

NOTE

19 March 2008

MR DIMAS, EUROPEAN COMMISSIONER FOR THE ENVIRONMENT

MEETING WITH BUSINESSEUROPE DELEGATION ON 19 MARCH 2008

BUSINESSEUROPE COMMENTS ON CURRENT KEY ISSUES OF ENVIRONMENTAL POLICY AND SUSTAINABLE ENERGY POLICY

1. **Climate policy**

a) **International framework**

BUSINESSEUROPE believes it very important that the EU:

- works on development of an international agreement which creates a level playing field between major economic regions;
- takes the necessary initiatives to ensure coherence between the many UNFCCC groups working on implementation of the post-Bali process.

BUSINESSEUROPE is willing to make an active contribution for preparation of the COP-14 conference in Poznan.

b) **Proposal for revision of the Emission Trading Directive: positive elements**

Positive elements include:

- **increased harmonisation**, which is visible:
 - in the single EU wide cap,
 - in the sector and combustion plant definitions,
 - in the single new entrant reserve;
- confirmation of **banking**, and **improved predictability** in a number of provisions;
- the fact that a step has been made towards opt-out for **small installations**. However the threshold for including small installations should be raised at least to the level of 25,000 tonnes of emissions;
- the proposal's **recognition of competitiveness impacts** on EU energy-intensive companies, and of the carbon leakage issue;

- **allocation provisions:** we welcome the fact that the allocation method for emission allowances will take into account the efficiency of different installations and modes of production through the further development and use of benchmarking.

c) **Revision of the Emission Trading Directive: points of deep concern**

Approach for addressing the competitiveness and the carbon leakage issues

The responses proposed in Article 10 lack the clarity and efficient timing needed to protect investment within the EU. This is illustrated by the late planned (June 2011) discussion on measures following a late (June 2010) determination of “exposed sectors” which will be unstable because subject to a three-yearly revision. The question of which industries are particularly exposed to the danger of carbon leakage and how to prevent this phenomenon should be tackled much earlier. Hence, it is essential to bring these two deadlines forward.

Full auctioning for all “covered” sectors starting in 2020

There is little or no clarity on equivalent measures from our international partners that would trigger a move to this action.

Governance

There is concern that comitology is to be used for the development of many of the measures within the proposal. This is viewed as a non-transparent process by the business community.

Provisions in the case of an international agreement

In the event of an international agreement, the draft directive foresees an automatic move to minus 30%, and a revision of the emission reduction schedule. But the criteria against which this decision would be taken are not clearly defined. For BUSINESSEUROPE, any revision of the EU commitments should involve a full re-evaluation of the impacts on individual sectors as well as the “non-covered” sector to ensure that cost-effective emissions reductions are achieved.

Discrepancy between the reduction targets for sectors inside and outside ETS

There is a considerable discrepancy between the reduction target required of the “covered sector” and that of other sectors. The minus 21% target for industry means in fact minus 30% or more if related to the 1990 base year.

Severe restrictions on the use of JI/CDM credits

These restrictions limit the ability of EU companies to make cost-effective reductions and hence the ability of the EU ETS to act as a market-based instrument. They will also discourage project development and hence the transfer of environmentally sound

technologies to developing countries. Furthermore, these restrictions send a poor signal to developing countries. Regulations on the acceptance of credits from projects must be consistent with those agreed under international agreements, and must not be subject to decisions taken by individual Member States

Need to adjust the definition of “new entrant”

We see a need for adjusting the definition of “new entrant” in order to allow companies, where possible, to concentrate their production on their most efficient sites. To this end, it is key to ensure a fair and consistent treatment of the three possible industrial scenarios, which are: running existing installations, increasing capacity of existing installations and developing new installations.

For BUSINESSEUROPE, all the issues above will need substantial adjustments in the next steps of the legislative process on ETS.

3. Need to keep all energy options open and to use them, including nuclear energy

At the European summit in March 2007, Heads of State rightly decided to develop national and European energy policy initiatives following a more integrated approach designed to reach the goals of competitiveness, security of supply and climate protection.

As the Commission shows in its document “Indicative nuclear programme” (PINP), nuclear energy has excellent economic and technical characteristics to help meet these three objectives.

The size of the energy challenges that the EU must meet is such that it is crucial to deploy actively all the solutions offered by:

- improved energy efficiency;
- development of renewables;
- use of nuclear energy;
- development and application of carbon capture and storage (CCS) technologies.

A delay in development of efficient policy measures to promote any one of these four technological resources would have very harmful effects regarding the possibility to ensure security of supply and climate protection under affordable conditions.

BUSINESSEUROPE attaches great importance to the newly created European Nuclear Energy Forum. This Forum should draw up a roadmap allowing efficient development of the Community initiatives needed to enable nuclear energy to make its full contribution to the EU’s economic and environmental objectives.

4. Energy efficiency

Energy efficiency should be assigned a larger and clearer position in the EU's climate and energy strategy, in the form of more and more diversified initiatives than is currently the case.

In particular, the large potential of energy and emissions savings achievable through energy efficiency measures must be more actively exploited with a view to making the renewable energy targets more manageable.

5. Renewable Energy Policy

- BUSINESSEUROPE acknowledges the **role of renewable energy sources** for tackling the energy and climate challenges. Nevertheless, as it will be extremely costly to reach the EU's ambitious renewable targets by 2020, the directive on promotion of the use of energy from renewable sources must allow for utmost flexibility and market-based instruments to minimise the costs of reaching these targets.
- Given the expected substantial cost increases for electricity and raw materials as a consequence of renewable energy policies, **mitigation measures especially for energy-intensive industry sectors** and sectors exposed to international competition should be developed.
- In order to give Member States the possibility to comply with their national renewable energy targets at minimal cost, BUSINESSEUROPE supports **cross-border trading of Guarantees of Origin (GoO)**. Free trading of GoO is likely over time to lead to the optimisation of cost for renewable energy production across Europe. National support schemes should however not be disrupted by GoO trading.
- The EU should reconsider the **10% target for biofuels in transport**, especially in the absence of a breakthrough in second-generation biofuels.

6. Sustainable Consumption and Production Action Plan in preparation

- EU product policies should take an **integrated approach** which takes into account the environmental, as well as the social and economic dimensions of sustainability and the whole lifecycle of a product;
- BUSINESSEUROPE set out its views on enhancing the eco-design of products in a letter (12 March 2008) to Vice-President Verheugen. This letter was copied to Commissioners Dimas and Piebalgs. In general, **legislating for the eco-design of products** should not be the priority route for enhancing the eco-design of products,

as this should be left to industry and driven by market forces. The proposal to extend the Directive on eco-design of energy-using Products (EuP) to other sectors is not satisfactory and the Commission should take the approach of separate instruments from the EuP Directive addressing products other than energy-using products where relevant and appropriate.

- Criteria for **eco-labelling** need to be based on clear, science-based facts, in consultation with all stakeholders concerned and meeting the dynamics of and demand from the market;
- BUSINESSEUROPE is open to the discussion of well-designed market-based instruments for the protection of the environment, which can reduce the cost of traditional command-and-control approaches. BUSINESSEUROPE will take part in the consultation on the idea of extending **reduced VAT rates** to green products. As an initial contribution in the discussion, BUSINESSEUROPE wishes to underline that reduced VAT rates can increase compliance costs for business and might not necessarily lead to the desired results as (a) reduced rate might not be passed on to the consumer and (b) it can lead to distortion of competition within the Single Market.
- **Green Public Procurement (GPP)** must respect existing European procurement law but that there is no need for any new legislation. Any new initiative on GPP should ensure that GPP is carried out in a competitive and transparent manner and should work within the existing framework of the 2004 Public Procurement directives.
