EUROCHAMBRES

Position Paper

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TOWARDS A BUSINESS-FRIENDLY APPROACH ON EU CLIMATE ACTION

EUROCHAMBRES' view on the 2030 framework for climate and energy policies

Executive Summary

The European business community is fully committed to climate change mitigation and supports a strong role for the EU in international efforts to combat global warming. However, if not adjusted, the current EU approach to energy and climate policy risks of causing economic damage in Europe.

Since 2008, the circumstances have changed significantly. In particular, the financial and economic crises and energy price discrepancies on the global market are game changers that have so far been insufficiently taken into account. Also, the interdependencies between the current 20-20-20 targets have revealed the structural weaknesses of the current framework.

Future energy and climate policy must not hamper growth, but instead promote competitiveness and speed up the much-needed reindustrialisation of the European economy. In particular, it is necessary to devise a more cost-effective strategy for the uptake of renewable energy and a more flexible and innovation-based approach to energy efficiency. Though EUROCHAMBRES supports the further reduction of CO_2 emissions through the ETS, the global competitiveness of energy- and emission-intensive industries must be guaranteed in the short and long term.

Chambers welcome an early discussion on the 2030 framework, as it provides positive momentum for carefully reconsidering the EU's current efforts. In this context, EUROCHAMBRES urges EU policy makers to seek consensus with the business community, which will be tasked with implementing the future framework.

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Background

Recent scientific reports like the Fifth IPCC Report and the World Energy Outlook 2013 make a case for strong joint actions on the global level to limit the long-term rise in the average global temperature to 2 degrees Celsius, as agreed in the 2009 Copenhagen Accord. Against this background, EUROCHAMBRES recognises the important role the EU plays in global climate and energy policy.

However, especially in the light of the economic crisis, inconsistencies in the current European energy and climate policy framework, ahead of the climate summit in Copenhagen 2009, have been revealed. The debate on the CO_2 price, which inter alia resulted from the decline in production, the lack of international ambition, the increased use of renewable energy sources and improved energy efficiency, provide a perfect example of conflicting objectives.

Moreover, the current framework has insufficiently taken into account the increase in energy prices, the decrease of industrial production and the risk of carbon leakage. In the context of the ongoing debate on possible 2030 targets, it is therefore important to consider the following points:

- **Energy prices are rising.**

  In comparison to the United States, EU electricity prices for industrial consumers are significantly higher and e.g. our industry has to pay more than three times as much for natural gas. In both cases, the gap is at risk of widening even further. This has contributed to the significant decline of the EU's entire industrial base relative to its global competitors, which inevitably has a knock-on effect on the entire economy. High energy prices are thus not only a threat to the competitiveness of energy-intensive sectors, but a major obstacle to the economic recovery of Europe.

- **Industrial production stagnates at low level.**

  According to the latest EUROSTAT data, industrial production dropped by 2.1% in the euro area and by 1.6% in the EU-28 between Aug 2012 and Aug 1013. In comparison to pre-crisis levels, industrial production decreased by around 10%. It is critical to reverse this trend urgently by taking effective and targeted measures to develop an industry-friendly, competitive economic environment in Europe. It is therefore an important signal that the Commission adopted a new 2020 target of reversing the declining role of industry, from currently around 16% of GDP to as much as 20% by 2020.

- **National RES support schemes are costly and inefficient.**

  The different national renewable energy support schemes lead to distortions of competition on the EU electricity market and provide false incentives, as renewables are not always promoted in areas where climatic and topographic conditions are most favourable. In order to optimise cost-efficiency, national support schemes have to be harmonised and should expire once the competitiveness of a certain RES has been ensured.

- **Growing investor uncertainty.**

  In recent years, business confidence in the EU has been extremely low. The EUROCHAMBRES Economic Survey for 2014[1] clearly highlights the fragile situation across the real economy. After business confidence hit a historical low in 2013, the analysis shows only a marginal recovery. A predictable, stable and long-term energy and climate policy framework is of crucial importance to investors. The EU must not change the rules during the game, as in the context of the ETS-backloading.

[1] EUROCHAMBRES Economic Survey (EES) is the largest European qualitative survey of business expectations for the year ahead. The annual exercise has first been conducted in 1993.

- **Climate policy requires public acceptance.**

  Public acceptance is one of the most important prerequisites for the transition towards "greener" energy. Even bearing in mind the alarming impacts of climate change, policy makers must nevertheless gain the confidence of the public and business community by keeping the costs of the transition process low and ensuring competitiveness and security of supply. In February 2013, political developments in Bulgaria illustrated the dramatic impact that high energy prices can have. The right lessons must be learnt from this.

- **Global warming must be tackled at global level.**

  Limiting the long-term rise in the average global temperature to 2 degrees Celsius requires a huge effort. This cannot be shouldered by Europe alone, especially when considering that, by the end of this decade, the EU's share of projected world greenhouse gas emissions will decrease to below 10%. The EU thus needs to ensure the conclusion of an international climate change agreement by 2015, which must include all major emitters. The EU unilaterally stepping up the CO_2 target, as repeatedly envisaged, would only cause further transfer of CO_2 emissions to third countries.

- **Carbon leakage is already taking place.**

  Evidence has been provided by scientific reports[2] that domestic emissions in the EU are decreasing, while emissions linked to consumption in EU are increasing. In order to stay competitive, more and more European industries are investing in other parts of the world. This can neither be the aim of EU climate policy nor be considered an acceptable side effect. Europe cannot afford to lose energy-intensive industries, which are also an important supplier of components and base material for sustainable energy technologies.

These developments show that the EU's future energy and climate policy requires a holistic approach and has to become more coherent with other strategic EU objectives, such as the reindustrialisation of Europe. The competitiveness of European businesses on the global market has to be ensured in the long term and must not fall victim to impracticable and expensive climate and energy policies.

EUROCHAMBRES recommendations

1. Ensure competitive energy prices and security of supply

In May 2013, the European Council clearly highlighted the importance of affordable and competitive energy prices and thereby reacted to a long-cherished demand by businesses of all sizes and sectors. It is crucial to declare this issue a top priority in light of energy market trends and the continuing economic crisis. It is now of utmost importance to quickly turn the commitment of the Heads of State and Government into concrete actions. In order to reduce energy prices, EUROCHAMBRES proposes the following actions:

- Member States must promptly implement internal energy market legislation in order to complete the internal energy market by the 2014 deadline, to remove barriers to competition (such as regulated prices), couple markets and ensure liquid wholesale markets.
- Prevent ad hoc interventions in the ETS which would artificially increase the carbon price and consequently result in higher energy prices.
- Indigenous energy sources, including shale gas, can potentially contribute to reducing import dependencies and thus to decreasing the price of natural gas. Though environmental risks have to be thoroughly investigated, the EU and its Member States should not turn a blind eye

[2] e.g. www.publications.parliament.uk/pa/cm201012/cmselect/cmenergy/1646/1646.pdf

to this option and evaluate shale gas extraction objectively. Also, supply routes and sources should be diversified to decrease energy dependence.

- In order for the internal energy market to become a reality, the expansion and modernisation of Europe's energy infrastructure is vital. Power lines are particularly crucial to ensure that electricity, increasingly for volatile renewable sources, reaches consumers. In this context, EUROCHAMBRES welcomes the recently published list of projects of common interest which is crucial for creating the much-needed interconnectors.

2. Set a flexible CO_2 emissions reduction target

EUROCHAMBRES supports the further reduction of CO_2 emissions via the Emissions Trading Scheme (ETS). So far, the ETS has been the most important instrument of climate policy and an example of how cuts can be achieved at minimal costs.

The level of ambition of a new CO_2 target should depend on whether or not a legally binding international climate agreement can be reached in 2015. Though Europe can continue its role as a pace setter, it cannot be the only economic area in the world which undertakes major (financial) efforts in order to reduce CO_2 emissions without losing its global competitiveness. When setting a new CO_2 reduction target, policy makers must not ignore the fact that Member States have very different conditions for exploiting their energy resources and a differing general structure of their energy supply (e.g. phasing out nuclear energy or banning Carbon Capture and Storage). Furthermore, the different economic structures and "early actions" have to be taken into account. Therefore, the level of ambition of future CO_2 reduction has to be subject to comprehensive stakeholder consultations, an in-depth economic analysis and be the result of a well-balanced package.

By continuing unilateralism, the EU is further hampering its negotiation position in the international climate negotiations. None of the key international players have yet been sufficiently impressed by the European commitments to follow suit. EUROCHAMBRES is convinced that unilateral actions will hamper growth and thus devalue Europe as a business location. Sustainable climate protection can only be guaranteed globally by comprehensive, coordinated actions, especially by industrialised countries.

Against this background, EUROCHAMBRES recommends the following:

- Before setting a new CO_2 target, carry out comprehensive feasibility studies, especially focusing on global competitiveness aspects. Also, a relative target should be considered, which links CO_2 reduction to economic development (possible indicator: tCO_2 per GDP unit) or actual production, rather than a fixed absolute one.
- Establish a global ETS by 2020 in order to create a level playing field for EU industry in comparison to its global competitors.
- Do not change the rules of the EU-ETS before the end of the third trading period. Instead, a potential review of the ETS Directive should be thoroughly discussed for the period after 2020.
- In order to guarantee long-term investment security, carbon leakage status must not be reviewed every five years, but instead remain unchanged until other economic areas draw level in terms of CO_2 costs for industries.
- As long as the international imbalance of CO_2 costs remains, a guaranteed 100% allocation for free emissions certificates is needed. Sectors at risk of carbon leakage that produce CO_2 efficiently ("Benchmark") receive 100% of their required certificates for free, without subsequent reductions.
- Consider the economic characteristics and the types of available energy resources in all Member States, which requires a flexible European approach. While the internal market should not be unnecessarily fragmented, not every policy instrument can be applied in a uniform manner.

3. Extend the cost-effective uptake of renewable sources of energy

EUROCHAMBRES also supports a cost-effective expansion of those renewable sources of energy that have sufficient potential to compete in the market. In recent years, the various different national support schemes for green electricity have increased the costs for consumers significantly.

Against this background, Chambers welcomed the Commission's guidance to Member States on state intervention in electricity markets, which will also be reflected in the future Commission's guidelines on state aid in the field of energy and environment, to be adopted in 2014. The communication rightly promotes joint European actions to tackle a further increase of energy prices and reminds Member States of the importance of completing the internal energy market.

A new EU renewable energy target can only be set and reached cost-effectively once the following important conditions have been created:

- Develop harmonised, unbureaucratic EU-wide support schemes for renewable energy so that investments will be made where they have the greatest economic effects.
- New production capacities have to be embedded in the overall system and the necessary infrastructure must be extended accordingly.
- Subsidies for renewables should be considered as temporary and degressive, rather than guaranteed over the long term. The focus should be on energy sources which have the potential to compete in the free market for the foreseeable future. Thus, disincentives have to be eliminated and support mechanisms should become technology-neutral.
- Potential capacity mechanisms and subsidies for back-up systems must not fragment the internal market or further increase electricity prices.

4. No binding cap on energy consumption for 2030

With regard to energy efficiency, the EU should continue its role as a global pace setter, especially in the building sector. Using energy efficiently is the most direct way for businesses to cut energy costs and is indisputably in the best interests of business itself. Business rationale and competition work as the best drivers.

However, at this point in time, the discussion on an energy-efficiency target for 2030 appears premature. In general, defining a rigid compulsory ceiling regarding the overall energy consumption seems problematic, not least because weather conditions and economic trends can lead to ups and downs in consumption. **Thus, EUROCHAMBRES believes that energy efficiency has to be achieved by voluntary initiatives, rather than by mandatory requirements.** However, the EU and its Member States should provide the right framework conditions:

- Facilitate public-private partnership schemes between stakeholders (e.g. local authorities, business associations, financial institutions and Chambers of Commerce and Industry) in order to promote the use of energy management systems.
- Measures concerning energy efficiency have to be market-oriented and must not run counter to the economic requirements of businesses. This applies in particular to the implementation of the Energy Efficiency and Ecodesign Directives.
- A EUROCHAMBRES survey of over 2000 small and medium companies in 12 countries highlights the need for a range of support measures in order to capitalise on the huge energy efficiency potential of smaller businesses. These include basic information on low or no-cost energy efficiency measures, improvements in measuring energy consumption and financial support for longer term investments. European governments must bear this in mind when implementing the Energy Efficiency Directive into national legislation.

Conclusion

In order to preserve both Europe's prosperity and a healthy environment, climate actions and growth policies must be developed and pursued conjunctionally. EU climate and energy policy must not run counter to the efforts to regain competitiveness in the global market and finally put the crisis behind us. Also, EU policy makers must ensure that policies are designed to allow energy intensive industries to prosper in Europe and provide them with a long-term framework for cost-effective production conditions within the EU. This is not only a basic requirement for Europe to prevail in global competition, but also to secure growth and employment for the years to come.

The re-industrialisation of Europe must therefore become a target on equal terms with climate and energy targets in order to increase the share of manufacturing companies in Europe. The key to success can only be a well-balanced policy triangle, where sustainability, security of supply and competitiveness are taken into account equally.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 44 countries and a European network of 2000 regional and local Chambers.

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