

SPEAKING NOTES

Check against delivery

3 December 2008

POZNAN BUSINESS DAY 9 DECEMBER 2008

ADDRESS BY PHILIPPE DE BUCK

SESSION ONE "MITIGATION"

1) Importance of Poznan conference and combating climate change

- European industry supports action to combat climate change. The economic crisis has not changed our commitment to the EU climate protection targets. Poznan must set a clear signal that we are on track for a global agreement.
- BUSINESSEUROPE is partner in the Poznan business day. Business is crucial in meeting the climate change challenge, being a major emitter but also the major provider of solutions. Combating climate change is in many ways a technology and innovation challenge. Many European companies have understood the enormous opportunities and strive to be global leaders in climate protection solutions. Shell, the company of moderator David Hone, is one example.
- In a recent publication "Combating Climate Change" we have formulated four key principles for a successful international agreement:
 -
 - *Mobilise all major economies* – because everybody must do its share, especially developed economies must agree on binding emission reductions, but also emerging economies must show commitment.
 - *Establish a level playing field for industry throughout the world* – because otherwise emissions will only move from one region to another in a global economy (carbon leakage).
 - *Strengthen global market mechanisms* – because the ultimate goal must be to establish a global carbon market.
 - *Ensure all cost-efficient climate technologies* – because we cannot afford to ignore any of the existing emission-efficient technologies (energy efficiency, nuclear).

I will come back to (some) of these issues later.

2) Business is as key player

- Business is itself a big – albeit not the biggest – greenhouse gas emitter¹. Resource efficiency is a survival issue for companies, and in Europe companies have improved their energy efficiency by 24% since 1997. This surely has to do with the relatively high energy prices in Europe compared with other economic regions. It also has to do with the fact that companies are adapting to the Emission Trading Scheme which came into force in 2005. But it also has to do with a vision by many European companies of a low-carbon future which they have integrated in their long-term business strategies.
- Business provides products and solutions for emission reductions. To use an example from the 2007 BUSINESSEUROPE Energy Efficiency brochure: 20% of the energy used to move a car is consumed by tyres. Tyre rubber compounds transform energy into heat when the tyres are in motion. *Michelin* has been a market leader in so-called low resistance tyres. Low rolling resistance tyres now represent about 50% of passenger car tyres sold in Europe on the replacement market. However their market uptake is slower than expected, because many consumers are not aware of environmental impacts when purchasing tyres.
- A fundamental question, especially in current crisis, is how to provide the funding for business to innovate and invest in cleaner technologies. On the one hand it is important not to overburden industry with taxes and charges. Incentives to produce more efficiently will free resources in investment. This also means that low-cost and low-carbon energy sources must be used, for example nuclear energy.
- But at the same time a massive increase in public sector investments will be necessary to promote rapid uptake of new technologies. While markets must choose the specific technologies eventually, the public sector can influence the market by modernising public procurement approaches.
- The EU is working on a “Strategic Energy Technologies Plan” to support cutting-edge technologies such as renewables, hydrogen, clean coal etc. We must undertake efforts that we also manage support for climate technologies on a global scale.
- Small and medium sized companies (SMEs) sometimes need a special treatment as they are less well informed about opportunities to save energy than bigger companies. Information campaigns can help overcome the information asymmetry within sectors between large and small companies. Also, energy management consultancies can provide the know-how to small companies while being a tremendous global business opportunity. (*Shell is an example of a company which has a branch “Global Solutions” which offers energy management programmes helping customers to achieve energy savings in many different industrial sectors.*)

¹ See flow chart at annex

3) Burden sharing – everybody must do its share:

- In the past EU emissions were reduced considerably in the energy-producing (by 11%) and manufacturing industries (by 13%) since 1990. With the current EU climate targets these sectors will further reduce emissions. Their efforts will be at least 21% between 2005 and 2020 through the EU Emission Trading Scheme. To our knowledge, these reduction commitments are unprecedented in the world.
- European industry and energy sectors account for only 6,5% of global emissions. Solutions to climate protection must stretch across all sectors and regions.
- Households, services, transport and agriculture represent large reservoirs for CO₂ savings in the world. In the EU buildings could achieve 30% less energy use in a cost-effective way. This equals an 11% reduction in the EU's final energy consumption. However, energy use in this sector continues to increase.
- Burden sharing also relates to regions, which is a major topic for the Poznan conference. We believe that all developed economies must agree to binding absolute emission reductions which reach a 30% global reduction by 2020.
- At the same time emerging economies must also start work before 2020, of course always based on "common but differentiated responsibilities" as formulated by the UNFCCC. The IEA's World Energy Outlook published last month predicts that 97% of the additional greenhouse gas emissions by 2030 will come from non-OECD economies.
- How can we design market based instruments to achieve a massive voluntary technology transfer to developing economies? European industry believes that the "Kyoto-mechanisms" - Clean Development Mechanism and Joint Implementation – constitute very important instruments for cost-efficient emission reductions. Their long-term future must be guaranteed. At the same time substantial reforms of these mechanisms should be envisaged to enhance their emission reduction performance both in quality and quantity.

4) Energy Efficiency

- The EU in 2007 has formulated three climate and energy targets for 2020, the so-called 20-20-20 targets by 2020:
- - 20% greenhouse gas reductions This might be stepped up to 30% depending on the outcome of the international agreement which we all hope will be concluded in Copenhagen next year;
 - 20% increase the share of renewable energy. Currently this share is at about 8,5%; and
 - 20% improvement in the EU's energy efficiency.

Of the three EU goals only the energy-efficiency goal provides direct synergies for all the three challenges we face: climate protection, energy security, and competitiveness.

- The biggest potential to save energy is in the residential sector. A vast amount of readily available technologies exists already today. We must achieve a market transformation in favour of energy- and carbon-efficient products. We need a change in mindsets throughout society. Markets for more energy-efficient products and solutions often are not yet existent because consumers do not take into consideration climate protection when making their product choices.
- Smart labelling of products could be a good way of raising consumer awareness. International energy performance standards should be developed. The European Commission has recently put forward an action plan to achieve better sustainable consumption and production in Europe.
- Around the world, the current economic relaunch agendas feature financial incentives for environmental purposes. We think that environmental fiscal incentives can have a very positive impact. However, badly designed they can also lead to a waste of public resources and might miss their targets. Fiscal incentives can provide households and companies with the capital to invest in energy efficiency and drive down amortisation costs. BUSINESSEUROPE is actively discussing how to best design fiscal measures which are both environmentally effective and economically efficient. It is a challenge to devise effective fiscal instruments which are not counterproductive in the administrative burden they create. Some fiscal measures to encourage the buying of CO₂-efficient cars have been successful, for example in Norway or in the Netherlands.
- The ultimate challenge for success will be to make the energy use in emerging economies more efficient. Energy saving measures can be implemented more easily in developing countries, as they start from a lower base. McKinsey has estimated that China alone has an overall energy saving opportunity to be close to 5% of global energy demand by 2020. At the end of our efforts must be a global, dynamic system which encourages efficient products, production and consumption throughout the world.

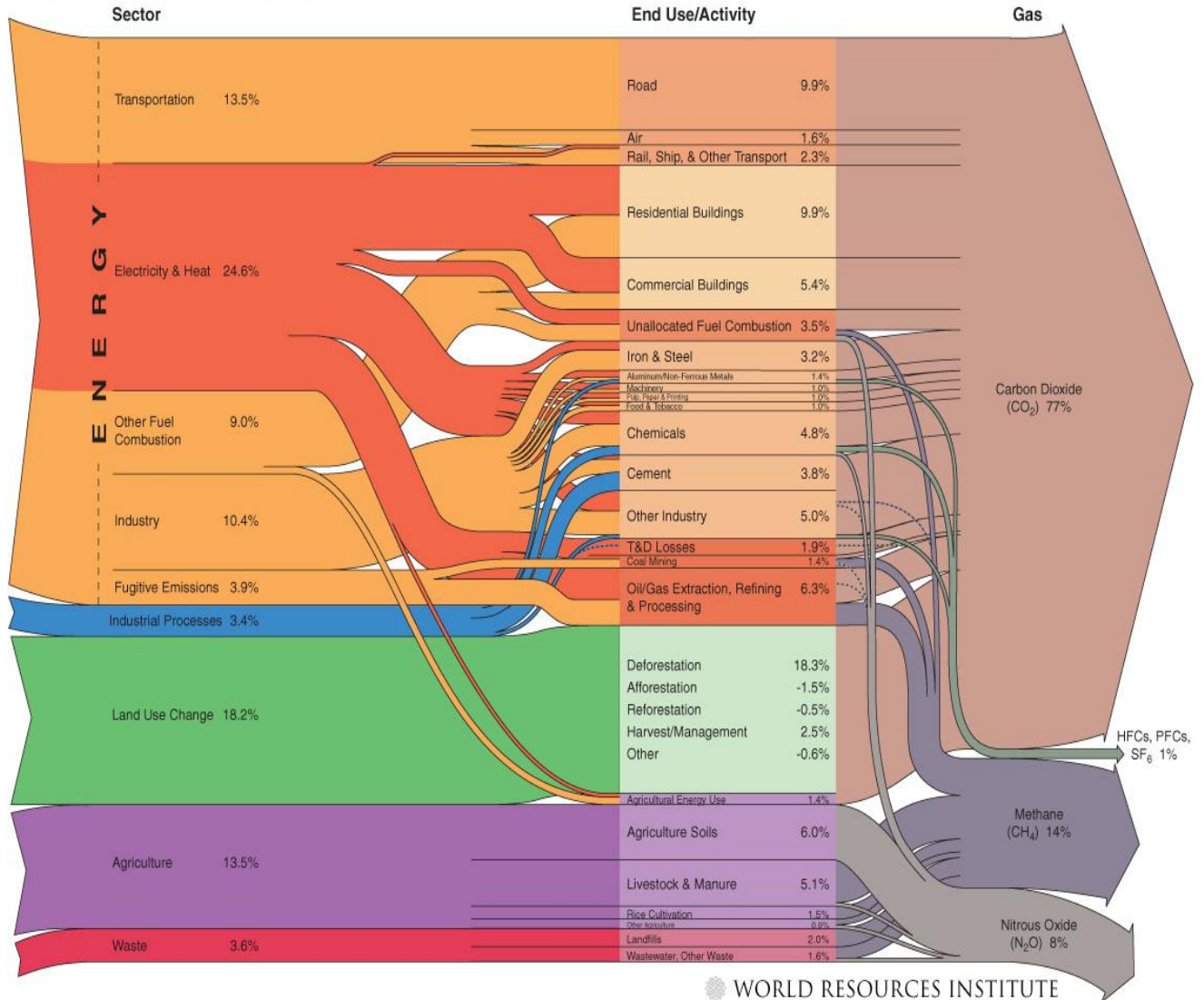
5) Market mechanisms - Emission Trading

- By the end of this week the European Council will possibly have decided on a landmark climate and energy legislative package. The burden sharing of the 20% greenhouse gas reduction and the 20% renewable energy goals will be set into stone. Most importantly for industry the European Council could also decide on rules for the EU Emission Trading Scheme from 2013 onwards.

- The experiences EU industry has made with CO₂ emission trading since 2005 are by and large positive. There is a price on carbon emissions now in Europe. This has triggered mentality changes in European companies; CO₂ emissions are now discussed in company board rooms. We think this helps EU companies in their long-term strategies. At the same time, there is the problem of competitiveness. EU companies cannot act alone.
- One of the key elements for the strongly needed international post-2012 climate change strategy should be the establishment of a long-term, well functioning, market-based policy framework with participation of all large emitter nations extending through to 2030 that will give investors in climate change mitigation confidence in the long-term value of their investments. A significantly improved version of the EU Emission Trading Scheme (ETS) may provide the basis for such a framework. BUSINESSEUROPE considers that moving towards a global carbon market should be one of the ultimate goals of the international climate negotiations.
- We are not promoting a single system to other regions, but with the EU ETS we are currently testing a very concrete one. If rightly designed, it could be the basis for a global carbon market.
- The fact that the EU has the world's most advanced policy for reduction of industrial emissions creates risks of environmental and economic inefficiency (carbon leakage). For these reasons, BUSINESSEUROPE has called for major adjustments to the Emission Trading Scheme. But this demand does not mean that we want to throw out the baby with the bathwater.
- We believe that efficiency benchmarks should play a key role in any market-based system. The most efficient performers or those that improve their efficiency must be rewarded. This should apply to emission trading schemes, but it could also extend to the global level, for example in the sectoral approaches currently discussed (good progress made for example in aluminium). We do not believe, however, that such global benchmarks should be used for negative border measures. Trade must be stimulated not hindered to ensure technology transfer.

* * *

World GHG Emissions Flow Chart



WORLD RESOURCES INSTITUTE
Source: World Resources Institute 2000