European Round Table of Industrialists

ERT

Mr Joaquín Almunia
Vice President of the European Commission
Commissioner for Competition
European Commission
Rue de la Loi 200
1049 Bruxelles
Belgium

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Dear Commissioner,

The European Round Table of Industrialists (ERT) has recently reviewed a preliminary European Commission discussion document on the prospect of a shift in the EU 2020 greenhouse gas target beyond the current level of 20%. We welcome any discussion on supporting the pathway to a low carbon economy. However, the document raises a number of important issues on which ERT would be pleased to share its thinking.

When the 2020 target was established in 2008, it acted as the foundation for a broad policy framework which, even today, remains under construction. Although at the time of setting the target, policy makers had no indication of the potential for the unusually severe recession of 2009 to reduce emissions to the extent that it did, they nevertheless must have considered in setting this long-term goal a wide range of potential economic pathways. History has shown that modern economies remain cyclical and that such cycles include both recession and periods of strong growth and that is likely to remain the case for the future. The policy framework that Europe constructs and the goals that it sets must remain robust throughout such inevitable cycles.

Core to the EU framework is the Emissions Trading System, which ERT has and continues to strongly support. The ETS is not a short-term policy structure, but one that should be looked at in the context of a forty year journey during which time the energy system and industrial base across Europe must be fundamentally and permanently reshaped. By its very nature this journey can hardly be shorter, given the vast capital stock in place and the time and expense it takes to replace this. Power stations, chemical plants, refineries, paper mills, kilns and smelters built before the ETS was even a consideration for policy makers have design lives that stretch far beyond 2020. Facilities built today could well be operating in 2050 when European emissions are targeted to be at extremely low levels compared to 1990.

With the above in mind, we believe that the current discussion regarding a shift in the 2020 target to 30% may be premature. Although we recognise that most of the technologies set necessary to support such a reduction exist today, we believe that such change should only be implemented on the back of clear evidence that a structural change in the functioning of the ETS (and other elements of the policy framework) has now taken place, rather than a temporary response to a transitory change in economic circumstances. It is also important to recall the original reason for the deeper target, which was proposed on condition that the other developed countries undertake to achieve comparable emission reductions and that the economically more advanced developing countries make a contribution commensurate with their respective responsibilities and capabilities. Irrespective of the circumstances, simply moving to a 30% reduction without other nations doing the same would undermine European competitiveness without having any positive effect on the global climate.

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The ETS and the carbon price that it delivers are key to the investment decisions that will be made by companies over the coming years. The current price of CO2 will be a relatively minor consideration in these decisions; rather the focus will be on the longer term outlook for the carbon market and the expected supply-demand situation for allowances for this decade and that following. For a large project under consideration today, first emissions may not even occur until 2016, with the real economic return only coming in the period 2020-2030.

In the event that the recent recession has given rise to a long-term structural shift in the allowance balance, there may be a case for some corrective action to ensure that a suitable price signal to drive change and foster innovation remains in place. Such action should always be commensurate with the shift that has occurred, rather than against some other arbitrary goal; for example the 30% that is now on the table. The extent of this shift will not be known until the shape of the economic recovery becomes clearer and any recalibration of the ETS so close to the trough of the economic cycle risks an over-reaction. But raising the possibility of such an eventual recalibration does usefully support expectations of an adequate CO2 price in the future.

Looking at the other sectors of the economy not covered by the ETS, the picture is more variable. In particular, the buildings sector offers significant scope for reduction and could deliver more if targeted directly. By contrast, policy instruments such as the Renewable Fuels target in the transport sector have an implicit cost of avoided CO2 emissions that is well above the current or indeed expected future CO2 prices in the ETS. Moreover, this cost is not sensitive to the business cycle, but is rather determined by the long-run cost of providing these alternative, cleaner sources of energy. ERT believes that the effective functioning of the EU energy and climate change policy framework, and in particular the ETS, is critical to driving the changes that need to happen in the decades ahead.

We welcome the commitment of the European Commission to ensure the sound functioning of the ETS over the long run and accept that some recalibration of the system may eventually be required to address any long term consequences of the unusually severe recession from which we are only just beginning to recover. However, it is premature to attempt any such recalibration and, unfortunately, the Copenhagen results do not warrant any reduction of protection for sectors at risk. The expectation of recalibration in the future should be sufficient to stabilise the expected future CO2 price and the ongoing innovation process that is central to achieving the emission reduction goal.

Yours sincerely,

Wim Philippa

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Secretary General