CONFEDERATION OF FINNISH INDUSTRIES EK

Infrastructure and Environment
Mikael Ohlström

25 June 2013

European Commission
DG Climate

Consultative consultation on the 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020

Identification of the respondent

Confederation of the Finnish Industries EK (hereinafter "EK") is a stakeholder association representing all sectors of business and all sizes of companies in Finland:

- 27 member federations
- About 16,000 member companies, of which 96 % SMEs
- Over 70 % of Finland's GDP
- Over 95 % of Finland's exports
- About 950,000 employees

EK is a member of BUSINESSEUROPE representing 41 central industrial and employers' federations from 35 countries, working together to achieve growth and competitiveness in Europe.

Identification number of Confederation of the Finnish Industries EK in the Commission register of interest representatives is **1274604847-34**.

If the responses to the consultation are published, the respondent agrees to publication of this response together with the other responses.

Contact person of the respondent: Mikael Ohlström, Chief Policy Adviser, email: mikael.ohlstrom@ek.fi, P O Box 30, FIN-00131 Helsinki, Finland, tel + 358 9 4202 2563.

Response to the consultation

EK wishes to thank for the opportunity to provide its views in this Consultation. Please, find below EK's answers to Commission's questions considering the 2015 International Climate Change Agreement:

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1. How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C?

Global climate agreements must be the EU's priority. This will allow for everyone to benefit: a level playing field is created for companies, climate change mitigation is genuinely implemented and a global market is created for cleantech (a "win-win-win" solution). Global revolution of energy market and prolonged economic recession in the EU together with the present global climate inaction should force the EU to take a necessary time needed for comprehensive and diverse analysis of the global climate policy situation, the EU's economic situation, "lessons learnt" from the EU's 20-20-20 targets, sectoral emission reduction potentials and costs, and competitiveness issues among other things. In addition, alternative scenarios and cost impact calculations are needed for the regrettable possibility of global climate deal not achieved. Also the cost estimations would change and differ more from those in 2050 Roadmaps assuming global climate agreement and still used as arguments for "no regret" options.

Governments must find ways to ensure that actions taken to address climate change can assist economic growth and development. This can only be achieved by a transparent and thorough assessment of the effectiveness, costs induced and positive impacts of climate policies over the economy and society at large.

A positive engagement in discussions with all business sectors, and in particular with those most affected, can be instrumental in supporting this process. As an example, the setting of realistic targets should be built up by consensus and through the interaction with those that are required to take the actions to meet such targets. **The development of a global carbon price would perhaps be the most effective way forward.**

Finally, EK wants to address some concerns about competitiveness and energy costs:

It has shown that we are not able to predict our future even for 5 years period, because the world has changed radically only in five years' time since 2008. Three major changes in the operation and investment environment that have to be taken seriously under examination before introducing post 2020 targets and actions in the EU are:

1. Global revolution of energy market (US shale gas boom)
2. Prolonged economic recession in the EU
3. Absence of international climate commitments.

Therefore, the EU has to put the most of its efforts to global climate commitments instead of more new unilateral targets. If other major countries are not taking similar actions than the EU, it is of no use of climate (the EU's GHG emissions are decreasing globally to about 8 % by 2020 and 4–5 % by 2030). Even if there will be new jobs from green growth, the net effects of the EU policies has to be very carefully evaluated. **Carbon and job leakages are increasing** because of cheaper energy in the U.S. and China. The EU must try to keep the jobs and industrial production in Europe, ie.

outsourcing of emissions and jobs outside of Europe has to be avoided. The EU's climate measures should not lead to a competitive disadvantage for companies competing in global markets. Until the enforcement of a balanced global climate scheme, sectors exposed to carbon leakage should receive free emissions allowances (direct costs) from the EU. Furthermore, the member states should be evenly obliged by the EU regulation to compensate their energy-intensive companies for the increase in electricity prices (indirect costs) at the national level, e.g. from auctioning revenues. Also the increase in energy costs must be curbed both in the EU and nationally by all means available.

2. How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?

A clear, transparent and standardized system for the monitoring, reporting and verification of emission reductions is essential to enable the comparison of the implementation of pledges at both sectoral and national level.

The Agreement should build up on the creation of the **market-based approach** of the current Convention and Kyoto Protocol as it gives an economic incentive for sectors to reduce their emissions **in a technology-neutral way**.

In order **to minimise the potential risk of carbon leakage**, the 2015 Agreement should encourage the linking of the various carbon pricing schemes as a way to achieve global playing field through a unified carbon price.

3. How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?

It should be assessed case by case whether mainstreaming of climate change into other policy areas brings positive effects and help reaching determined policy goals. In some instances this can be counter-productive as has been demonstrated by the negative interaction between the EU's climate, renewables and energy efficiency targets. A successful climate and energy policy framework should properly consider and balance three objectives: security and stability of energy supply; cost-competitive energy prices to enable companies to compete globally; environmental sustainability to tackle negative externalities while taking advantage of opportunities to develop new technologies.

It is also important that the mainstreaming of climate change into other policy areas undergoes a transparent impact assessment. When including climate change into other policy areas, one has to ensure this **is done in the most cost-effective, predictable way without imposing unnecessary administrative burden on companies**. Market-based approaches should be preferred.

4. What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?

The EU's long-term climate strategy should be consistent with the outcome of an international climate agreement expected in 2015. **New climate commitments must remain conditional to equally strong actions and commitments by the EU's major competitors**.

Any climate policy target should be directly related to climate change. Therefore, <u>the possible target should be set for the reduction of GHG emissions, and no overlapping/parallel obligations must be set</u>. This would also allow **technology-neutrality and cost-effectiveness** in climate mitigation.

National circumstances and competences should be taken into account when deciding on the most appropriate policy mix. Any approaches <u>must seek to avoid affecting the competitiveness between sectors</u>. Different countries and regions have very different profiles of sectors and hence a simple comparison of country-wide emissions reduction commitments may be misleading or not informative. In order to carefully analyse the impact of national commitments, it is <u>necessary to take a view at a sector level and explore sector approaches</u>.

There is the potential for sector approaches for those sectors where beneficial contributions to climate change policy objectives would be expected to occur through both operational and best management practice changes, as well as through the development of products and services that will contribute to climate change mitigation and adaptation.

Sectoral approaches should seek to:

- motivate technological innovation and new investment
- minimize economic damage to existing capital stock
- encourage efficiency improvements in existing capital stock
- incentivize early retirement of inefficient equipment
- utilize realistic expectations of foreseeable technical progress.

Whatever their ultimate form, sector approaches appear to offer the most promise when applied to:

- energy intensive sectors,
- sectors exposed to international trade,
- sectors producing commodity products,
- sectors using similar production technologies.

In some cases where manufacturing and products are very similar, **benchmarking** may be a good yardstick to measure and improve performance. In other cases, comprising complex manufacturing systems and differentiated products, benchmarking may not be possible. However, in all cases consideration should be given to the market dynamics affecting a sector, existing and proposed climate change regulations that impact it, and the maturity of the sector in its efforts to limit GHG emissions and utilize energy efficiency technologies. Without these considerations, the development of sector initiatives will risk giving rise to significant inequities both within and between sectors, and a resulting lack of success in the initiatives themselves.

To succeed and be sustainable, there must also be an incentive for all participants to work to achieve objectives, such as limiting emissions, improving efficiency, cooperating on research, sharing good practices, etc.

5. What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How can the 2015 Agreement further incentivise the mainstreaming of adaptation into all relevant policy areas?

It may be beneficial to look also on adaptation issues. However, this must not lead to overestimation of risks or unnecessary over-regulation (too early) that would bring additional costs and bureaucracy for the operation environment of companies.

6. What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?

The Convention would be the best framework for international action on climate change, but not the only one possible. Also G20 or corresponding body could be an option. Whatever this body is, Convention or other form, **it must act as the central point for the collection and analysis of emissions inventories, supported by expert review**. Furthermore, for market-based mechanisms, it must provide a system to enable both the environmental integrity of those credits used for compliance to be verified as well as to avoid double-counting.

Technology and the deployment of technology are primarily carried out by companies. IPR issues are important in order to guarantee the long-term development of clean technologies.

7. How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

Regular reporting of inventory data must become mandatory for the larger emerging nations under the 2015 Agreement. This will enable improved transparency of actions. To enable comparability, a standardised accounting system is vital. Accountability will clearly be determined by the level of non-compliance. However, whilst any penalties must be at a level to prevent non-compliance, they must also not act as a burden to joining the 2015 Agreement.

8. How could the UN climate negotiating process be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

A wide stakeholder participation and a transparent process are necessary to ensure the Agreement is reached in a desirable way and implemented. **Business community** can be a useful partner in this process in many ways. Companies and sectors can offer their own expertise to the climate negotiations on effective ways to reduce emissions and develop solutions for sustainable development. The participation of business community at large can also ensure that the comparability of efforts and level-playing fields are pursued.

It is anticipated that business will be required to take many of the actions that will enable emissions reductions in nations as well as providing both technology and finance. It is vital that business is engaged within the decision-making process to provide advice to ensure that commitments agreed are achievable. Business is a broad constituency and the most appropriate form of engagement would be through a formal process that would enable appropriate advice to be gathered from the full constituency.

9. How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

The European Union should focus, in parallel to the UNFCCC process, on processes such as the Major Economies Forum and the G20 that could have an impact on the reduction of emissions in the developed and emerging countries. Furthermore, the interaction between trading schemes and their ultimate linkage has the potential to develop **a global carbon price** that will assist in protecting competitiveness.