5 November 2008

BUSINESSEUROPE statement on the revision of the EU Emission Trading Scheme (ETS)

The current financial crisis is a major historic global challenge. It seriously weakens European industrial companies, including those that have invested consistently in environmentally friendly products and processes. Drastic control of production costs is set to become a *conditio sine qua non* for survival in the difficult economic period ahead.

In this context, it is essential that the revision of the ETS does not lead to wrong investment signals for European companies by hampering their future competitiveness in the absence of an international climate agreement involving all major emitters. Being the world's largest exporter, Europe is particularly dependent on internationally competitive companies.

BUSINESSEUROPE continues to support the EU 2020 climate targets. Combating climate change is one of the biggest challenges of our time, and industry is playing a major part in reducing emissions within the EU. Between 1990 and 2005 EU manufacturing industry sectors covered by the ETS reduced their emissions by 13%.

Against that background, BUSINESSEUROPE accepts a further emission reduction of 21% between 2005 and 2020 for sectors within ETS despite the fact that this target puts a disproportionate burden on industry compared with other components of European society. Indeed, an immense potential for cost-efficient emission reductions remains untapped in other sectors of the economy, as for example in the residential sector.

BUSINESSEUROPE[1] does not consider the requirement to purchase allowances (through auctioning or otherwise) as an appropriate allocation mechanism for manufacturing industry as it adds to the cost burdens already imposed in meeting the mandatory emission reduction targets. Auctioning of allowances will not lead to more emission reductions than their free of charge allocation based on benchmarking. It will merely shift capital from the private sector to the state, thus hindering industry investment in environmentally efficient technologies and research into new break-through technologies.

We have emphasised the fact that when putting extra costs (indirect and direct) on EU business, investment is less profitable within the EU. Therefore investment and production will gradually move out of the EU leading to job losses and carbon leakage. However the methodology of "carbon leakage criteria" is not workable and does not

[1] The CBI, representing British business, urges free allocation of permits to manufacturing sectors exposed to international competition on an evidence-based approach. Consequently it does not agree with the allocation recommendation proposed in this statement by all other BUSINESSEUROPE federations.

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provide for identifying the industries that need to be protected from serious disadvantages because they are threatened by the loss – or the future loss – of their competitiveness. Hence the criteria approach – as discussed until now - should be discarded.

Therefore, BUSINESSEUROPE calls for 100% free of charge allocation of allowances for all manufacturing industry based on efficiency benchmarks as long there is no international agreement placing equivalent burden on industry worldwide. This is a prerequisite for achieving the 21% emission reductions in the most cost-efficient way. It will also be of utmost importance to find a solution for alleviating the additional burden on electricity intensive industries caused by the increasing power prices.

BUSINESSEUROPE insists that this approach must be followed in the negotiations under way and must be laid down in the emissions trading directive itself, bearing in mind the European Council's explicit recognition of the need to develop cost-effective solutions in all sectors of the European economy at its meeting on 15-16 October 2008.

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