost structures of two products (Figure 10) with the objective of mobilizing the maximum statistical information available on intermediate consumption and unit costs of each input, labor, consumption of fixed capital and operating margin.

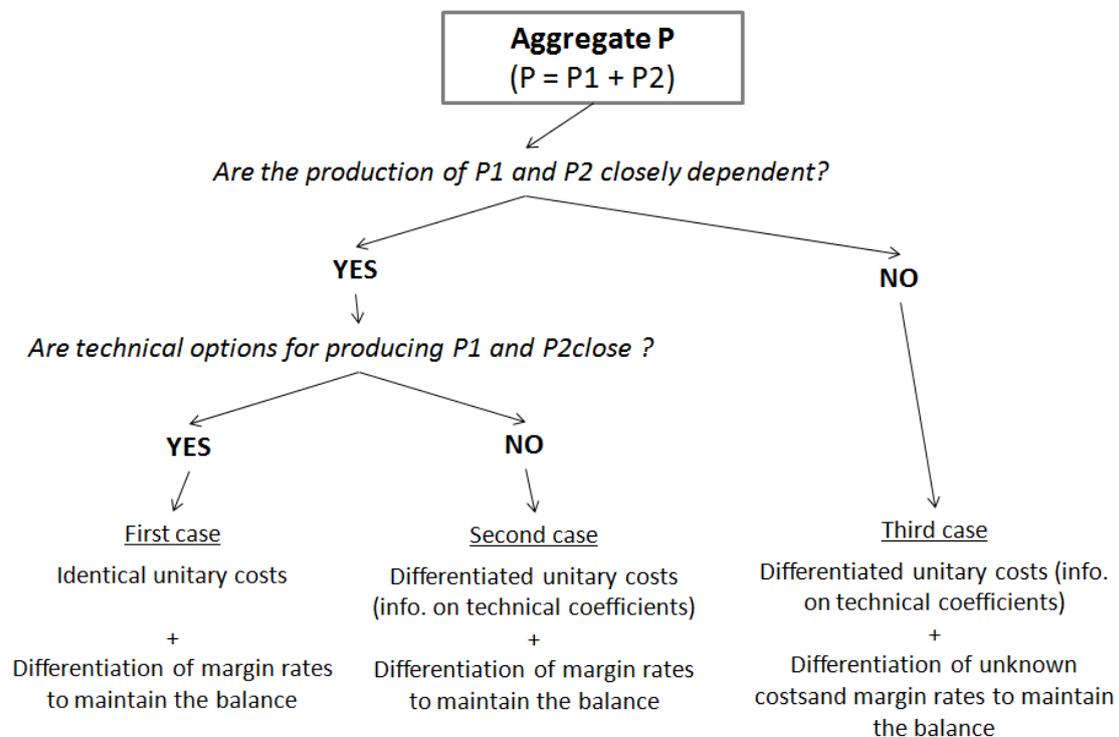


Figure 10 – Methodology for disaggregating cost structures and margin rates

We can then guide the search for information by discussing the conditions of production:

- **First case:** productions P1 and P2 are the result of separate units, the level of dependence is low. It is then likely that the information on one or the other of the structures of this cost is available. This is the case of industries specialized and concentrated, like the nuclear industry that can be isolated from other energy industries.
- **Second case:** P1 and P2 are products within the same units but with different processes. Information on technical coefficients (the unit quantities of inputs, capital, and labor) can be used to distinguish costs. This is the case, for example, for refined petroleum products which are derived from a combination of different methods of physico-chemical separation implemented in refineries.
- **Third case:** the production unit and the processes are similar. Therefore, it is justified to retain the assumption of the same cost structure. Information is used either on unit costs or on the technical coefficients, but for both productions. Associated with the assumption of returns to scale and / or factor prices, this information can help reconstructing a structure of unitary costs for aggregates (since the total quantities produced are known). This case corresponds, for example, to the distinction between diesel and heating oil, used for transportation or heating (but these products are actually physically identical).

## 7 Appendix B: hybrid input-output table for France

France 2010, energy/physical and 'quasi' quantities (Mtoe, Mtons)		Crude oil	Natural gas	Coking coal	Bituminous coal	Coke oven coke	Other coal products	Gasoline + biogasoline	LPG	Jet Fuel	Diesel and biofuel	Heating fuel	Heavy fuel oil	Other petroleum products	Electricity	Heat, Geothermal, Solar Th	Iron and steel	Non ferrous metals	Cement and clinker	Other non-metallic minerals	Construction	Chemical and petrochemical	Paper, pulp and print	Mining and quarrying	Transport equipment	Transport - Sectors	Agriculture and forestry	Fishing	Agri-food industry	Composite	Public consumption	Households consumption	Investment	Export	TOTAL USES	Output	Imports	BALANCE				
Energy sectors	Crude oil	-	-	-	-	-	-	17	2	5	25	10	5	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	67	2	65	-			
	Natural gas	0	-	-	-	0	0	0	0	0	0	0	0	0	4	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	43	1	42	-			
	Coking coal	-	-	-	-	3	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	3	-	3	-		
	Bituminous coal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	0	2	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	8	0	8	-		
	Coke oven coke	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	3	2	1	-		
	Other coal products	-	-	-	-	0	0	-	-	-	-	-	-	-	-	0	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	1	1	0	-		
	Gasoline + biogasoline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8	-	7	15	14	1	-
	LPG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	-	1	4	2	2	-
	Jet Fuel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-	0	8	4	4	-		
	Diesel and biofuel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	0	0	1	0	0	0	0	8	2	0	0	0	7	16	-	3	38	22	16	-		
	Heating fuel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	0	0	0	0	1	0	0	0	2	0	0	0	0	4	6	-	1	13	8	5	-			
	Heavy fuel oil	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	0	-	0	0	0	-	0	0	0	0	0	1	0	-	0	0	-	-	0	6	11	4	7	-		
	Other petroleum products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	1	0	0	-	2	-	-	-	-	-	-	-	-	-	-	-	-	0	0	3	8	4	2	-4
	Electricity	0	0	-	0	0	0	0	0	0	0	0	0	0	0	-	0	1	1	0	0	0	2	1	0	1	1	0	0	1	15	14	-	4	42	40	2	-				
	Heat, Geothermal, Solar Th	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	-	0	-	-	-	2	0	-	2	2	-	-
Hybrid	-	0	-	-	0	0	0	0	0	0	0	0	0	0	0	0	10	1	0	0	0	0	0	0	2	0	0	-	0	0	0	0	0	0	20	46	30	16	-			
Industries	-	0	-	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15	2	1	0	0	0	1	0	0	0	0	0	0	0	0	0	1	36	23	3	-			

France, 2010 - Prices (€/t, €/ton)		Crude oil	Natural gas	Coking coal	Bituminous coal	Coke oven coke	Other coal products	Gasoline + biogasoline	LPG	Jet Fuel	Diesel and biofuel	Heating fuel	Heavy fuel oil	Other petroleum products	Electricity	Heat, Geothermal, Solar Th	Iron and steel	Non ferrous metals	Cement and clinker	Other non-metallic minerals	Construction	Chemical and petrochemical	Paper, pulp and print	Mining and quarrying	Transport equipment	Transport - Sectors	Agriculture and forestry	Fishing	Agri-food industry	Composite	Public consumption	Households consumption	Investment	Export					
Energy sectors	Crude oil	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438	438
	Natural gas	329	439	439	439	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329	329
	Coking coal	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238	238
	Bituminous coal	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	146	
	Coke oven coke	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	386	
	Other coal products	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	349	
	Gasoline + biogasoline	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	1099	
	LPG	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	879	
	Jet Fuel	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	
	Diesel and biofuel	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	1016	
	Heating fuel	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	642	
	Heavy fuel oil	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	440	
	Other petroleum products	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	522	
	Electricity	580	580	788	580	580	580	580	580	580	580	580	580	580	580	580	788	580	580	580	580	580	885	580	580	727	580	580	885	885	580	885	1451	1295	1295	518	518		
	Heat, Geothermal, Solar Th	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	682	
Hybrid	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912	912		
Industries	138	195	138	138	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195		

Figure 11 – Hybrid input-output table for France - Volumes and prices



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