BUSINESSEUROPE

POSITION PAPER

GO FOR GROWTH
AN AGENDA FOR THE EU IN 2010-2014

12 April 2010

RESPONSE TO THE EUROPEAN COMMISSION'S PUBLIC CONSULTATION IN PREPARATION OF AN ANALYTICAL REPORT ON THE IMPACT OF THE INTERNATIONAL CLIMATE NEGOTIATIONS ON THE SITUATION OF ENERGY INTENSIVE SECTORS

1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

BUSINESSEUROPE considers that the situation has not changed. The impact of the European climate change policy on the competitiveness of the European industry is still a source of concern which has been heightened by the global economic crisis. Indeed, elements influencing exposure to carbon leakage for European industry like global price setting, intense international competition, or elastic demand have not evolved in a positive way over the last two years.

In addition, investment decisions that could lead to carbon leakage take into account long-term cost factors. Market experts (such as Point Carbon or Deutsche Bank) are working with CO_2 price estimates of 30 Euros/tonne for the third trading period 2013-2020, which is in line with the initial price assumptions of the European Commission.

Furthermore, the revised EU Emission Trading Scheme (ETS) Directive determines the risk of carbon leakage by taking into account gross value added (GVA) figures which, for an overwhelming number of ETS sectors, have diminished with the crisis.

BUSINESSEUROPE also draws the Commission's attention to the aggregated approach of the carbon leakage assessment that could hide the situation of exposed companies within each sector.

As regards Member States' implementation of their renewable energy strategies, this is contributing to energy price increases which, in turn, are also contributing to the risk of carbon leakage.

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2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?

Although the Copenhagen Accord represents a significant political step (over 100 countries have associated themselves with the Accord representing a large majority of global emissions), European industry is as vulnerable to carbon leakage as it was before the Copenhagen conference.

The impact of the Copenhagen Accord on the risk of carbon leakage depends on countries' comparability of emissions reduction effort and on how countries decide to implement their targets. Therefore the Copenhagen Accord and the accompanying pledges cannot yet justify assumptions about a future pricing of carbon emissions for energy-intensive sectors in other regions of the world.

In the absence of a legally binding agreement with equivalent targets at an international level, the competitive position of European industry is threatened by the increase of costs generated by the unilateral decision of the EU to cut emissions by 20% from 1990 levels, and in particular by the requirement for industrial sectors submitted to the ETS to reduce their emissions by 21% by 2020 compared to 2005, which is by far the most substantial requirement among the major economies. As long as there are no concrete measures by the EU's economic partners to reduce emissions at an equivalent level, the competitiveness of European industry will be at risk.

Consequently, BUSINESSEUROPE opposes the review of the list of sectors at risk of carbon leakage.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

For BUSINESSEUROPE, the following conditions[1] remain valid and must be fulfilled:

- All countries must sign up to long-term global action consistent with science, and a continuous political process to review progress towards objectives and to modify objectives as needed.
- All developed countries must commit to binding emission reduction targets that are equally strong in terms of quantitative reductions and financial efforts needed
- Advanced developing countries must commit to setting their own binding emission targets or policies in a way so that global emissions peak at the latest by 2020.
- Sound international competition for industry needs to be safeguarded on a global level. A process must be started so that industrial sectors exposed to international competition have equivalent obligations.

[1] As expressed in the BUSINESSEUROPE « Copenhagen Scorecard » of October 2009

4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

BUSINESSEUROPE advocates for mitigating the risk of carbon leakage with a balanced approach that combines, in a realistic way, reductions of greenhouse gas emissions and efforts to preserve Europe's industrial competitiveness. This will be met only if the investment capacity of companies is preserved by a wide set of measures:

- Firstly, energy-intensive industries must receive an adequate amount of free allowances distributed on the basis of attainable benchmarks and other allocation rules. Given the current international political situation on climate change, European industry should receive the maximum amount of free allowances permitted by the revised ETS directive. Any such free allocation must be seen as transitional until the establishment of an international agreement with equivalent targets for competitive industries. However, the effect of the ongoing economic downturn on emissions is not a justification for decreasing the level of free allocation, as the effects are only temporary and emissions are therefore due to return to normal levels as the economy picks up.

- Secondly, the current revision of EU environmental state aid guidelines must allow for adequate compensation of indirect cost effects of the ETS. In that context, the cumulative impact of all energy policies on the carbon leakage risk also needs to be examined and appropriate protection provided.

- Thirdly, opportunities to use offsets in third countries must be increased to allow companies under the ETS to follow the most cost-efficient strategies.

- Finally, government support for R&D and piloting and demonstration for energy and low-carbon technologies (such as CCS and energy efficiency improvements) must be strengthened.

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