

**CLIMATE CHANGE AFTER KYOTO****UNICE OPINION**

At Kyoto, an important first step was taken to respond to the challenges of global climate change. The Kyoto Protocol provides a framework for a concerted response, but much still has to be defined to ensure the protocol can be implemented effectively.

How the Kyoto protocol is developed and implemented, and how EU Member States will meet their commitments under the protocol, is of key concern to EU business and industry, directly relating to how the EU will maintain its global competitiveness.

Key areas still to be defined in the protocol are :

- emissions trading and joint implementation<sup>1</sup>, as a way of achieving emission reductions most economically;
- the Clean Development Mechanism<sup>1</sup>, which will offer the opportunity for developing countries to become involved in a way that offers technological and economic benefit;
- the role of CO<sub>2</sub> sinks (i.e. natural CO<sub>2</sub> absorption processes);
- monitoring and enforcement mechanisms, to ensure a fair and balanced approach.

UNICE has always stressed the need for flexible instruments to achieve climate protection objectives. In a range of earlier documents, it has underlined the central importance of long-term agreements between industry and the public authorities to improve energy efficiency and to control greenhouse gas emissions. Such agreements help companies to deploy cost-effective internal investments geared to controlling the greenhouse effect.

UNICE also supports emissions trading and joint implementation as flexible mechanisms that can help countries and companies contribute to meeting national and international emission reduction targets. When he announced the US climate change policy at the National Geographic Society on

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<sup>1</sup> These terms are explained in the annex to this document.

22 October 1997, President Clinton promised to provide a mechanism to credit early emission reductions that industry might make. This is a key element of a package that can mobilise broad support for action. It is important that, as it defines the rules it wants to apply to emissions trading within the EU bubble<sup>1</sup>, and with other Annex I countries, the EU encourages early and voluntary action by industry, including a mechanism for crediting emission reductions achieved before the 2008 - 2012 first commitment period.

UNICE has stressed that an effective response to the climate change issue will need to be global and set in a long-term framework. The first step taken at Kyoto needs to be turned into a framework that developing countries can support, and will want to use as part of their own environmentally responsible economic development. Similarly, early agreement to credit emission reductions under the Clean Development Mechanism would help to mobilise concerted efforts in both developed and developing countries, and could contribute to a greater confidence of approach.

The ambiguous wording of the Kyoto protocol combined with insufficient data from the parties make it difficult at the present time fully to assess the role of sinks, in particular from the angle of the EU meeting its emission targets for the first commitment period. There are many open definitions of sinks, of verifiable national inventories of sinks and of methodologies for measuring and reporting sinks. Industry would like to signal an interest regarding the scope for flexibility that sinks could offer. However, it is important to avoid introduction of poorly thought-out mechanisms which might open the way to abuse of the sink option. UNICE therefore urges the Commission to press for more precise definitions and guidelines, thereby clarifying this complex issue.

An important issue of concern to EU industry is how burden-sharing between Member States will be defined, so that non-EU countries, and especially the US, are confident of the EU's implementation process, and so will be more likely to deliver their own by ratifying the protocol.

The addition of three more gases, i.e. hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride, to the Kyoto protocol is a challenge but also an opportunity for the EU to reach its emissions reduction target in a more flexible manner. UNICE stresses the need for a detailed analysis of the implications of these extra gases and the need to establish a comprehensive emissions data base as well as realistic reduction potentials and associated costs. Industry is willing to co-operate with governments in order to exert better control over emissions of these extra gases. UNICE believes that the EU should make great efforts in using the flexibility and the reduction potential of all six greenhouse gases in order to meet the overall emissions target in the most cost-effective way.

Industrial production processes are responsible for around 30% of greenhouse gas emissions (including industry's share in emissions from the electricity sector). The rest, i.e. around 70%, is predominantly the responsibility of millions of end-consumers. Industry has successfully demonstrated significant improvements in energy efficiency over the last 20 years and is committed through long-term agreements with governments to continue its excellent track record of improving the efficiency of its energy use. A successful EU climate change strategy must come to grips with emissions produced by end-consumers, which are significantly influenced by a number of public policies (infrastructure, how local/territorial communities are managed, land planning, education, etc.).

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## ANNEX

The Kyoto Protocol to the United Nations Framework Convention on Climate Change incorporates four provisions which issue from the concept of emission trading in the broad sense:

- *trading in emission reduction units* between countries in the group of industrialised countries and countries with an economy in transition (Annex B countries);
- transfer between Annex B countries of emission credits obtained at project level (project-based *joint implementation mechanism*);
- *Clean Development Mechanism* providing for transfer to Annex B countries of certified emission reduction units resulting from projects realised in non-Annex B countries (i.e. essentially developing countries);
- possibility for several parties to meet their commitments in the commitment period 2008 - 2012 jointly, on the basis of an agreement providing for a redistribution (*burden-sharing*) of the aggregate quota resulting from their commitments defined in Annex B (*bubble* concept, which the EU has expressed the intention of adopting).