

Combating Climate Change

Four key principles for a
successful international
agreement

October 2008

- 1 Mobilise all major economies
- 2 Level playing field for industry
- 3 Global market mechanisms
- 4 Cost-efficient climate technologies

WHO ARE WE?

BUSINESSEUROPE's members are 40 central industrial and employers' federations from 34 countries, working together to achieve growth and competitiveness in Europe.

BUSINESSEUROPE, the Confederation of European Business, represents more than 20 million small, medium and large companies.

BUSINESSEUROPE missions:

- Actively promote the role of enterprises in Europe
- Advocate a competitive business environment
- Be a recognised social partner in the European social dialogue
- Be the voice of business for building the future of Europe

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INTRODUCTION

→ **European companies support action to combat climate change.** They are themselves committed to doing their share:

- Between 1990 and 2005 the EU energy-producing sector reduced its greenhouse gas emissions by 11%, and manufacturing industry sectors reduced theirs by 13%.¹
- These sectors will further reduce their emissions by at least 21% between 2005 and 2020 through the EU Emission Trading Scheme.²
- Industry is helping others to reduce their emissions through continuous product innovation, for example improved energy efficiency in products or lighter materials for transport.

However, European industry and energy sectors account for only 6.5% of global emissions. Solutions to climate protection must stretch across all sectors and regions.

→ **The scientific message is clear:** in order to stand a chance of limiting global temperature rise to 2°C, greenhouse gas emissions must peak by 2020 and be at least halved by 2050 compared with 1990 levels. This means nothing less than revolutionising the way the world produces and uses energy.

→ **EU policymakers have decided to lead by example** with a 20% absolute reduction target by 2020, which could be extended to 30% depending on the outcome of international negotiations. Without comparable commitments in other developed countries and especially the rapidly developing regions of the world, meeting the challenge of emission reductions will not be possible.

→ **A pragmatic approach is needed**, which includes all major emitting regions in an international agreement and which favours cost-efficient emission reduction. Ultimately, the world must move towards an international carbon market. In order to get there, BUSINESSEUROPE proposes four key principles that should guide the international climate change negotiations:

Mobilise all major economies to reduce emissions as soon as possible

Establish a level playing field for industry throughout the world

Strengthen global market mechanisms to reduce emissions, linking developed and developing regions

Ensure all cost-efficient climate technologies are deployed and developed

1 European Environment Agency 2008.

2 As proposed in the draft legislation on the revision of the EU Emission Trading Scheme to be adopted in 2008/2009. In the case of an international agreement the required reductions for the covered industry sectors might even rise as high as 37% compared with 2005 (if the EU adopts an overall 30% emission reduction target).

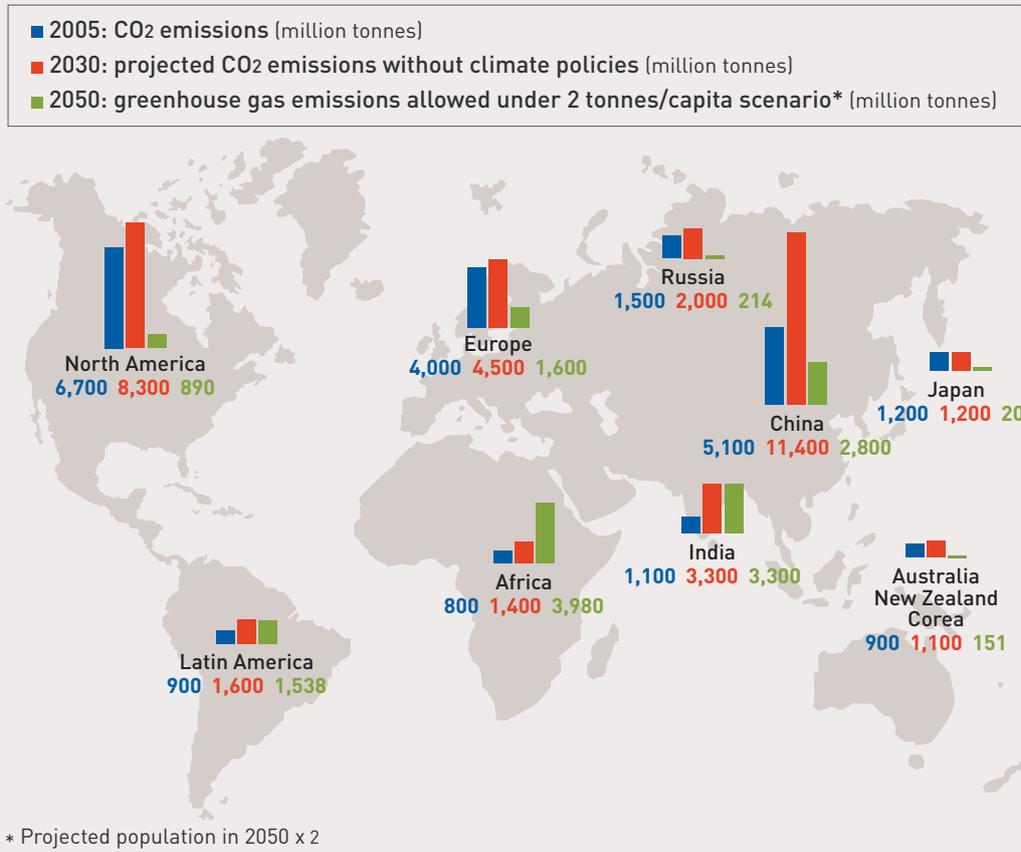


1 MOBILISE ALL MAJOR ECONOMIES TO REDUCE EMISSIONS AS SOON AS POSSIBLE

In order to avoid dangerous climate change, annual global greenhouse gas emissions will have to be reduced to about 20 billion tonnes by 2050. This is equivalent to an annual emission of about 2 tonnes per

person, assuming a population, by then, of 9 billion people. This leaves little scope for complacency almost anywhere in the world.³ Business as usual is not an option.

Chart 1 Current and future greenhouse gas emissions in the world
Source: IEA World Energy Outlook 2007, United Nations



³ For example, a return flight Brussels-New York currently emits some 1.6 tonnes per person.

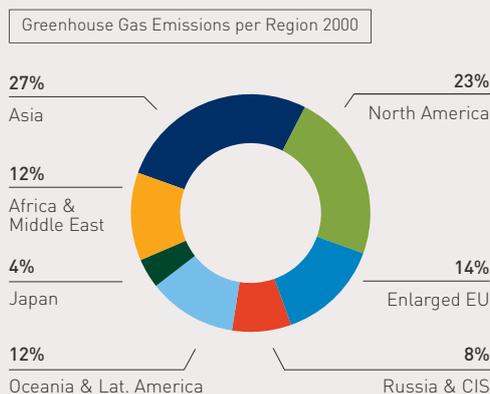
In addition, the science indicates that the longer reductions are delayed, the deeper they will have to be in the future. Making emissions peak by 2020 will only be possible if emission reductions also start taking place in advanced developing economies.

A large number of energy-related investments being made in advanced developing economies to support their rapid growth, such as the construction of new coal power plants, will have lifetimes of many decades. It is therefore vital that investments in low-carbon technologies are facilitated now.

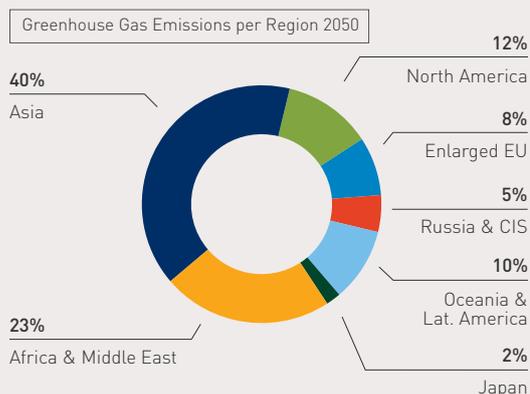
Chart 2

Greenhouse gas emissions per region 2000

Source: European Commission "Winning the global battle against climate change" 2005



Greenhouse gas emissions per region 2050



To achieve the necessary reductions, all the major emitters must take action. **Developed economies** must agree to binding emission reductions by 2020 which reach a 30% global reduction taking into account their national circumstances. A significant part of these reductions can be realised cost-effectively by emission trading schemes.

As part of a global agreement **advanced developing economies** must commit to starting discussions, before 2020, on setting their own binding emission targets. Sectoral approaches, global market mechanisms and other sources of finance and capacity-building, outlined on the following pages, are important tools to mobilise all developing economies.



2 ESTABLISH A LEVEL PLAYING FIELD FOR INDUSTRY THROUGHOUT THE WORLD

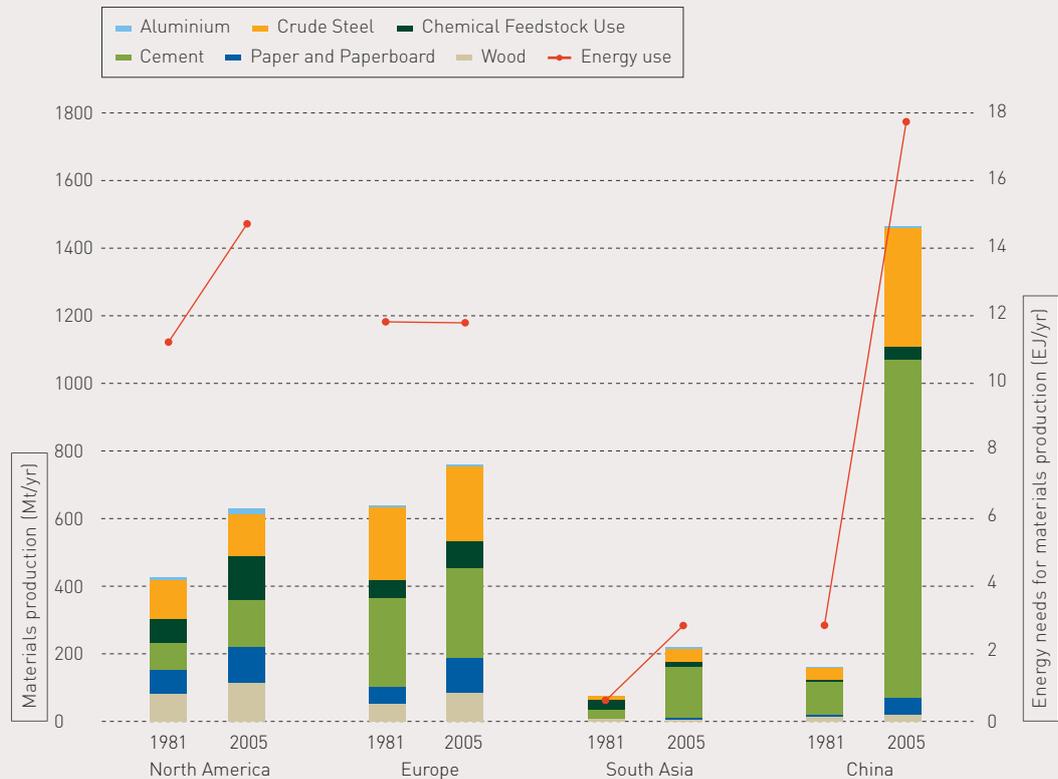
Industrial output has grown almost everywhere over the past decades. Emerging economies in particular have experienced massive growth in industrial production due to changing geographical demand for industrial products as well as a relocation of production to emerging economies.

Europe is the only major industrial region which has kept its energy use roughly constant despite output growth. This suggests much better industrial energy-efficiency in Europe than in other regions even when the restructuring of Eastern European economies during the 1990s is taken into account:

Chart 3

Output and energy needs in manufacturing industry: 1981-2005

Source: IEA "Energy use in the new millennium" 2007



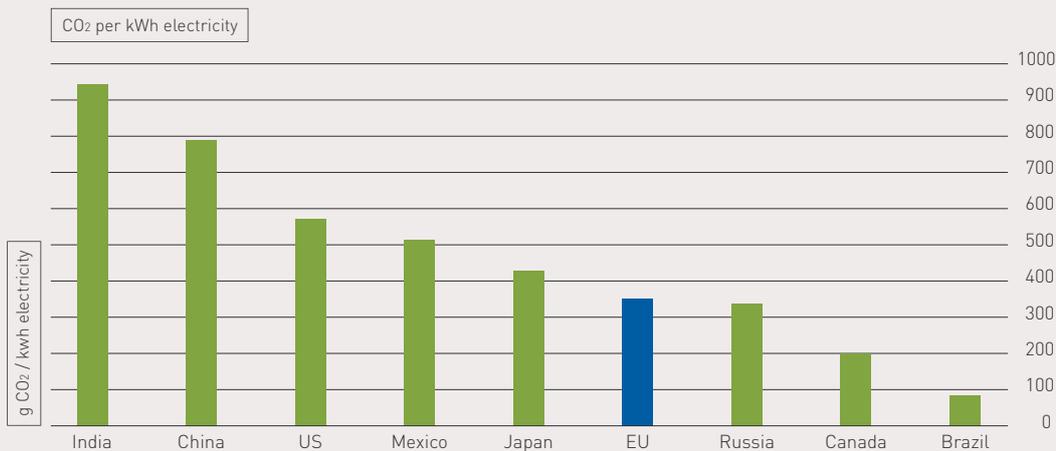
EU electricity production is also relatively low in carbon emissions, due to a cleaner energy mix and to a cleaner performance of European

power plants than in many other regions of the world (see opposite chart 4).

Chart 4

CO₂ emissions per kilowatt hour of electricity produced

Source: ECOFYS climate scorecard 2008



In addition to cleaner production, EU industry has been investing in innovative clean technologies and products. For example, refrigerators now use only half of the energy they used 15 years ago, which is largely due to insulation materials developed by the chemical-industry.

The more industrial production remains in Europe the less greenhouse gases are likely to be emitted worldwide. In order for industry to be able to keep on investing within Europe, the cost of production must not rise disproportionately to the production cost of competitors outside Europe. Especially industry exposed to international competition needs a global level playing field.

National as well as global **action at a sectoral level** must start, to help step up emission reductions:

- As a first step, the **monitoring and reporting of emissions** for industry sectors in developing and advanced developing economies should be extended to enable development of a future international sector approach.
- Potentially, plants within a sector approach that reduce **below a certain emission benchmark** per production unit could **receive rewards in the form of credits**.
- Eventually, **absolute emission reduction targets** should be formulated also for sectors in advanced developing economies.

An international agreement must include a **critical mass of worldwide sectoral production**. Participating countries must agree to implement and enforce measures which will result in an equivalent burden for industries exposed to international competition.

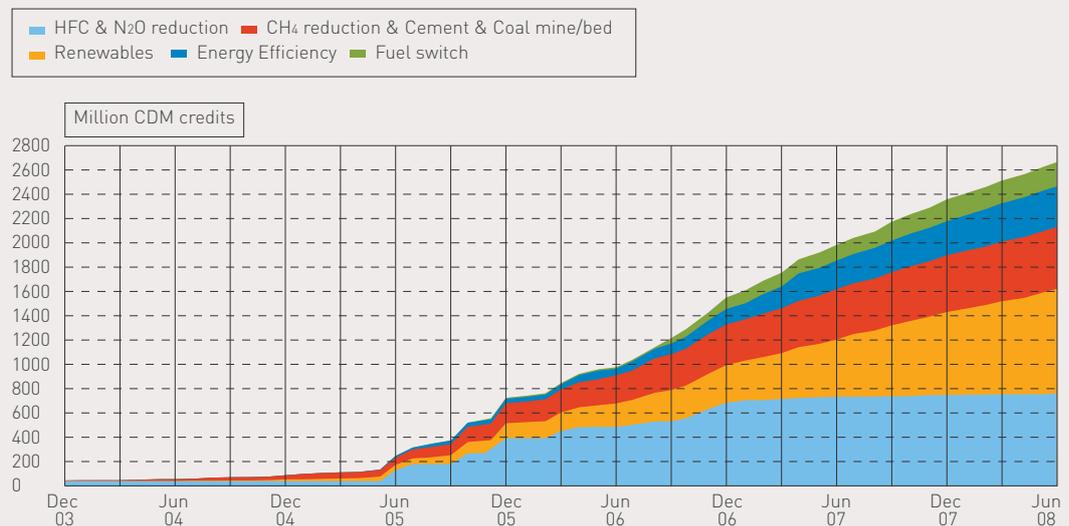
3 STRENGTHEN GLOBAL MARKET MECHANISMS TO REDUCE EMISSIONS, LINKING DEVELOPPED AND DEVELOPING REGIONS

The Kyoto Protocol has created mechanisms which allow developed countries to finance emission reductions in developing countries and thus produce credits which can be used to meet their own reduction obligations. “Joint Implementation” (JI), and especially the “Clean Development Mechanism”

(CDM) constitute very important vehicles for cost-efficient emission reductions and are the first step towards a global carbon market. This could eventually reduce global costs of emission reduction by 70%. The technologies which generate CDM credits are becoming increasingly sophisticated:

Chart 5 Growth of expected CDM credits to be created by 2012

Source: UNEP Risø 2008



However, the volume of emission reductions mobilised by CDM and JI so far does not match the scale of the challenge.⁴ In order to encourage substantially more emission reductions from these mechanisms, **their long-term future must be guaranteed**. Secondly, their **scope must be enlarged**, supporting essential reduction opportunities such as forestation, nuclear energy, renewable and clean coal projects.

Furthermore, **substantial reforms of the functioning of CDM and JI** should be

envisaged, e.g. by defining sectoral emission intensity targets below which a company or a sector within a developing or emerging country will be eligible for emission credits. Such targets could be set within the context of a sectoral approach (see page 7).

In addition to CDM and JI, **free trade within a WTO framework** is crucial to further encourage voluntary technology transfer without endangering the intellectual property rights of companies.

⁴ Nicholas Stern “Key elements of a global deal on climate change” 2008. According to Stern “climate stabilisation would imply annual carbon flows of US\$20-75billion by 2020. By comparison the capacity of the current CDM [results] in net financial flows of perhaps US\$6billion.” (p.15)

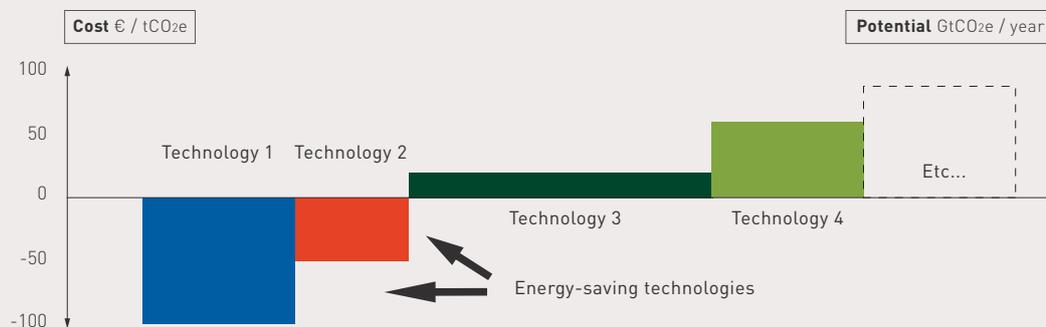
4 ENSURE ALL COST-EFFICIENT CLIMATE TECHNOLOGIES ARE DEPLOYED AND DEVELOPED

To meet the climate challenge all available technologies which have the potential to reduce greenhouse gas emissions must be assessed according to their cost and their

reduction potential. The most cost-efficient abatement opportunities must be explored with highest priority.

Chart 6 Cost curve of abatement technologies

Figurative graph not based on real data



Studies⁵ have shown that many readily available technologies exist with low or even “negative” cost: for example, **energy-efficiency solutions** such as new building insulation, household appliances or industrial motors. **Deforestation measures** and **nuclear energy** are further examples of low-cost abatement opportunities. Up to 70% of emission reductions required until 2030 can be met with existing or near-commercial technologies.

In order to achieve a market transformation in favour of carbon-efficient products, the **awareness of end users** must be raised. International energy **performance standards** should be developed and **economic incentives** have to be set to disseminate carbon-efficient products.

Apart from deploying existing technologies, massive **public sector investments** are necessary to promote rapid development and demonstration of new technologies, e.g. in the renewable energy sector or clean coal technologies, given that coal use is expected to increase by 70% between 2005 and 2030. While markets must choose the specific technologies eventually, the public sector can influence the market by modernising public procurement approaches.

To ensure low-carbon technological development in developing countries, funds like the World Bank’s **“Clean Technology Fund”** can play a vital accompanying role. Furthermore, **official development aid** from all nations should be harnessed for low-carbon development and consistent with clean technology transfer.

5 For example the Stern Report (2006) and various McKinsey studies for Vattenfall (2007), BDI (2007), CBI (2008).

WHAT AN INTERNATIONAL AGREEMENT MUST DELIVER ⁶

1 Mobilise all major economies to reduce emissions as soon as possible

- All developed economies must agree to binding absolute emission reductions by 2020 which reach a 30% global reduction taking into account their national circumstances.
- Advanced developing countries must commit to starting discussions before 2020 on setting their own binding emission targets, based on common but differentiated responsibilities and respective capabilities.
- Least developed countries must be clearly differentiated from advanced developing countries.

2 Establish a level playing field for industry throughout the world

- All large emitters and all sectors of society must contribute to climate protection.
- A critical mass of industry must be covered by the international agreement.
- Participating countries must agree to implement and enforce measures which will result in an equivalent burden for industries exposed to international competition.
- Sector action at national as well as global level should be envisaged, starting with common monitoring and reporting commitments, having in mind the medium-term goal of national or international sectoral targets.
- Continuous growth must be allowed for while moving towards a level playing field.

⁶ This section summarises the recommendations put forward on the previous pages and adds further details, if appropriate.

3 Strengthen global market mechanisms to reduce emissions, linking developed and developing regions

- Carbon markets must continue to be developed with the goal of establishing a global carbon market.
- Confidence in the continuation of the Clean Development Mechanism (CDM) and Joint Implementation (JI) for the post-2012 period must be strengthened. Emission Trading Schemes, not least the EU ETS, must allow for the purchase of an adequate number of CDM and JI credits.
- CDM and JI must be expanded, supporting essential reduction opportunities, such as the transfer of renewable and energy-efficient technologies, protection of forests, implementation of carbon capture and storage or nuclear projects. Capacity must also be built in least developed countries.
- Substantial reforms of CDM and JI should be envisaged such as sectoral, programmatic, technology-based or policy-based CDM/JI.
- Other means of technology transfer need to be applied: WTO agreements and solutions to the violation of Intellectual Property Rights in order to facilitate joint ventures, cross-licensing agreements and patent pools.

4 Ensure all cost-efficient climate technologies are deployed and developed

- All cost-efficient ways to reduce emissions must be supported.
- A market for low-carbon products must be developed through product performance standards and economic incentives. The public sector can have a significant impact by modernising public procurement approaches.
- Global investment in RD&D for low-carbon technologies must be increased, including in renewable energy and clean coal technologies.
- The World Bank's "Clean Technology Fund" must become well established to assist in areas such as technology licensing as well as continued work on technology needs assessments.
- Official Development Aid must be spent in a way consistent with and supportive of clean technology transfer to developing countries.



**MEMBERS ARE 40 LEADING
NATIONAL BUSINESS FEDERATIONS
IN 34 EUROPEAN COUNTRIES**

					
Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic
					
Denmark	Denmark	Estonia	Finland	France	Germany
					
Germany	Greece	Hungary	Iceland	Iceland	Ireland
					
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
					
Norway	Poland	Portugal	Portugal	Rep. of San Marino	Romania
					
Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Switzerland
					
The Netherlands	Turkey	Turkey	United Kingdom		