



## Introduction

On May 26th the European Commission is expected to launch a new communication, "Unlocking Europe's potential in clean innovation and growth: Analysis of options to move beyond 20%". In this communication the European Commission assesses the costs and benefits of moving from 20 to 30% greenhouse gas emission reductions in the European Union, and presents practical options to achieve such a more ambitious climate target. In June, both environment ministers and European leaders are expected to discuss this new analysis and policy options. There will be two more EU Council meetings in the autumn, including an extraordinary meeting added especially for this topic, where the debate is expected to continue.

CAN-Europe and its members welcome this initiative of the new DG Climate Action as a response to increasing concerns that Europe will lag behind China and the US in investments in clean technologies. The need for Europe not to get left behind in the green technology race comes in combination with the massing evidence about the urgency of action needed. However, the initiative has already received criticism from certain quarters, notably particular members of the business community. The EU must not give into the false arguments and dishonest activities of these voices. Although there are weaknesses in the Communication, notably in its lack of country-specific economic analyses and in its incomplete policy recommendations, it is the first concrete step towards the EU making a unilateral commitment to a 30% unconditional greenhouse gas emission reduction. Such a move would both bring economic benefits to Europe and have a crucial, catalysing effect on the international negotiations for a global climate deal.

## The low cost of moving to 30% now

European leaders made a commitment in 2007 to reduce emissions in the EU by 30% compared to 1990 levels. However, this reduction target was made conditional on other developed countries committing themselves to "comparable" actions, which were not clearly defined, as well as developing countries making contributions according to their capabilities. In the end, the Climate and Energy Package only required a 20% emission reduction target by 2020, keeping the 30% target conditional.

But everything has changed since 2007. The recession has led to a significant fall in global emissions. Newly released Commission figures show emissions are down in the EU 12% over last year. At the same time, eco-industries such as manufacturers of wind and sun energy technology, have maintained high growth rates and continued developing cutting edge technologies.

According to drafts of the Commission's communication and staff working document, the recession has made the achievement of the EU's climate and energy legislative goals at least €22 billion cheaper than estimated before. The Commission's new communication concludes that the total additional cost for the EU to move from 20% to 30% would be € 33 billion in 2020, which represents just 0.2% of GDP.

But even this low figure does not factor in a number of important benefits. For example, decreased emissions mean lower costs for pollution control (a benefit estimated at €3 billion in 2020). Improved air quality would bring additional health benefits, which are estimated to be valued between €3.5 to 8 billion in 2020 (based on Commission estimates). In addition there would be major benefits for energy security and employment. All these factors create a strong case for upgrading the EU's level of ambition on climate.

Acting to reduce emissions now would also save more money later. One estimate cites each year of delay adding €336 billion to the clean investment needed globally between 2010 and 2030 in the energy sector. Delays beyond 2020 could make achieving 80-95% emission reductions by 2050, the legislated EU target, practically impossible.

## Windfall profits during a recession?

Since the 30% Communication was leaked, a number of conservative industry lobbyists have claimed that an upgrade to a 30% target would create cuts in production and significant losses of jobs. However, CAN-Europe looked into recent economic and scientific studies examining those claims and failed to find any evidence.

On the other hand, there is clear evidence of the EU manufacturing industry profiting from the current EU climate regime while being required to make minimal emission reductions until 2020.

The analysis of European Commission and the International Energy Agency indicate that the emissions of the EU Emissions Trading System (ETS) sector would be at the same level in 2020 as compared to 2008 if the EU sticks with its 20% target. This means that if we have no intervention in the EU ETS there will be little or no emission reductions in those industries.

UK-based NGO Sandbag has estimated that under the EU ETS ten of the EU's most polluting firms including ArcelorMittal, Lafarge, CEZ and CEMEX will have surplus carbon dioxide (CO<sub>2</sub>) allowances worth over €3 billion after 2012 that can then be resold (see Table 1). With these assets these industry giants can easily absorb the move to a higher reduction target and still maintain substantial profits.

A study just released by Dutch institute CE Delft provides further evidence that energy-intensive industries have made profits from free carbon allowances delivered to them under the EU ETS in addition to the windfalls mentioned above. According to the study is "ample" evidence these sectors have passed on the cost of allowances they have received for free since 2005. This may have generated

additional windfall profits to the tune of €14bn for the refining, iron and steel sectors during 2005-8.

Energy-intensive industries claim that they cannot pass on the cost of allowances to consumers because they would lose their international competitiveness. The CE Delft study clearly dismisses this argument.

Refineries and iron and steel producers passed on the full cost of their free allowances, according to CE-Delft. A higher carbon price led to higher diesel and gasoline prices within two weeks in Germany. The price of two steel products, hot and cold rolled coil, significantly increased within a month. In the petrochemicals sector, almost the entire cost was passed on for two plastics, PVC and polyethylene.

Table 1: Surplus ETS allowances

Company	Estimated Surplus EUAs (2008-2012)	Asset Value (€)
ArcelorMittal	99,801,132	1,397,215,847
Corus	26,965,777	377,520,882
Lafarge	23,507,560	329,105,840
SSAB – Svenskt Stal	17,818,541	249,459,580
Cemex	14,669,057	205,366,804
Salzgitter	12,636,864	176,916,099
US Steel	11,281,904	157,946,658
HeidelbergCement	10,905,197	152,672,755
CEZ	8,359,590	117,034,260
Slovenske elektrarne	6,760,715	94,650,010

Source: Sandbag, 2010.

## Shot by both sides

Business Europe and the Association for a Competitive EU industry (ACEI) claim that any further increase of the EU's unilateral 20% emission reduction target at this point in time would be counterproductive, citing the lack of climate action in the rest of the world.

However, it has become clear that members of Business Europe and ACEI are involved in a consistent string of actions aimed at sabotaging climate action outside of the EU.

The Guardian revealed that the chemical industry is behind a lobbying campaign aimed at preventing the regulation of greenhouse gas emissions by the United States' Environment Protection Agency (EPA). Court documents show that the European chemical firm Solvay, a member of CEFIC, is at the heart of this campaign.

Right now European oil companies are involved in activities linked to watering down climate legislation in both the US and Canada. At the height of the devastating environmental disaster in the Mexican Gulf, British Petroleum is committed to fight for off-shore drilling provisions in the draft US climate legislation, forcing through a major environmental loophole which will weaken future climate action in the US.

This week Shell and the Canadian environment minister are lobbying the EU institutions for weak EU fuel quality standards. This would allow Canada and Shell to export highly carbon intensive "tar sand oil" to Europe. The exploitation of the Alberta tar sands is one of the driving forces behind the current weak climate ambition level in Canada and their reluctance to comply with the Kyoto protocol.

If we put both the EU and non-EU actions of members of Business Europe together we see a very cynical ploy to undermine all climate action on an international scale. It is exactly such lobby activities that led to the weak outcome in Copenhagen.

## Recommended next steps for the European institutions:

- EU environment ministers and EU leaders should commit to a 30% unconditional emission cut (compared to 1990 levels). This move should be considered a first step towards setting a 40% emission target for all industrialised countries, which would be consistent with keeping global temperature increase well below two degrees Celsius.
- EU environment ministers and EU leaders should acknowledge the strong findings on the benefits of moving to 30% in the Commission Communication and act rapidly to take these opportunities to improve energy security, employment and reduce health care and pollution control costs.
- The European Commission should come forward in the next months with initiatives to set aside a number of allowances in the auctions in the EU ETS. Furthermore the Commission should revise the EU's Effort Sharing Decision and propose strong energy and carbon taxation to incentivise sectors outside of the EU ETS, such as transport and agriculture, to contribute to green development. Additional policy measures for these sectors should be further elaborated.
- The European Parliament could play an important role if it prepares an ambitious opinion report on upgrading the EU's target to 30%. This would give the Parliament the option to do its own impact assessment and to come up with strong (alternative) policy proposals.
- CAN-Europe urges European policy makers to be very aware of lobbying activities that impede the negotiations for an agreement to avoid dangerous climate change and be circumspect in relation to the dubious arguments of companies and sectors who undertake such activities.

## References

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