POSITION PAPER

BUSINESSEUROPE

11 October 2011

The EU Low Carbon Roadmap 2050 and the Role of the EU Emission Trading Scheme

KEY MESSAGES

1 BUSINESSEUROPE supports the development of EU roadmaps to 2050.These will help business to plan longer term strategies and investments for a world where global greenhouse gas emissions must at least halve by-mid-century.

2 The proposed "Low carbon roadmap 2050" should be improved, among other things by detailed bottom-up, sector by sector analysis of potential reduction levels. The principles laid out in this position should guide the setting of EU emission reduction ambition levels for 2030.

3 For the EU Emission Trading Scheme to play its role, EU institutions should refrain from undue intervention in the market mechanisms, for example through "setting aside" allowances as proposed by the "Low carbon roadmap 2050".

Introduction

BUSINESSEUROPE supports the concept of the development of roadmaps through to 2050, as these will help to provide business with better clarity on which to base longer term strategies and investments.

The "Roadmap for moving to a competitive low carbon economy in 2050" proposed by the Commission in March 2011 is a good starting point for discussion with the business community on the effects of future political, economic and technological developments and their impacts on future European industrial policy and development. To become viable and effective in planning the future EU climate policy, it must be improved taking into account the following principles described in this paper.

Furthermore, in the context of the goal of at least halving global greenhouse gas emissions by 2050 compared with 1990 levels, the EU's roadmaps will have to be designed taking into account climate actions undertaken in different world regions

1. General principles for an EU low carbon roadmap 2050

The "Roadmap for moving to a competitive low carbon economy in 2050" should be improved by:

- developing indicative milestones for emissions reductions for 2030, 2040 and 2050 based on detailed bottom-up, sector by sector technical and economic feasibility of potential reduction levels with special attention given to competitiveness, jobs and growth in all sectors. Milestones must be seen as checkpoints towards a longer term target and must not prejudge binding reduction targets to be agreed through the EU "ordinary legislative procedure" (formerly codecision). Milestones should show a variety of pathways to attain possible aims for emission reductions, based upon realistic modeling of current and future technical and economic scenarios;

- making the proposed milestones for 2030 and beyond dependent on strong and comparable efforts from all other industrialized countries and major emerging economies. Furthermore, the roadmap should trigger a debate on measures needed to achieve future climate objectives in the case of no or insufficient international action;

- integrating roadmaps currently in preparation, in particular, the Energy 2050 roadmap and those from Member States in a holistic strategy. Moreover, it must be possible to adapt the strategy according to technological and market developments without prematurely choosing among technologies;

- fully acknowledging the role of international offsets in achieving any reduction level, provided that these are cost-efficient and environmentally viable. Any of the proposed milestones should therefore include international offsets, and not have to be achieved by solely domestic action;

- refraining from suggesting, directly or indirectly, unilateral changes to the agreed 2020 emissions target. In case of a global climate deal, triggering an increase in the European Union reduction target to -30%, there would need to be an open, transparent discussion in full consultation with industry, and decisions should be taken via the "ordinary legislative procedure";

- putting the primary policy focus on realizing untapped energy efficiency potential, for example in buildings, and supporting the development and deployment of the technology needed to deliver the requested emissions reductions in Europe.

It is important that these general principles for a 2050 Roadmap guide the setting of the overall EU ambition levels for 2030, including the ambition levels concerning the contributions from the traded sector during the 4th trading period and the overall burden sharing between Member States.

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2. The role of the EU ETS in the 2020 and 2030 horizon

BUSINESSEUROPE considers the EU ETS to be the most cost efficient way to reduce GHG emissions and that it must remain the primary tool to reduce European industrial greenhouse gas emissions by 2020 and beyond. The EU ETS is primarily an instrument designed to achieve a pre-determined emission reduction objective in a cost-effective and economically efficient manner[1]. Low carbon investment should thus be supported with additional measures and Member States' revenues from the ETS auctions should be used to help industry invest in low carbon technological innovations.

For ETS to play its role, it is of crucial importance that the regulator refrains from undue intervention in the market mechanisms to steer the allowances' price in one direction or another. Incentives for emission reductions must in principle only spring from transparent and explicit political agreements on the overall cap on emissions, and not from active interference with the carbon market. For 2020, this cap was set by the climate and energy package in 2008, and any direct or indirect means of altering this target, either temporarily or permanently, other than through a transparent ordinary legislative procedure, would reduce predictability for industry and the market's faith in the EU ETS.

Consequently, while a correction of the present ETS framework could compensate for price discrepancies caused by national initiatives such as the UK floor price, BUSINESSEUROPE's Members on balance agree that it would be highly inappropriate to "set aside" emission allowances during the 3rd trading period. This type of interventions, as proposed for example to compensate the effect of energy efficiency measures on carbon price, would negatively interfere with the functioning of the market mechanisms that have already been established.

BUSINESSEUROPE acknowledges that, a higher carbon price is one of the factors that could provide a stronger incentive for continued efforts to reduce emissions within the EU beyond 2020. However, climate policies only based on high carbon price do not necessarily trigger investment in low carbon technologies and could produce the opposite effect discouraging investors and increasing carbon leakage from the EU. It is therefore necessary to reinforce current measures to protect business competing on a global market, such as free allocation based on efficiency benchmarks and complement them with appropriate polices to support research and innovation.

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[1] As stated by Article 1 of the revised EU ETS Directive (Directive 2003/87/EC as amended).