Borealis AG
IZD Tower
Wagramer Strasse 17-19
AT-1220 Vienna
Austria
Registered organisation ID: 24298121313-54

26 June 2013

European Commission
Directorate-General Climate Action
Stakeholder consultation 2015 climate agreement
BU24 04/065
Avenue de Beaulieu, 24
B-1049 Bruxelles
Belgium

By e-mail: CLIMA-CC-2015-CONSULT@ec.europa.eu

Borealis response to the European Commission Consultation on the 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020

Borealis welcomes the opportunity to give its viewpoints on the basis of those questions raised. We consider the following general considerations as key guiding principles:

- **The low and even further shrinking share of EU emissions in the global emissions needs to be taken into account in a future global climate agreement.**
- **EU climate policy efforts and cost burdens must be proportionate to efforts and burdens in other world regions so as to avoid damages to the EU competitiveness and economic growth.**
- **The EU negotiation mandate must not allow competitive disadvantages for i.e. EU's energy intensive industries.**
- **Before EU sets itself further ambitious emission reduction targets, equal binding commitments must have been tabled by other major emitting regions. Accordingly, a negotiation tactic of offering an EU target 'ex-ante' already before the UNFCCC COPs is regarded as less effective.**
- **In the absence of equitable, verified reduction emission efforts, carbon leakage protection measures must remain in place and be effectively improved.**
- **In a globalised world, only globally commonly taken actions to reduce net global emissions will be successful. If carbon leakage is not avoided, perceived emission reductions may not stem from increased efficiencies but from reduced domestic manufacturing output. Disproportionate local implementation of climate policies environment can lead to relocation of investment so that goods formerly produced carbon-efficiently are being consumed through imports from carbon-intensive regions.**

Question 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?

Agreed actions to address climate change must enable 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. Accordingly, the traditional discrimination of developing and developed countries from 1992 must be removed. The GHG emission

shares, current trends and emission reduction commitments must be proportionate to technology potentials and to the desirable global emission reductions effect. Accordingly, the negotiation procedure should aim at effective global emission reduction. Once emission goals have been agreed, a mechanism needs to ensure enough flexibility to adapt the agreed goals to the countries' dynamic economic developments, growth, technological breakthroughs, etc. GHG emission reduction efforts need to be verifiable and comparable. Negotiations could possibly progress more quickly if major emitting regions and sectors were the first to implement effective, comparable, jointly agreed emission reduction commitments. The EU chemical industry can be instrumental in this supporting this process through technology solutions. A workable, economic growth-oriented global emission trading scheme could be a major instrument towards the transition to a global low carbon economy.
Borealis still sees the Emissions Trading System (ETS) as the best lever to come to an international agreement. Among the known approaches, ETS is the climate change instrument that gives most flexibility to the actors involved and to the negotiators in finding a fair and acceptable distribution of burdens between the highly differing countries and regions. To facilitate international negotiations of the 2015 international agreement, the EU should implement an ETS that could serve as a true blueprint worldwide. Such an ETS must include elements which are of interest to those countries that should join an international agreement, namely the possibility of economic growth. That's why the EU needs to reform the ETS to make it growth-proof (see the IFIEC proposal for an "enhanced ETS")[1].

Question 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 standardised system for the monitoring, reporting and verification and emission reductions is essential to enable the comparison of the implementation of pledges at a 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.

Borealis remains supportive to the concept of emission trading schemes (ETS), provided appropriate allocation mechanisms avoid carbon leakage as long as there is no full global participation.

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.

In the absence of a Global Agreement effective by 2020 the European Union should revisit its reduction ambitions.

- Greenhouse Gas emissions are strongly related to the use of energy (energy carrier and efficiency). It would be desirable to accommodate effects of energy cost differences across the globe. Strong variations in energy costs today, in combination with a lacking common climate policy, wrongly incentivise closure of efficient industries in the more costly and strictly regulated regions. This is opposite to the intentions of the climate policy.
- The targets should then be based on emission intensities rather than absolute emission volumes.

Question 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. Ultimately, all policy areas should be sustainable thus meeting environmental, social and economic requirements in a balanced manner.
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

[1] Reference to Borealis Contribution to the European Commission consultation on Structural Reform of the EU Emissions Trading Scheme (Carbon Market Report) as submitted to DG CLIMA on 26.02.2013

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.
The 2015 Agreement must promote climate change policies as something that brings success and wealth to the countries that follow. Efficient growth and modernisation of the economy must here be in the centre of interest for politicians and negotiators.

Question 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?

Recent GHG emission developments of emerging economies need to be taken into account when designing reduction targets for countries. Emission reduction achievements and potentials need to be accounted for, too. Any approaches must seek to avoid 'picking winners' or affecting the competitiveness of sectors. The global fairness of a 2015 agreement will be evaluated with regard to whether or not a level playing field will emerge and whether or not biggest emitters will be committed to effective emission reductions accordingly.

Question 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?

-

Question 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 2015 agreement should further promote market-based mechanisms that at the same time ensure environmental integrity of credits used for compliance to be verified as well as to avoid double-counting. The aim should be global emission reductions whereby global carbon trading is a key tool towards cost-efficient emission reductions.

Question 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 verifiable accounting system is vital.
The EU has gained valuable experience in all MRV related issues around ETS. The EU's experience might be of great help to other countries for which this is a primary barrier to overcome. By sharing its experience, the EU should help others to catch up before the distance will be much too large to overcome. Further unilateral EU target setting might not be helpful and instead enlarge the gap; rather efforts should be made towards standardisation around the globe.

Question 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?

Wide stakeholder participation and a transparent process are necessary to ensure the agreement is reached and implemented. Industry can be a useful partner in this process. Companies and sectors can offer their expertise to the climate negotiations on effective ways to reduce emissions and develop solutions for sustainable development.
At the same time, focus should be put on biggest emitting regions, involving major sectors, in order to make faster progress.
It is anticipated that the chemical industry will be required to take many of the actions that will enable emissions reductions through technology solutions in nations, economic sectors. Industry offers advice in the decision-making process e.g. to ensure that targets are achievable. Such engagement should be organised in a more formal process gathering appropriate advice.

Question 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 preserving competitiveness. The EU should showcase successful voluntary agreements in operation in member states that promote industrial energy and GHG efficiency.

Yours sincerely,

Lieven Stalmans
Borealis Group Manager Energy & Environment
+32 475 516 837
lieven.stalmans@borealisgroup.com