



UNICE

Union of Industrial and Employers' Confederations of Europe
Union des Confédérations de l'Industrie et des Employeurs d'Europe

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EU STRATEGY RESPONDING TO CLIMATE CHANGE

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Key UNICE messages :

- **The EU strategy responding to climate change should be implemented within a framework with the prime aim of achieving balanced and sustainable economic growth.**
- **European industry is already acting to control its greenhouse gas emissions through long term agreements. These are UNICE's first choice of instruments to respond to climate change, and can be supplemented by the Kyoto flexible mechanisms.**
- **The Kyoto flexible mechanisms can help EU Member States to meet their targets in the most cost-effective way, so helping to protect the competitiveness of European industry. Environmental effectiveness will depend on open and transparent global markets, with equivalent emission reduction units fully tradable between all three Kyoto mechanisms.**
- **To ensure environmental effect, and protect the competitiveness of its industry, the EU should ratify and implement the Kyoto protocol in step with its major trading partners.**
- **Engaging non-Annex I parties in the process of responding to climate change must be a key objective, to ensure there will be an environmentally effective global response.**

Introduction :

- **Kyoto sets a framework and poses a series of challenges for governments, industry and all sectors of society. It moves the issue from 'whether' to 'how' to respond to climate change.**
- **EU Member States and the Commission now need to identify how to meet the objectives they have set for themselves, using an EU strategy that is based on an integrated approach.**

- UNICE, representing EU business and industry, is ready to help ensure this strategy is both environmentally effective, and balanced in terms of its socio-economic impacts.
- The commitments made at Kyoto are the first steps in responding to a climate change issue that is by its very nature global and long term, as also must be the EU strategic response.

A Global Issue :

- The characteristic of the climate change issue is that it is truly global, so that emission reductions, wherever made, will be of equal value in protecting the global environment.
- Engaging developing countries in the process of responding to climate change must be a key objective, to help ensure that the global response will be environmentally effective.
- The Clean Development Mechanism therefore assumes great importance as the one provision in the Kyoto protocol that encourages non-Annex I parties to become engaged.

A Long-term Process:

- Business and industry needs predictable pathways to achieve long term objectives, so the most economic options can be identified to help meet targets and timetables that have been agreed.
- The EU strategy needs to be based on research, both to narrow uncertainties and to develop new technological options that will offer the long term solutions to climate change.

The EU Objective is Sustainable Development :

- Sustainable Development represents a balanced and integrated approach to meet economic, social and a range of environmental objectives, including responding to climate change.
- Economic growth is a legitimate socio-economic goal, and is essential for meeting all environmental and social objectives through this integrated and balanced approach.

Policies and Measures for an Integrated Approach :

- The industry sector directly contributes around one third of EU greenhouse gas emissions. Consumer choice is a key factor in determining the balance of Community emissions. So, all policy areas must become involved and integrated into an effective Community strategy, to ensure that industry does not shoulder excessive burdens in helping to meet EU commitments.
- The challenging EU targets to reduce greenhouse gas emissions will require a range of policies & measures, including long term agreements and use of the three Kyoto flexible mechanisms.
- Long term agreements are industry's first choice, combining early and cost-effective action with the most flexibility, and should become essential components of an EU response strategy. Incentives will be needed to encourage EU industry to deliver early emission reductions.
- Key criteria to test policies and measures should be: environmental effect, cost-effectiveness, equity, flexibility, transparency, avoiding market distortion, and respecting subsidiarity.

- The Kyoto flexible mechanisms, if well designed, have the potential to become effective market instruments, and can become key components of how EU Member State targets should be met cost-effectively. It is important that sound rules are defined to ensure these mechanisms will secure genuine flexibility for the EU response options well into the next century.

The Kyoto Flexible Mechanisms :

- Long term agreements and the flexible mechanisms can be complementary, with scope for the flexible mechanisms to add to confidence that these agreements will help meet commitments.
- Therefore, the use of long term agreements, supplemented by flexible mechanisms, should remove any need to further regulate or tax European industry's greenhouse gas emissions.
- Flexibility is fundamental for business and industry and will be the critical element in ensuring that the commitments made by the parties to the Kyoto protocol can be met cost-effectively.
- UNICE rejects any schemes or provisions that would have a negative impact on sustainable economic growth in Europe. In particular, this would become an issue if emission limits were set at the sector or enterprise levels.
- Industry should be involved in helping to design and implement all three flexible mechanisms, since it has the expertise to make global markets work openly, effectively and efficiently.
- Wide participation by companies and other organisations should be encouraged, with global trading of credits allowed to ensure that markets will work effectively. Action by companies to reduce emissions early should be encouraged, as part of the EU response strategy.
- To maintain the momentum generated at Kyoto, it is important that pilot emissions programmes are encouraged, so authorities and industry can both 'learn by doing'. This should include considering how to encourage companies by giving them 'credit for early action'.
- The three flexible mechanisms should be made consistent with each other, so parties and companies would be able to trade carbon dioxide equivalent credits generated by any of them.
- UNICE supports the need for a comprehensive compliance regime covering all issues of the protocol, including the flexible mechanisms, but emphasises the need to avoid onerous obligations, with high transaction costs, that would be counterproductive for the environment.
- Reporting requirements should be those sufficient to ensure sound accounting and verification, so that the parties' obligations under the Kyoto protocol can be met efficiently.

Joint Implementation :

- UNICE believes JI projects can play an early and key role as one Kyoto flexible mechanism, helping to maximise the environmental benefits, whilst reducing emissions at minimum cost.

- JI projects must be economically viable in their own right. Transaction costs and the time needed to gain approval must be kept to a minimum, so protecting the viability of JI projects.
- A practical and transparent definition of “reduction in emissions...additional to any that would otherwise occur” needs to be developed that does not require the use of specific technology, or specifically require extra funds be invested beyond those needed for the scope of the project.
- Information required of JI project participants should be focused on what is needed to confirm such additionality, and to monitor, record and verify the project’s emissions performance.

Clean Development Mechanism :

- CDM projects offer scope for technology transfer to non-Annex I parties, so helping to promote Sustainable Development, with Annex I parties able to credit emission reductions. The CDM is both a key opportunity to start to engage non-Annex I parties, and to make early emission reductions. Progress to define practical rules must be a priority for Buenos Aires.
- Emission reduction credits will depend upon a transparent practical definition of reduction “additional to any that would occur in the absence of the certified project activity”. Companies will need to develop the confidence to be ready to make the necessary investment.
- Projects must be economically viable in themselves. Additional requirements to qualify as a certified CDM project must not impose burdens that effectively render projects unprofitable.
- Transaction costs for the Clean Development Mechanism must be minimised, so that environmentally sound projects are encouraged and so contribute to Sustainable Development.
- Information required of CDM project participants should be focused on that needed to demonstrate that the project is consistent with Sustainable Development goals of the host country, to confirm additionality, and to monitor and verify the CDM project performance.

Emissions Trading :

- Even before Kyoto, UNICE supported emissions trading and Joint Implementation as innovative market-based approaches that can add to the flexibility of the overall response. Now, UNICE seeks early progress in defining the scope and modalities for emissions trading, and to be consulted and involved in defining the potential for a sound and practical system.
- While we are aware that emissions trading under the Kyoto protocol “should be supplemental to domestic action”, UNICE considers it would be environmentally and economically counterproductive to seek to put arbitrary limits on the use of flexibility and trading for the purpose of meeting the Kyoto parties’ quantified emission targets and reduction commitments.
- Permits and credits from international and any national emissions trading systems should be freely exchangeable, as well as with the credits from JI and CDM project-based approaches.

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UNICE is :

- ◆ The official voice of European Business and Industry vis-à-vis the European Union Institutions;
- ◆ Composed of 33 central industry and employers' federations from 25 European countries, with a permanent Secretariat based in Brussels.