

Action on Climate Change Post 2012 (ACCP)

UNICE's contribution to the consultation organised by the European Commission

Introduction

On 13 September 2004 the European Commission opened a consultation on the EU contribution to the future global climate change regime (see http://europa.eu.int/comm/environment/climat/future_action.htm). The present document gives UNICE's responses to the seven basic questions put forward by the European Commission. As a further input for the consultation, UNICE has submitted a report entitled "Competitiveness and EU Climate Change Policy" (published on 31 October 2004) commissioned from the COWI consultancy, which presents an economic modelling of EU climate change policies and calculates the economic effects of these policies for the year 2010 under different assumptions. This analysis uses a computable General Equilibrium model (CGE) of the world economy with a special emphasis on energy use and emissions of CO₂. UNICE trusts that these analyses will make a useful contribution for developing the internal and external dimensions of Community climate change policy up to and beyond 2010.

Q1. Is it important for the EU to continue to show leadership on addressing climate change?

Leadership in driving environmental improvement is valued, but will be effective only within a global context. The EU should drive for global approach to the climate change issue and avoid unilateral activity which serves only to marginalize the continent from a competitive business standpoint, without achieving true environmental improvements.

UNICE expects the EU to show leadership in the process of bringing the three pillars of sustainability into an optimised balance.

1. The EU-25 accounts for 16% of the world's CO₂ emissions. Many other countries are showing sharply rising emissions resulting in a decreased EU percentage share of global emissions. These countries, due to their rising emissions, must play an increasing role in addressing climate change.
2. "Leadership" with regard to climate change policy should focus on the capability of the EU to engage the main players (USA, Russia, China and India as well as members of the G77) and to bring together different points of view at a global level and to agree a shared plan with a common objective. Any plan must be scrutinised for sustainability and cost-effectiveness. The ratification of the Kyoto Protocol by Russia and its entry into force gives the EU the opportunity to start this dialogue.

3. Globalisation is proceeding rapidly. The majority of companies compete in the global market, either as exporters of products or as competitors of imported products. The price difference between products from different countries and regions is small, which makes it difficult to transfer additional costs onto the product price without losing competitiveness. In practice, additional limitations or legal requirements result in extra costs and thus give competitive advantage to those who do not have comparable requirements. In the global market, many customers are satisfied with products of less eco-efficient production leading to an unavoidable rise in global emissions. This implies that without a global climate change regime there is a real risk of carbon leakage out of the EU.
4. The Lisbon strategy aims to make EU the world's most competitive economy by 2010. Member States are also analysing ways to safeguard the welfare of their citizens. The future challenges of welfare and environment are impossible to attain without economic growth. It is essential that the European climate change policy is in harmony with the Lisbon strategy and the global economy.

Q2. On the basis of the EU's 2°C long-term objective, what objectives should the EU set for global and EU climate change policy (including targets, timeframes and pathways for emission reductions)?

Economic, environmental and social implications of the current policy need to be properly analysed before any new targets or objectives can be suggested. Such targets or objectives must be set within an international context. The EU Climate Change Policy needs to be embedded into the global context against the aims of the Lisbon Agenda.

1. Climate change is a global issue. UNICE is opposed to the EU, or a limited number of countries at international level, setting unilateral objectives for emission management in the post-2012 period. UNICE believes that an extension of Kyoto emission reduction targets beyond 2012 could prevent truly international cooperation. Starting discussions by putting forward caps and timeframes might create resistance rather than gain the confidence of developing countries. Understanding where potential gains can be made, and in which timeframes, may be the best starting point.
2. The 2°C long-term objective is not yet globally accepted within the United Nations Framework Convention on Climate Change (UNFCCC). The IPCC 3rd Assessment Report states that natural, technical, and social sciences can provide essential information and evidence needed for decisions on what constitutes "dangerous anthropogenic interference with the climate system". Such decisions must be determined through socio-political processes taking into account considerations such as development, equity, and sustainability, as well as uncertainties and risk.
3. The future global climate regime should apply to all GHG and to all emitters. Further EU targets, timeframes and pathways for emission reductions must be based upon global negotiations and should be comparable with the EU's main competitors. The EU should continue to use the UNFCCC to engage the wider international community and to collect and process its views. EU climate change policy should be consistent and coherent with agreements at UNFCCC.
4. There is no universally applicable best set of policies; rather, it is important to consider both the robustness of different policy measures against a range of possible future worlds, and the degree to which such climate-specific policies can be integrated with

broader sustainable development policies. Pathways for emission reductions need to include activities by all sectors based on a cost-benefit analysis.

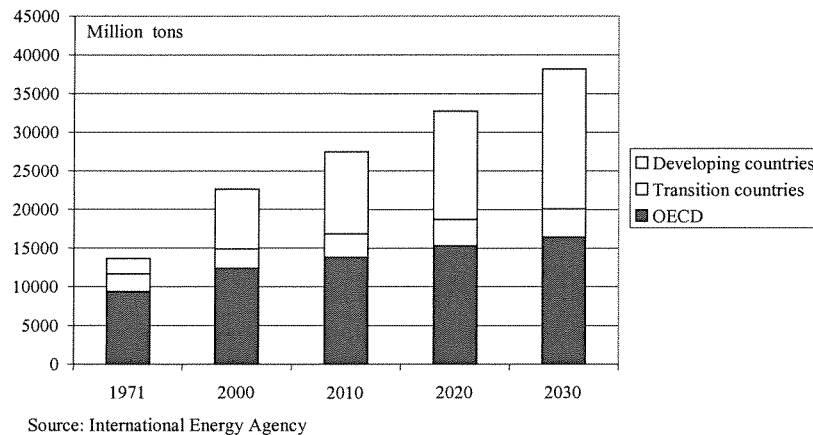
5. Energy efficiency is critical to emissions efficiency in any industry or sector. A sound and comprehensive policy on developing and adopting advanced energy conservation technologies should constitute the first building block of any climate change policy. It would also contribute largely to boosting the security of European energy supply alongside other policies such as the development of carbon capture and storage and the implementation of other low carbon options.
6. Further and continuous R&D effort should be deployed to deepen and upgrade EU knowledge of the scientific relationship between GHG concentration of all gases contributing to the greenhouse effect and temperature rise and between emissions over time and concentration, thus increasing confidence in the establishment of future objectives for worldwide efforts.
7. The lack of certainty after 2012 is of concern to business. Industry needs a coherent and consistent framework in which to operate. Many industries make significant investments. To enable industry to engage effectively, goals and instruments must be clarified for a period that reflects the economic lifetime of their investments (i.e. covering at least a 10 to 20 years period). Interim assessments, for example every 5-10 years, could be designed to monitor progress.

Q3. What type and level of participation should the future climate change regime seek from developed countries and developing countries, what should be the timeframe for such participation and what should the contribution be from the EU and other countries?

It is essential that a truly comprehensive global agreement to combat the risks of climate change can be achieved that includes all countries and regions, particularly major emitters of greenhouse gases. Studies by the IEA demonstrate that emissions from developing countries will exceed those of developed countries within the next 15-20 years. It is therefore necessary to build a flexible model that can accommodate each country's national interests and different needs.

1. It is essential that a truly comprehensive global agreement to combat the risks of climate change can be achieved that includes all countries and regions, particularly major emitters of greenhouse gases. Only with such an agreement, which must be developed on a global basis, will businesses around the world be competing on equal terms. Given the principle of common but differentiated responsibilities, solutions will be needed to allow for a special role for developing countries. The rapid growth of emissions in many developing countries requires their inclusion within a new international regime.

Global CO2 emissions by region



3. Climate Change policy should take into account, and be made in the context of, other priority issues facing developing countries: poverty alleviation (incl. health care), economic development, access to energy etc.
4. Long-term international reduction goals, and the rate of progress towards these, must be based on sound scientific and economic analyses and economically available mitigation and adaptation technology, including the timeframe necessary for technological development, and on thorough consultation with stakeholders.

Q4. Which technological solutions should be allowed or promoted (e.g. renewable energy, nuclear energy, carbon sequestration, carbon capture and storage)?

Governments should provide the enabling conditions to allow the development of a portfolio of cost effective energy and mitigation technological solutions. All players and countries must remain free to adopt the solutions that best fit the opportunities and priorities in their own territory and economic system, including considerations of security of energy supply.

1. It is not within the remit of the Commission to “allow or promote” certain technological solutions.
2. Alternatives to fossil fuels will be developed through research and development. This will happen earlier through accelerated and increased funding and international coordination. Policies and measures should also be pursued to increase the use of: energy end-use efficient technologies and non- or low-emitting generation technologies such as renewables, nuclear power, combined heat and power, high-efficiency natural gas and advanced clean coal technologies (including carbon capture and storage).
3. It is vital that climate change policies do not interfere with the liberalization of the EU energy market and that subsidies must not distort the market and are reduced as a new technology becomes commercial.
4. Technology will have a major role in the mitigation of climate change. In long term it is essential to encourage innovations by investing directly in research and development

programmes in co-operation between EU and other countries as well as between governments, universities, research institutes and private actors. Climate change should be seen as an integral part of the general research and development policy, for example, in the seventh EU research framework programme. Focus should be on those technologies that can deliver sizeable emissions reductions.

5. The EU should enact policies that encourage the implementation and diffusion of both new and existing technology. This is carried out by private and public investments in developed and developing countries. Appropriate enabling environments, for example, legal and intellectual property protection, can accelerate this process. Technology development and diffusion is carried out by profitable companies. The long life span of technology investments and the investment cycle need to be taken into account when designing appropriate policies.
6. Communication focused on the consumer – the final emitter – to increase understanding of the challenge and the need to adapt everyday behaviour should be fully implemented.

Q5. Should the future global climate regime maintain the key elements of the Kyoto Protocol, including the Kyoto mechanisms (joint implementation, the clean development mechanism and emissions trading) and what other elements should such regime contain?

The EU should drive for global approach to the climate change issue and avoid unilateral activity which serves only to marginalize the continent from a competitive business standpoint, without achieving true environmental improvements. If well designed and implemented, the Kyoto mechanisms can potentially play an important role for helping to improve the cost-benefit ratio of climate policies.

1. The Kyoto Protocol is a first step in raising the awareness of the need of international cooperation to protect the world's climate. The Kyoto Protocol appears to be poorly suited to the political situation in the USA – among others; the exclusion of the largest single emitter reduces any environmental benefit. A process that will lead to post-2012 negotiations must involve all countries and regions, particularly the largest country emitters. No one country or region has the ability to reduce emissions to the levels indicated by the IPCC in its 3rd Assessment Report, without the full co-operation of all countries.
2. European business is in favour of using well-designed and implemented market-based instruments, to provide cost effective tools to manage GHG emissions and achieve progress at the lowest cost. The EU has adopted the “linking directive”, which will link CDM and JI to the EU Emissions Trading Scheme (ETS). This was welcomed by European business and industry as it allows the undertaking of emission reductions outside the EU and conversion of the credits earned into emission allowances under the EU ETS. European industry remains strongly opposed to the introduction of artificial ceilings that limit the use within the EU ETS of emission reduction credits from accredited projects. The flexible mechanisms can help EU Member States to meet their objectives in the most cost-effective way and can help to limit the economic damage to certain sectors of industry. The environmental effectiveness will depend on open and transparent global markets, with equivalent emission reduction units fully transferable between the three mechanisms.

3. If the Kyoto flexible mechanisms (emissions trading and project-based mechanisms) are part of a future regime, they should have simplified procedures and be incorporated in the future framework taking into account the necessity of long-term objectives. Global emissions trading is an important policy instrument to drive emissions reductions. The CDM can be beneficial to the transfer of technology to the developing countries. Current high transaction fees and the administrative burden of JI/CDM must be reduced. Technology transfer is best encouraged by improving the investment environment in developing countries. Measures that can favour economic growth, deliver international trade and investments and encourage good governance must be promoted.
4. For many industries, emissions intensity objectives could be considered as policy instruments that would encourage the development of more efficient technological solutions. These can be developed through dialogue between relevant stakeholders. Such policies should aim to improve energy efficiency. Rigid targets and timeframes may not discourage emissions efficiency.
5. In climate change policy, every element should be designed to improve efficiency and business growth, not as regulatory constraints. Business should be able to respond to the challenges in innovative ways. Incentives should be used to create investments in the creation of competitive lower carbon products and services.
6. Consumers and their choices make markets, and markets can, in turn, give signals to consumers. To modify consumer and customer behaviour, it is necessary for governments to promote education, training and to encourage a culture in society of more efficient use of resources and environmental awareness. Joint public-private awareness campaigns and alignment of public procurement with climate policy objectives should be supported.
7. It is vital that appropriate policies and measures to encourage adaptation to the risks of climate change are adopted alongside any policies and measures on mitigation.

Q6. What are the costs of taking further action on climate change, including competitiveness impacts, and how can/should impacts be addressed?

To strike a balance between costs and benefits is a must for any climate policy approach. Cost-efficiency is key. Meaningful cost-benefit-analyses based on sound scientific methodologies should be conducted, thus creating the basis for a thorough impact assessment of any climate change strategy. Setting realistic objectives and installing mechanisms to enhance cost predictability will reduce economic uncertainty and would not undermine economic growth, thus increasing the support for sustained climate protection in all parties.

1. Good assessments of the costs associated with further actions on climate change can only be developed by assessing the current policy, in particular for the period 2008-2012. An analysis that UNICE has commissioned from COWI gives estimates of economic effects in 2010 of current EU climate change policies, under various sets of assumptions. The key conclusions are:

Technology assumptions	Sluggish short term adaptation(a)	Long-term adaptation(a)
Change in GDP (2010): EU 25 (basic scenario) EU 25 (high growth scenario - Lisbon goals)	- 0,48% - 0,8%	- 0,36% - 0,6%
Change in exports of energy intensive goods to outside of EU (2010)	-5,1%	-3,8%
Additional CO₂-emissions in countries without carbon constraints, induced by absolute emission reduction objectives in Annex1 countries (including EU25). (In % of total CO₂ emissions reductions in Annex1 countries, in 2010)	+ 21,0%	+17,8%

Source: "Competitiveness and EU Climate Change Policy", COWI, October 2004.

(a) The COWI report takes account of two assumptions concerning technological progress:

- "long-term adaptation case": this assumption considers an automatic, generalised and smooth adaptation of the technology stock over the long term, in response to carbon constraints.
 - "sluggish short-term adaptation": this assumption takes account of the fact that, in sectors such as electricity, technological adaptation generally occurs in a non-linear way, through projects with long lead times. This assumption also considers that changes in the pattern of cross border electricity trade with countries outside EU are very sluggish. This assumption, which seems closer to reality than the long-term adaptation case, generates slower and more limited technological adaptation over the period 1997- 2010.
2. The pursuance of EU Climate Change policies as they are currently formulated will result in negative competitiveness effects for European industry. This blunting of competitiveness results primarily from the scarcity and cost of allowances in the EU-ETS and the consequential impact in terms of final energy prices within the EU, in particular electricity prices. This results in negative competitiveness impacts for energy-intensive sectors and also the wider European economy.
 3. In addition to these negative competitiveness impacts, the pursuance of EU climate change policies as currently implemented will generate significant carbon leakage (see table above).
 4. All bureaucratic burdens to the efficient use of the Kyoto Protocol flexible mechanisms, namely JI and CDM, should be removed. A series of barriers to the successful and enhanced use of these mechanisms by European industry have been identified. UNICE recommends that the necessary steps are taken to address these barriers by relevant policy makers.
 5. The Commission cost-benefit analysis for the 2005 Spring Summit should contrast and compare its results with existing analyses that have been conducted by, for example, the IPCC and the UK government.
 6. The distribution of costs both among and within countries, as well as among and within specific sectors is key to competitiveness. Concerns arise when companies from one

nation face different climate burdens than their competitors in other nations, resulting in an imbalance between competitors. This could lead to re-location of industries or production between nations and regions. Constraints and restrictions applied on a specific region of the world can affect its competitiveness in a global market resulting in a loss of competitiveness, jobs and GDP. A global agreement between the world's major country emitters could avoid this in the post-2012 period.

7. Energy is a key factor for industrial manufacturing processes, as well as a key variable cost. It has a direct and significant impact on the competitiveness of industry. Furthermore, energy use is also related to environmental effects. In going forward there must be an integrated policy that takes into consideration how to effectively combat the global risks of climate change, coupled with policy that seeks to balance the social and economic realities of safeguarding the ability of industry to deliver the best possible contributions to sustainability.

Q7. What are the benefits of taking further action on climate change, including avoided damages, competitiveness impacts and ancillary benefits, and how can/should these be encouraged or optimised?

Significant benefits will only arise from “wider action” rather than “further action”. This will occur within the EU through the inclusion of all sectors within the economy and at an international level through a comprehensive global agreement that includes all countries and regions.

1. Policy must be designed with the aim of avoiding or mitigating the impact of the risks of climate. However, it cannot be created and implemented in isolation from other policies designed to encourage economic growth and development.
2. Emerging economies could benefit from science and technology diffusion from developed countries. Emission-efficiency must be a paramount criterion when setting up a global system that addresses the needs and priorities of developing countries.
3. The early use of JI and CDM credits will, as stated at the Johannesburg Summit, *“improve the ability of all countries, particularly developing countries, to meet the challenges of globalisation, including greater capacity building and the transfer of financing and environmentally friendly technologies”* and will increase the incentive to invest in projects beneficial to the economy, as well as to the environment, of those countries.
4. Increased funding and international coordination can benefit research, development and diffusion of cleaner technologies to use current energy sources and alternatives. Examples include hydrogen and CO₂ capture, transport and storage. Policies and measures should be pursued to increase the use of: energy end-use efficient technologies and non- or low-emitting generation technologies, such as renewables, nuclear power, combined heat and power, high-efficiency natural gas and advanced clean coal technologies. Consumer education can change behaviour. Increased research into climate change can enable decision-makers, and public opinion, to make informed decisions. This should be a priority issue for the 7th EU RTD Framework Programme.

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