

Climate package – challenges for industry

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At the NEUF 2009 panel in Warsaw Karl Falkenberg, Director General of DG Environment at the European Commission discussed the implications of the climate package for European industry.

For the future of European enterprises and their competitiveness we need to improve the environment side of our production. We have given ourselves three targets: to reduce CO₂ emissions by 20% by 2020. We want to have 20% of renewable energy in the energy mix that we will be using in 2020 and we will work to improve energy efficiency by 20%. The reference year is 1990. At the same time there are international negotiations ongoing within the Copenhagen framework and we want to achieve results that are more ambitious. We decided last December that, provided that other partners make comparable efforts, we would be able to move from 20 to 30% reduction of CO₂ emissions. Europe is the first to have taken such a clear negotiating position. Most of our partners are still struggling with what their national targets will be. They are not defining their positions in terms of international negotiations.

We have followed very closely what is happening in the US. For the first time we have a partner in the new administration that recognises that climate change is a reality which is going to pose a problem to this planet, that the consequences are going to be serious. One prominent ecologist recently said that if world temperatures were to rise by 2C, there would be suffering for humans, animals and plants. In the US there's an awareness, but not a definition of a contribution to this negotiation. Barack Obama announced that he wants his country to bring back CO₂ emissions to 1990 levels by 2020. He then has more ambitious targets for 2050. We think it's important to focus on the shorter and medium term. The planet needs our corrective actions now. We need to work with the Americans so that they come on board and that they make a commitment to the Europeans. The US is also working on a cap and trade system. As in Europe they are trying to define the maximum amount of CO₂ emissions and progressive reductions and establishing a market for emission rights. This would allow the European Trading System for emission certificates to be expanded and take on board the US. We would have a much better base for doing business and financing the technological

change that is required to meet our targets in 2020 and beyond.

We also need the participation of the major emerging countries. We need the participation of China, the largest single CO₂ emitter in the world. It cannot be that we have commitments in Europe, possibly in the US, and we don't have them in China. The problem of global warming is a global one. It cannot be solved by one entity, not even as large as Europe. We need our partners to take their share of the burden. The negotiations are ongoing. Europe is going to make commitment to more than what we are already doing for ourselves only if others come along.

On the implementation side of the package, in December the large political targets were discussed and approved by the heads of state and government of the 27 member states of the European Union. The heads said all the details should be discussed by the Commission which should define the fine print. In it there are two important elements work on which is underway. In December a lot of concern was expressed about carbon leakage. The concern is that Europe is going to make efforts to move away from fossil fuel as a base for energy. That will increase cost and reduce competitiveness. Either products from other countries are going to outcompete us or industries will decide to move out of Europe and will start producing elsewhere. A lot of debate concerned the need for border measures – do we need protection from countries that are not making commitment to prevent climate change. The answer was – no we don't, because we will identify exposed sectors. We will authorise them to obtain emission certificates for free until 2027. We accept that in case of those sectors that are particularly subjected to competition, Europe will not make them pay right from the start. They will have their obligations gradually raised to auction certificates. The identification of those sectors is almost completed. We have listened to European industries. The next step we are looking at is what we refer to as benchmarking. It's a concept of identifying for each sector which are the most environmentally friendly processes, compare them and ideally take the 10% most effective ones to set as a benchmark to decide how we allocate free emission certificates in given sectors. That work will be completed next year. The new obligation to have emission certificates will only come into effect in 2012, so we have a bit of time to identify how these sectors need to be treated, how many free certificates the sectors will need in order for them to still maintain the pressure to modernise, to upgrade and to become more efficient, because that's the objective we are pursuing. We have decided that emission certificates should be auctioned in our cap and trade market. Companies will need to buy emission rights when they do not have enough either for free or in their initial allocations. They will need to purchase those and those markets need to be organised. No-one in the world would have

the idea of buying an emission unless there was a cap for the emission. So we have created a totally artificial market of emission trading. Without regulation from the state, in this instance from the EU, there would be no market. But with a cap and with the obligation by industries to show that they have emission rights to continue to produce and emit CO₂ we have created a market. We have learnt from financial markets that markets that are unregulated have a very solid tendency to run into a brick wall. When we allowed hedging and other instruments without looking closely at how financial operators should act, they all acted to our disadvantage creating a huge financial crisis. We don't want to run the risk that with emission trading we will create a new speculative market. We want to tap financial resources, but we want to do it in a reasonable way. It is important that we define the rules of the game for auctioning and we try to define them on a common level for all 27 states. All the states will be able to auction individually. In the absence of a community framework it could lead to substantive distortions. You could easily imagine what would happen if Poland were to decide to auction on July 1, and Germany 15 days later. A lot of very smart people would start wondering – do I have to buy in Poland or do I wait for the German auction? How is the market developing in between? Is the carbon price going to go up or fall? They would jump and decide accordingly. This could become disruptive. It can be useful. We want a market. But we don't want to create opportunity for speculative actions in this market, so we need a common framework. We're working on that. We hope these rules will be adopted on the community level early next year. We will have to see how we will suggest that EU member states organise auctioning. Whether this would be done for the total amount of emissions, whether we suggest to organise several auctions over a period of time and splitting the amount that will be available in order to avoid that the market is cleaned up upfront. We will certainly in this market discuss with DG Competition that these goods are freely traded and do not come with certain conditions. If all the 9 billion people on the planet continue to burn fossil fuels by 2050, we can jointly kiss goodbye to planet Earth. The scientific evidence is absolutely clear on that. There is no alternative to what we are trying to do. We have to change the way in which we produce and consume and we need to produce less CO₂. There is no-one in the Commission who wants coal to be phased out. We want dirty coal to be phased out. We are supporting clean coal in Poland. We are supporting CCS pilot projects including in Poland. As long as one can use coal in a clean way there will still be a lot of investment in that source as well. But we should have no illusions. Natural resources are limited. We may still have coal for some time, but we have to diversify from it one day. Let's jointly do what we have decided. There's a lot we can do here in Poland and in the world, but we need the r

ight regulation for that. We are working on that in Brussels with all the 27 member states. Poland is an important member state, but we need you to stick by the goal we have set each other. Poland has the big advantage of being part of the European family. The challenge is global. For Poland, it is easier, because you have the access to the European market, finance, technology. You have European companies that can come in and assist in this. A lot of the burden is going to be shouldered by private companies if they see market opportunities, because you invite them and because you create the right environment for their activities. I do think that there are challenges. These challenges are unavoidable. We need to tackle them. We will need to define a package that is doable and that will make the European Union fitter for world competition, and this will also go for Poland. In principle, the 2020 targets will be implemented by Europe with or without the Copenhagen negotiations. We will do it because we think that it is very good for our competitiveness.

(Source: NEUF 2009 panel, Warsaw, June 18)