



President José Manuel Barroso
European Commission
B-1049 Brussels

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Dear President,

At a time when the Commission is preparing a new package of measures linked to climate change and renewable energies, I am pleased to set out what BUSINESSEUROPE expects from Community policy in these two areas.

Revision of the Emission Trading Scheme (ETS) Directive

Implementation of the first phase of ETS (2005-2012) has demonstrated that this instrument needs fundamental improvements, notably to address its negative consequences for large sections of European industry due to the absence of a coordinated international approach. These negative consequences add to other elements (sharp increase in the price of energy and raw materials, etc.) which are weakening the position of European industry vis-à-vis other economic regions which are richer in natural resources or have lower production costs.

In this context, we are greatly concerned by the idea – which apparently has wide currency in the Commission – of introducing a general system of auctioning for allocation of ETS allowances. This formula is one of those that would most increase direct and indirect costs for manufacturing industry. Several European industries exposed to prices prevailing on international markets have virtually no possibility of passing on these costs to their customers. For some sectors the cost of allocation via auctioning could amount to their yearly net earnings, or more.

I therefore urge the Commission to take the time to study other approaches for allocation, with effective mechanisms for protecting the international competitiveness of European companies against both the direct and indirect impacts of ETS costs. In this regard, BUSINESSEUROPE finds that the most effective way is to introduce technological benchmarking as a tool for free allocation in ETS as well as, where appropriate, the development of international sectoral approaches.



A debate is under way on the inclusion of some carbon-intensive imports in ETS to address the potential negative impact that a revised ETS could have on the global competitiveness of European industry. This option raises very serious questions in the business community. First, the Commission should not design a revised ETS that would undermine the global competitiveness of European industry and hence require compensatory measures at the border. Second, thought should be given to this solution for homogenous product categories only if it can be clearly demonstrated that it is compatible with WTO rules, that it will not prompt retaliatory measures by our trading partners and that it is workable in terms of light administrative formalities.

It is clear that allocation procedures which take better account of the international competition context must also meet the requirement that they prevent distortions of competition within the EU.

Small emitters should be excluded from the system unless they prefer to join. This opt-out will reduce the administrative burden of small emitters and make harmonisation of allowance allocation to the remaining installations in the EU ETS easier.

The role that CDM (Clean Development Mechanism) and JI (Joint Implementation) can play to underpin sustainable development in Europe and beyond is essential. For this reason, there should be no restriction on how many credits from CDM and JI projects EU companies are allowed to buy to comply with their obligations under the Emissions Trading Scheme. BUSINESSEUROPE does not support the idea of building a parallel European system to the UN system of approving JI and CDM projects.

In general, there is a need for a stronger emphasis on implementation of cost-effective approaches in all sectors, not least in non-ETS sectors where many cost-effective energy-efficient solutions can be found, e.g. within households.

EU renewables policy

While fully acknowledging the important role of renewables for meeting energy and climate challenges, BUSINESSEUROPE underlines that the EU target of covering 20% of its 2020 energy consumption with renewables will be difficult to achieve and very costly. We call upon the Commission to allow for utmost flexibility to achieve the target, taking into account also the other key targets endorsed by the European Council, notably energy efficiency. Public authorities must take great care when designing incentives for renewables, adopting only those with high economic efficiency. As priority measures, it is important to harmonise support schemes for renewables



across Europe, moving progressively towards market-based approaches. To help the Member States reaching their national renewables targets, trading of Guarantees of Origin between Member States in electricity from renewable energy sources should be facilitated. Any new draft legislation should go through in depth impact assessment and include criteria and provisions to ensure sustainable production and use of bio-energy and to avoid conflicts between different uses of biomass.

The combination of a strengthened ETS and high renewables targets can have huge direct and indirect impacts on energy intensive industries. The current revision of the EU environmental state aid guidelines must make it possible to implement effective mitigation measures to address these impacts.

I thank you for the consideration that you give to the above recommendations.

Yours sincerely,

Ernest-Antoine Seillière