UNICE
THE VOICE OF BUSINESS IN EUROPE

21 November 2003

Conference on the environmental performance of EU industry 24-25 November 2003

Introductory statement by Dr Strube, President of UNICE, for the debate on "Ensuring the future balance between competitiveness and environmental performance: towards sustainable production"

Commissioner,
Ladies and Gentlemen,

The Commission 2002 competitiveness report (in its chapter IV) and today's discussions have shown again that it is the competitiveness of European companies that has so far enabled them:

- on the one hand, to take major environmental protection initiatives
- and on the other hand, to finance the environmental investments required by legislation.

Yet, we see today that Europe's competitiveness is deteriorating to a worrying extent. This deterioration calls for a basic re-evaluation and modernisation of all Community policies.

With regard to environmental policy, it is particularly important that this re-evaluation takes place with a view to the ultimate objective of sustainable development. In this respect, the "Industrial policy" communication published by the Commission in 2002 rightly points out that "the competitiveness of manufacturing industry is a cornerstone of the EU's sustainable development strategy. Sustainability has three pillars – economic, social and environmental. Progress towards meeting the sustainability objective implies that the EU advances in a balanced manner with regard to each pillar. Neglecting one of the pillars could only result in the overall objective being missed. Therefore, competitiveness is a necessary ingredient in the success of the sustainability strategy".

At practical level, in the environment area, we need to do two things. First, we must become more rigorous regarding the environmental objectives put on the agenda. Our finite resources and the high level of environmental quality already achieved means that we must concentrate on a limited number of priority objectives which are targeted towards achieving clearly measured environmental and health benefits.

Second, we need to make a leap forward regarding the choice of environmental instruments used to achieve these objectives. The self-regulation and co-regulation approaches should be applied in a much broader scale. The legislator should set the objectives and leave to the companies the choice of the means to achieve these objectives.
Norway gives a good example of how to progress towards better regulation. It has recently fundamentally rethought its policy for controlling sulphur dioxide (SO2) emissions.

Until 2001, Norway levied a SO_2 tax on companies, the revenues of which were not earmarked for reducing SO_2 emissions. In 2001, an agreement was signed between the Government and industry, under which industry will reduce emissions of SO_2 by 5,000 tons between 1999 and 2009, in line with Norway's obligation under the Gothenburg protocol. On their side, the authorities removed the existing inefficient SO_2 tax and introduced a system of "bubble permits" allowing companies to choose which of their plants will install cleaning equipment, thereby finding the most cost-efficient solution for emission reductions.

A fund has been created for financing cleaning equipment, in which each participating company pays an amount corresponding to the previous SO_2 tax. With this innovative approach, the same environmental results will be achieved, but at significantly lower costs.

Such innovative managerial approaches are unfortunately often missing in the European Union. For instance, when the REACH initiative was being prepared, there was no sufficient exploration of the basic policy approaches that might be followed. The policy approach which was finally chosen was not evaluated in a really *comprehensive* impact assessment. We miss a benchmarking of the total costs of REACH versus costs in other parts of the world and a better evaluation of the indirect and induced impacts on the global competitiveness of EU industry, including effects on downstream users, employment, innovation, growth and investment.

It is essential that the Commission improves its initial impact assessment, in line with the European Summit conclusions. Last week, UNICE and CEFIC jointly proposed a plan and a methodology for improving the Commission initial assessment. We believe that this work is a prerequisite for the definition of a workable REACH system.

As my last point, I would like to underline the importance of giving a wide interpretation to the notion of "environmental performance of industry" in the climate change context. In this area, public authorities should not look to promote environmental performance only on European territory. The Kyoto concept of “geographical flexibility”, which allows companies to contribute to national emission targets via projects implemented *outside* Europe, must be implemented without bureaucratic restrictions.

Did you know that a single big energy project developed by the Italian company ENI, in the framework of the Kyoto “Clean Development Mechanism” (CDM), intended to modernise Nigeria’s energy infrastructure and stop its colossal flaring of natural gas, will make it possible to prevent the emission of 1.8 million tonnes of CO2 equivalent per year? This is equal to the CO2 emissions of the entire brick-making sector in Germany! We need to encourage such CDM projects, which have a significantly lower cost than many projects for reducing CO2 emissions in Europe.

To that end, it is essential not to impose quantitative restrictions on use of “emission credits” resulting from “Clean development Mechanism” and “Joint Implementation” projects on the future European market for emission allowances. This point was well understood in the Commission’s recent proposal for a directive, and should not be modified.

To illustrate what is at stake here, I would underline that, in order to reach its Kyoto target, the Netherlands will need to buy the emission credits of at least *eleven* CDM projects similar to the Italian-Nigerian gas project I have just described! In this project, investment for efficient electricity generation using previously flared gas will cost alone 400 million dollars! Only if such projects are launched in sufficient numbers will most Member States be able to reach their national Kyoto objective by 2012.

As you can see, European society expects business to deliver environmental performance not only domestically, but also worldwide, in order to ensure that overall national climate change commitments can be respected. Only companies operating in competitive framework conditions, and not stifled by poorly designed environmental legislation, will be able to deliver this double performance. This is also a crucial consideration which drives our campaign for competitiveness.

Thank you for your attention.