



Roadmap to 2050:
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Energy Intensive Industries: why Setting CO₂ Targets to 2050 Is Unrealistic

European industry is open to participate in developing visions towards 2050, an aspirational exercise - rather than setting strict targets - which industry recognises as being both challenging and inspiring.

Nevertheless, Europe's Energy Intensive Industries stress that it would be **unrealistic** for EU policymakers to develop or impose unilaterally long-term targets with specific 'milestones', in view of the enormous uncertainties concerning the impacts on industry, technological possibilities, the ability to attract investment within the EU in order to fund the R&D necessary to achieve such targets, and the global economic and social 'map' at the present time.

In addition, any EU centric initiative must be placed within the perspective of the global economy. In the wake of current global economy trends, Europe's share of global emissions will decrease from 13% today to 9% in 2030. European industry is not only losing share of the world production. The increase in imports to Europe from developing countries in the timeframe of 1990 to 2006 led to a substantial rise of the GHG emissions in imported goods by 47% in contrast with the Kyoto style number of +3%. Member States are hereby called upon to insist that all steps in this process will be conditional to a global level playing field.

Path to 2020

Moving the existing 2020 targets would be unacceptable: Since the early stages of the Emissions Trading Scheme (ETS), European industry has supported action to combat climate change and is committed to take its share by contributing to the current 20% GHG emissions target by 2020. The European energy intensive industry however, maintains that the unilateral burden imposed on it in relation to other sectors of the EU economy, and vis-a-

vis the rest of the world, is disproportionate. Many European industries still have the ability to invest in the best technology in the EU, despite existing EU policies. However, visible trends indicate that production and even whole value chains are being invested outside Europe even though the products are destined for the EU market. We call on policy makers to reverse this trend, rather than moving ahead with current plans which will only aggravate this situation further. For investment plans, industry requires certainty and in this respect 2020 is already tomorrow. The carbon price itself is already a huge uncertainty factor in this context. It would therefore be irresponsible to shift the goal post, thereby introducing additional uncertainties. Member States, with the approval of the European Parliament, already made any change of the 2020 target conditional upon a binding international agreement with enforceable commitments by a critical mass of economies. This requirement should be maintained.

Macro modelling is misleading: The modelling approach adopted by the Commission to suggest that the drop in emissions caused by the crisis makes the cost of reaching the 2020 target easier is both simplistic and misleading – the cost of the crisis must be taken into account when analysing industry's ability to reach the 20% target. In addition, the current modelling assessments on indirect impacts on electricity prices and the pass through ability of sectors are lacking or erroneous.

Path forward to 2050:

Before taking steps towards developing targets for 2050, the ETS framework has to be given the opportunity of demonstrating its ability to bring the industry to the **best competitive level in a cost effective way while fostering innovative solutions**. Industry had always advocated against 'ex ante' allocation which bears the risk, not only of overallocation but also of severe under allocation that prevent the investment and growth in Europe needed for jobs and innovation. Attempts by DG CLIMA to artificially take away allowances from the markets, will aggravate the current problems and should be stopped as soon as possible. Such tampering with the market is unacceptable as it contradicts the very philosophy of the ETS as a market based instrument.

Since 2005, industry has had to bear the cost of ETS driven increased electricity prices, exploding renewable and grid levies, and is now paying the highest power prices in the world, with no offer of long-term power contract, unlike in competing regions. The new policy plans are explicitly increasing these unilateral costs even further.

Auctioning revenues and cohesion funds must, inter alia, be made available to finance, on the one hand, the aforementioned additional capital investment expenditure of 270 billion Euros annually foreseen in the draft Communication, and also to provide for the additional investment in R&D and Innovation estimated at 50 billion Euros over the next 10 years as required by the SET plan [Communication from the Commission of 22 November 2007 - "A European strategic energy technology plan (SET Plan) - Towards a low carbon future" [COM(2007) 723]

The priority to 2050 low carbon economy should be geared towards **cost efficient energy savings** policies. Energy efficiency can deliver significant gains, but the EU has yet to tackle the whole economy in an effective manner and get the optimum economic balance between ETS and non-ETS sectors of the EU economy. **Focusing on developing more sustainable production methods is just one side of the equation. Changing EU society's consumption patterns is an even more daunting task to be addressed by political leadership.** The EU Industry has to be seen as a solution provider to non-ETS sectors like housing and transportation

Carbon leakage is a reality and leads to job, investment and growth losses in Europe and to substantial off shoring of carbon emissions. Effective monitoring of carbon leakage is thus essential. Urgently, state aid guidelines concerning compensation of indirect ETS costs must be put forward.

Specific sector perspectives should be developed, which would take into account the individual technological and economic realities of each sector in the EU and accordingly devise realistic energy and GHG emission pathways and related impact assessments. The Alliance of Energy Intensive Industries (AEII) supports BUSINESSEUROPE's call for a bottom-up, sector specific investigation building on the sector benchmarks. Its members are willing and ready to cooperate with European institutions and other stakeholders within the EU, through transparent dialogue provided it is based on realism. Cooperation must be developed and strengthened within a spirit of partnership between the European Regulator and industry rather than in a spirit of conflict.
