



Mr José Manuel Barroso
President
European Commission

BE-1049 Brussels

15 January 2008

Dear President,

Re: *Upcoming proposals for revision of the Emission Trading Scheme (ETS) and promotion of renewable energy*

BUSINESSEUROPE is working proactively on establishment of an integrated European strategy for sustainable, competitive and secure energy as well as efficient climate policy. We are therefore following closely the development of the proposals, and wish to comment on them in the light of our letter of 26 November 2007.

The current draft proposals do not integrate sufficiently the competitiveness element, in particular concerning the provisions affecting industrial sectors exposed to international competition. This gives us considerable concern relating to the following in particular.

1. Auctioning of allowances

In the absence of a comprehensive international agreement, auctioning of allowances will harm the competitiveness of European companies, especially in energy-intensive industries and those exposed to international competition. Increasing electricity prices will exacerbate the indirect impacts on industries.

Pending an international agreement in which competing industries are subject to comparable commitments, the most effective way to foster investment and innovation in emission reduction is full free allocation through Community-wide benchmarks for manufacturing industries.

We are concerned to see that that the idea of establishing only partial free allocation provisions is gaining ground within the Commission, and that partial free allocation could be phased out in 2020 even if there is no global agreement in which competing industries are subject to comparable commitments.



2. Comitology procedure (Article 23b of 2003 ETS Directive)

The comitology procedure is not the right instrument to decide on fundamental rules for free allocation of allowances. Co-decision with Council and European Parliament must apply.

The purpose of the EU comitology procedure is to take technical decisions relating to implementation of fundamental rules which should have been previously clearly defined in EU legislation. Devolving the task of defining these fundamental EU rules to the comitology procedure runs completely counter to the objectives of better regulation and sound law-making.

3. Postponement to 2011 of arrangements for preventing carbon leakage and the competitive impacts suffered by energy-intensive industries

We are very concerned that a clarification of the Commission's strategic approach regarding these provisions would be driven merely by a report analysing the risks of carbon leakage to be completed only in 2011. Long delays in clarification of the provisions for free allocation would deprive companies of the predictability they need and lead to a delay in important investments.

Clear and effective solutions must be defined at a very early stage to address the huge direct and indirect impacts that the combination of a strengthened ETS and high renewable targets can have on trade-exposed energy-intensive industries.

4. Fair burden sharing for emission reductions within European society

The Commission is planning to impose on the ETS-covered sectors a reduction of 21% till 2020 based on the verified 2005 emissions. Taking 2005 as a reference date would impose a proportionately much higher burden on the ETS-covered sectors than on the non-ETS-covered sectors, given the 20% emission reduction target adopted by the European Council for European society as a whole (in comparison with 1990) and the substantial emission reduction that took place industry between 1990 and 2005 .

5. More effort needed in the area of harmonisation

While supporting the efforts that are made in this area, there is still uncertainty as regards the actual harmonisation that will exist regarding basic provisions such as auctioning, which seem also devolved to the comitology procedure.

6. Maintenance of severe limits on the use of JI and CDM credits in the ETS


CDM (Clean Development Mechanism) and JI (Joint Implementation) ensure that clean technology is exported to industrialising countries and that abatement of greenhouse gases is carried out at the lowest possible cost. It is therefore extremely worrying that, as long as no comprehensive international agreement has been concluded, the use of CDM and JI credits for EU companies to meet their obligations under the ETS is planned to be further severely limited. The EU should avoid adding more bureaucracy in the area of CDM/JI and instead work on improving the UN system.

7. Threshold for an opt-out of small combustion installations

A threshold of at least 25,000 tonnes of CO₂ equivalent per year should be set.

We hope that the Commission will be able to take those considerations into account when it will make its final proposals.

Yours sincerely,

Best regards,


Philippe de Buck

cc : - to the Members of the Commission
- to COREPER