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UNICE PRESS CONFERENCE ON EU CLIMATE CHANGE STRATEGY

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The action plan recommended by UNICE relates to two elements:

- development of future EU internal policies
- development of future EU external policies and initiatives.

1. Development of future EU *internal* policies

1.1 Correct the knowledge gap about impact of EU policies

Development of EU internal climate-linked policies has never been planned on the basis of a truly clear measurement of the consequences of a unilateral EU Kyoto policy, as has often been done in other important environmental legislation (REACH.)

This gap in our knowledge now needs to be closed. Impact studies should be made by the Commission to determine what adjustments might need to be made in particular:

- to the objectives and rules laid down for industry emissions;
- to EU policies which can increase the cost of inputs for industry (transport policy, renewables policy, etc.)

A key element to assess is the impact of the European emissions trading system (ETS) on electricity prices.

Given the current status of the European power market where prices are partially set on the basis of marginal production cost, industrial energy users fear significant increases in the price of electricity not reflecting the average carbon intensity of electricity production. They also fear that electricity prices could rise as if electricity producers had to pay 100% of their emission allowances, which is not the case because of grandfathering of the majority of emission allowances.

The way electricity producers will incorporate the cost of their emission allowances in the price billed to industrial electricity users is very unclear. According to some studies, electricity producers could include an emissions trading fee in any electricity bill, whatever the energy source used to produce the electricity sold to the client, even if carbon-free energy inputs were used like hydro or nuclear, as the existing price formation mechanism would allow them to do this.

This is a complex subject, surrounded by many uncertainties, which generates a wide spread in the cost estimates.

Depending on the scenarios considered, 8 big electricity-consuming sectors, namely those producing cement, paper, ceramics, glass, lime, chlorine, steel and non-ferrous metals, could have to bear additional financial costs of between 85 million EURO and 2.3 billion EURO due to increases in the price of electricity.

UNICE asks the European authorities to *evaluate* before January 2005 the real impact of the ETS on the price of electricity and to *take measures* to avoid price increases which do not reflect the average carbon intensity of electricity production. This assessment should be part of a wider prospective evaluation of the overall impact of unilateral implementation of the EU trading scheme.

The Commission should also avoid asymmetric national rules developing for emission trading, which would affect the liberalisation of the internal market for electricity and create distortion to the internal market.

1.2 Put in place review systems which allow rapid corrective actions regarding the ETS

It was initially foreseen that the first round of the EU emissions trading scheme (2005-2007) would be an *experimental* one and that the second round (2008-2012) would be organised taking account of experience gained in the first round. This was also the Kyoto Protocol spirit.

Unfortunately, the emissions trading directive provides that Member States will have to submit their emission allocation plans for the second round *before* the report evaluating the first round is available. There is therefore a high risk that an overhaul of how the EU trading scheme operates cannot take place before 2012. 2012 is much too late for taking corrective actions in the face of unfair competition from non-Kyoto countries. This deficiency in the policy roadmap needs to be corrected, in order to ensure that the ETS can help companies in an optimal way to meet emission targets.

1.3 Need to review the distribution of efforts within the European society for better control of GHG

Reference to the potential for GHG savings in the domestic sector (insulation in buildings, etc.) and in the transport sector has already been made by Dr Strube, and I will not come back on this.

1.4 The EU should not develop unilateral quantitative emissions reduction objectives for the 2012-2020 period

The rationale for not following such an approach was clearly explained by Dr Strube.

2. Development of future EU *external* policies and initiatives

2.1 The need of a more efficient approach for implementing the concept of geographical flexibility

The important Kyoto concept of “geographical flexibility”, allowing companies to contribute to national emission targets via projects implemented *outside* their home country, cannot be implemented properly at the moment because of non-ratification of Kyoto and some bureaucratic UN rules.

Because of very slow UN approval procedures, very few and marginal Clean Development Mechanism (CDM) projects have yet been approved. Yet the potential of this CDM instrument is very significant: a single large energy CDM project developed by ENI, 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 CO_2 equivalent per year. This is equal to the CO_2 emissions of the entire brick-making sector in Germany. It is vital to

encourage such CDM projects because they cost significantly less than many projects for reducing CO_2 emissions in Europe.

To illustrate what is at stake here, one can also say 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. In this project, investment for efficient electricity generation using previously flared gas will cost no less than 400 million dollars.

Streamlining of the UNFCCC procedures for CDM projects is essential to achieve three goals:

- making actual, measurable and certifiable reductions of greenhouse gases outside Europe, without increasing European production costs and eroding competitiveness;
- promotion of political and industrial cooperation with strategically relevant countries (Africa; Middle East);
- promotion and expansion of industrial growth outside Europe, beneficial to the Eurpean economy.

2.2 The EU should encourage the international community to design a post-Kyoto regime involving the tangible participation of all countries, including China and India

The EU should play an active role an active role in the development of this new regime.

2.3 The EU should promote international cooperation for development and dissemination of low-carbon technologies and CO_2 emission reduction or GHG sequestration technologies

In the short to medium term, the promotion of low-carbon fuels associated with high-efficiency conversion and utilisation technologies can achieve significant GHG reductions, not only within Europe but also in emerging and EIT countries.

In terms of GHG natural gas is, no doubt, the fuel of choice. Its reserve base is increasing – it has now surpassed crude oil – and it can enable expanded supply and higher efficiency uses, through advanced gas turbine-steam turbine combined cycle, cogeneration, NG vehicles.
Also in countries where natural gas is widely used, the upgrading of existing low-efficiency plants can reduce GHG emissions, while liberating additional gas for additional fuel switching.
An international plan to promote expanded and efficient use of NG is very attractive and beneficial for climate change mitigation.

For the longer term both CO_2 sequestration technologies and selected applications of renewable sources can be important areas for international cooperation.
Early projects of CO_2 sequestration can be made wherever already separated CO_2 streams are available (e.g. gas treatment centres, hydrogen plants), thus accelerating the demonstration of this technology (this is also the objective of the Carbon Sequestration Leadership Forum, of which Europe is a member).

As for renewables, those applications should be developed which can be economically viable in a carbon-constrained scenario internalising GHG emissions. Identification and demonstration of these self-sustaining applications should be the subject of international cooperation: two potential candidates could be combined production, in developing countries,

of food and energy from appropriate biomass and low-concentration photovoltaics directly connected to the grid, without storage batteries.

International cooperation programmes can bring to fruition the above options and disseminate them in view of large-scale GHG reductions.

3. Conclusions

UNICE asks that preparatory work starts now at Commission and Member-State level on the internal and external elements of the proposed action plan, so that an in-depth discussion of the EU future climate change strategy (pre- and post-2012) can take place at the European Summit of March 2005.

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