

**UNICE OPINION ON THE DEVELOPMENT OF EU CLIMATE CHANGE POLICY  
IN THE NEW INTERNATIONAL CONTEXT**

**Key messages**

1. Climate change is a global problem which calls for global cooperation. This is necessary from both environmental and economic perspectives. European industry has made a major contribution to combating climate change and it is highly mobilised on this objective. However, appropriate framework conditions are necessary so that this contribution can be pursued on a sustainable basis.

In making strategic decisions concerning climate change, the Commission and Member States must take into account that if all major trading partners are not operating under the same rules developed at the international level, then this is tantamount to imposing a substantial penalty on companies in those countries which are applying these rules, harming their competitiveness and hence their capacity to contribute to social and environmental progress.

2. It follows that, if Russia or the USA do not ratify the Kyoto Protocol, then a new model for international cooperation will be required, designed to ensure tangible participation of all countries including Russia, the USA, developing and threshold countries, notably China and India.

The EU must prepare to play an active role in the debate on this new model, and contribute to its development.

3. Bearing in mind the new international context, a revised EU climate change strategy needs to be designed to give an answer to the question of how negative impacts on EU industries' competitiveness can be avoided in the case of non-ratification of Kyoto by the major economic areas, whilst promoting climate protection.
4. To facilitate this re-design, it is vital to launch a review of all relevant EU policies concerning the period 2008-2012, aimed at assessing their impact on European competitiveness in the case of continuing implementation of Kyoto without the participation of the major economic areas.

The Commission should publish the results of this impact assessment in view of the 2005 Spring European Council, which should hold a major, in-depth discussion on EU climate change strategy as based on the Kyoto targets.

5. Given the global context described above, UNICE is opposed to the EU, or a limited number of countries at international level, setting unilateral quantitative objectives for emission reductions in the post-2012 period.
6. European industries are willing to participate in discussions of cost-efficient approaches that combat climate change and preserve competitiveness and lead to full global cooperation.

## 1. Background

Over the last ten years the European Union has played a leading role in encouraging international experimentation with new approaches to combat climate change, including:

- a) long-term agreements with industries at sector, national and EU level;
- b) a number of methodologies for organising international cooperation (e.g. setting targets and timetables for countries);
- c) instruments such as emissions trading, project mechanisms, etc.

Combating climate change must be regarded as a long-term enterprise, which will necessarily proceed on the basis of the adaptation of current policies, the development of new policies and the withdrawal of superseded policies, in a continuous learning process.

The current divergences between the USA and Russia on the one side and the EU on the other regarding the Kyoto strategy illustrate the difficulty of finding, at the first attempt, an optimal and generally accepted model for cooperation which meets the different environmental, economic and social criteria that each partner considers as key for moving towards sustainable development.

Experience with the Kyoto Protocol so far has shown that setting absolute targets by country generates considerable technical and political difficulties. In particular, it constitutes a major obstacle to the USA rejoining the international cooperation process. In order to re-open the way to an effective global climate change strategy, it is crucial to design a new international model for cooperation.

European industry has made a major contribution to combating climate change and it is highly mobilised on this objective. However, appropriate framework conditions are necessary so that this contribution can be pursued on a sustainable basis. UNICE is increasingly concerned that, at political level, the problems connected with the targets and timetable approach adopted at Kyoto are being ignored, and that the EU or even Member States are planning to go it alone regardless of the unwillingness of other large emitters that compete with the EU to accept absolute emissions reduction targets.

## 2. Recommendations

### a) Emissions trading

Regarding the EU emissions trading scheme, it is essential for the Commission to evaluate the national allocation plans (NAP's) taking due account of protecting the international competitiveness of European businesses. Furthermore, no restriction should be put on the use of carbon credits generated by project mechanisms (JI, CDM).

### b) Urgent need to revise current EU policies and measures

The fact that a new international cooperation regime is inevitable if Russia or the USA does not ratify the Kyoto Protocol must in addition prompt the EU to reconsider the policies it is currently deploying in line with the Kyoto model.

The failure of the USA to ratify the Kyoto protocol and the absence of a tangible and formal decision in Russia are about to generate serious negative effects which need to be thoroughly assessed.

From an *environmental* point of view, unilateral action by the EU to achieve the Kyoto objectives can only reduce global emissions of greenhouse gases by 1% by 2012. It would also have negative environmental effects (non-achievement of the Kyoto global environmental goals; decrease in resources available to European enterprises to innovate and to invest in greenhouse gas control technologies, relocation of industry to countries with lower environmental standards/energy efficiency levels and increased need for transport of goods imported into Europe from relocated plants).

A continued European "going it alone" policy will also be detrimental in *economic* terms (reduction of Europe's competitiveness and of its attractiveness as a place to invest, corresponding job losses). This will move the EU further away from achieving the Lisbon goal.

A revised EU strategy needs to be designed to give an answer to the question of how negative impacts on EU industries' competitiveness can be avoided in case of non-ratification by the major economic areas, whilst promoting climate protection. Cost-efficiency is of key importance to any climate change policy.

To facilitate this re-design, UNICE calls on the Commission to launch immediately a review of all EU climate-change-linked policies concerning the period 2008-2012. This review should start with critical issues such as energy policy, emissions trading including impact on power price, renewables policy and transport infrastructure pricing. The review should assess the impact of these policies on European competitiveness in the case of continuing implementation of Kyoto without the participation of the major economic areas. The Commission should also make this assessment with a view to being able to submit in March 2005 the cost-benefit analysis that the 2004 Spring European Council has requested in relation to the longer term EU strategy proposals and possible connected targets.

On the basis of this preparatory work, UNICE urges the European Council to hold a major, in-depth discussion on the EU's emission reduction strategy based on the Kyoto targets at its spring session in 2005. It must be ensured that the burden of environmental efforts is not unfairly placed on businesses that have, and are taking actions, and have made a significant environmental contribution but is balanced evenly across all levels of society taking into account the contributions to be made by the household and public sectors. Moreover, EU and national programmes for research into climate-friendly technologies should be intensified.

#### c) Long-term EU strategy (post-2012)

Climate policy must recognise the importance of economic growth, which leads to development and dissemination of new technologies, and must not be reduced to environmental policy. The geopolitical aspects of access to energy and to freshwater resources (the distribution of which might be affected by climate change) can only be solved in the framework of global political and economic cooperation.

This highlights once more that the EU cannot combat climate change and its consequences on its own, and that much greater efforts must go into designing a *truly global regime*. A fair and open discussion must be started on the evolution of the Kyoto Protocol that includes tangible participation by all countries, including the US, Russia, developing and threshold countries, notably China and India.

As long as there is no globally acceptable alternative to the Kyoto process, *all* the Kyoto Protocol's flexibility options must be equally and simultaneously made available to ensure cost-efficient climate protection. The EU must play a proactive role in this discussion. All

possible solutions that will result in achieving comprehensive international cooperation must be carefully evaluated. Such solutions include, for example : an efficient global emissions trading market; setting of emissions objectives at sectoral level (energy efficiency targets) on an international basis; and boosting transatlantic cooperation in technology development, implementation and transfer.

UNICE believes that an extension of Kyoto emission reduction targets beyond 2012 could prevent truly international cooperation. Furthermore, new emission reduction targets adopted solely by the EU would have minimal environmental impact, whilst having negative impacts on the EU economy. Such an approach would be regarded as totally misdirected.

In line with the conclusions of the March 2004 European Council, the Commission should present to the 2005 Spring European Council the outline of an innovative and cost-effective strategy for reducing emissions and adapting to climatic changes in the medium and long term based on joint global efforts. UNICE, and all stakeholders, must be involved in these deliberations.

It is important that the new strategy to be launched by the European Commission and backed by the member countries is perceived as being embedded in the UN effort to define a global post-Kyoto model. All countries that have endorsed the United Nations Framework Convention on Climate Change (UNFCCC) are urged to start rewriting the policies, tools and targets for this new model.

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