Environment, Health and safety
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CIFF answer to the European Commission´s "Green paper - A 2030 framework for climate and energy policies

Identification of the respondent

The Chemical Industry Federation of Finland (CIFF) is a trade association for the chemical industry and its closely related sectors, covering various fields in the basic and production chemical industry.

The business idea of the Chemical Industry Federation of Finland is to actively promote the competitiveness and operational preconditions of its members in Finland.

The business idea is realised in four different areas:

Labour market
Environment, health and safety
Expertise and new business operations
Communications

The Chemical Industry Federation of Finland has over 400 member companies and 13 member, cooperation and agreement associations.

Response to the consultation

4.1. General "Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?"

The most important lesson is that we are not able to predict the future even for 5 years period. The world has changed radically only in five years' time since 2008. Three major changes in the operation and investment environment that have to be examined thoroughly before introducing post 2020 targets and actions are:
1. Global revolution of energy market.
2. Prolonged economic recession in the EU.
3. Absence of international climate commitments

A 2030 framework must be redesigned to deliver an outcome that is environmentally effective and sustainable, but also economically and socially sustainable.

It is clear that the fundamental assumptions which determined the EU 2020 policy framework - including the post 2020 roadmaps - are now outdated and no longer

applicable. For instance, fossil energy costs have not surged, contrary to what policy strategy papers suggested. The exploration of shale gas in the US is leading to a massive investment shift away from Europe. The EU is strongly affected by events and developments around the world. This is particularly true for sectors exposed to global competition such as the EU chemical industry.

The unexpected economic crisis has limited the EU's ability to shoulder unilateral policy costs, whereas a global climate policy agreement has yet to emerge. Setting unilateral targets for Europe has proven to be ineffective when dealing with a global problem such as climate change: while EU countries have reduced direct emissions from industrial installations, global emissions have risen exponentially at the same time. If unrevised, the EU climate policy rewards exporting emissions together with production and jobs.

It is necessary to continue with CO_2-reductions, but with a perspective of growth for efficient installations and new investments.
In this regard:

(a) Europe cannot pursue environmental objectives in isolation and "at any cost". The goals of economic and social sustainability require the consideration of the potential impact on the wider economy and international competitiveness.

(b) Securing sustainable growth and jobs will depend on wealth generation. Investment in the transition to a lower-carbon economy will generate new jobs and added value when such investment can survive in market competition without subsidies. Equally, setting absolute caps for energy consumption is deteriorating growth and investment perspectives. Instead, access to diverse, competitive, carbon-efficient energy technologies is needed.

(c) A transition to a low-carbon economy will be affected by investment in innovation motivated by a realistic prospect of a return on that investment: Chemical industry is in favour of measures to stimulate demand rather than measures that subsidise supply. Investment is more likely to result from the provision of incentives than from the imposition of burdens

(d) Efficiency gains versus cost burden: The chemical industry is used to dealing with high energy costs in Europe. Companies make every effort trying to gain extra efficiencies but are increasingly exposed to growing cost gaps compared to major competing regions (EU: twice as high electricity prices, 4 times higher gas prices compared to US). EU costs including carbon costs can cancel out these efficiency gains and make efficiency leaders uncompetitive.

4.2. Targets "Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?"

As far as climate policy is concerned, the objective is to limit the increase in temperature due to increased levels of atmospheric CO2 by reducing carbon emissions. The objective, as far as energy policy is concerned, is to ensure competitive prices and security of supply. Industrial policy has the objective of securing economic growth and jobs. Any target discussion should recognise and reconcile all these objectives on an equal footing.

A top-down climate target can be conditional only - in case a substantial global agreement becomes reality with comparable burdens for industry globally. Any legally binding target for Europe must be directly depend upon concrete, measurable and verifiable progress of international climate change efforts. For 2030 one target only, namely global GHG reduction target, is appropriate for climate policy. We are dealing with global climate change, so the target has to be greenhouse gas reduction - and globally, because Europe has not a climate of its own. The EU's GHG emissions are decreasing globally to about 8 % by 2020 and 4–5 % by 2030. In the case of the EU's unilateral climate action, it cannot any more be named as climate policy because it would not have notable impacts on climate mitigation/warming.

A climate target must be technically achievable and cost-efficient , without putting in jeopardy the EU's competitiveness of both industrial producers and its customers such as SMEs.

Energy policy aiming for the year 2030 must take into account international development and emphasize competitiveness. The EU must be open to re-evaluating its position in the rapidly changing global energy market. More than ever, energy is in the core of the EU's competitiveness. There is a vital need for secure availability of energy at competitive costs. Europe has to put cost-competitiveness, security of supply and climate objectives on an equal footing. It must closely monitor energy competitiveness and security of supply to make sure that the three objectives are well balanced. To ensure political commitment and actions, targets to address the energy price differential with major competitors and to ensure energy security should be introduced.

Have there been inconsistences in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

Yes, the three targets overlap and conflict. These can and must be avoided by taking only one post 2020 climate target, i.e. GHG reduction target conditionally to international climate agreement or other commitments ensuring level playing field for companies despite of their location (facing same CO2 costs globally).

The ETS is and should - after a proper review- remain the tool to reach the agreed emission reduction target at the lowest cost. Reducing carbon emissions through innovation and technology will eventually result in reduced demand for carbon allowances

Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?

Additional instruments at sectoral level might be needed. In the emissions trading sectors, the price of greenhouse gas emissions must be the only steering mechanism. No overlapping subsidies for e.g. power production should be used post 2020 (gradual phase out of current production-based subsidy schemes). Subsidies should be targeted at R&D and demonstration of new technologies.

In non-emissions trading sectors, other instruments (taxes, regulation, and voluntary agreements) are needed. Achieving further improvements in the non-ETS sectors will be

crucial, and industry must not be the only one concerned. Biofuel blending obligation and other possible regulation should be coordinated EU-wide in order to ensure one common and open market for companies providing cleantech/bioeconomy solutions.

The EU's climate measures must not lead to a competitive disadvantage for companies competing in global markets. Until the enforcement of a balanced global climate scheme, sectors exposed to carbon leakage should receive free emissions allowances (direct costs) from the EU. Furthermore, there is a need for EU-wide and obligatory compensation system for energy-intensive companies against energy price increase due to the price of emission allowances (indirect cost effect) at the national level, e.g. from auctioning revenues. The increase in energy costs must be curbed both in the EU and nationally by all means available in order to maintain competitiveness.

In addition, experiences show that voluntary initiatives bring realistic and innovative results as industry experts and policy makers striving for solutions together, e.g. energy efficiency initiatives of chemical industry such as SPiCE[3] or CARE+.

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

Instead of production-based tariffs, subsidies should only be given for R&D and for pilot & demonstration projects post 2020. Technology-neutrality has to be ensured, and the EU must not lock only in wind and solar power, which will cumulatively get even massive 500 billion euros feed-in-tariffs during this decade. Big part of this money should go to development of other carbon neutral technologies

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

More than ever, energy is in the core of the EU's competitiveness. There is a vital need for secure availability of energy at competitive costs. Europe has to put cost-competitiveness, security of supply and climate objectives on an equal footing. It must closely monitor energy competitiveness and security of supply to make sure that the three objectives are well balanced. To ensure political commitment and actions, targets to address the energy price differential with major competitors and to ensure energy security should be introduced.

4.3. Instruments "Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?"

A true structural ETS policy reform is need to urgently resolve competitiveness issues: In the absence of a global carbon pricing policy, a strategy based on increasing EU carbon prices for industry until companies are obliged to invest in expensive, uncompetitive low-carbon or energy efficiency technology will inevitably lead to higher costs for energy and/or measures, a loss of competitiveness and investment carbon and energy leakage. Market-based instruments like (ultimately global) ETS will steer investments the most efficiently. This must be the target for post 2020.

How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

Specific measures designed to meet climate objectives which are not economically viable today must not be linked to the ETS. The objective of the ETS is to cut current emissions at the least cost for industry, and it therefore cannot be linked to expensive additional mitigation solutions at the risk of jeopardizing current industry. Policymakers should consciously be seeking the most cost-effective measure.

The current “absolute target policy approach” for industry curbs growth and new investment. Absolute emission reductions can rather be envisaged through approaches which would encourage GHG efficiency gains via sustainable consumption policies, including e.g. measures for the building sector. The chemical industry provides the products needed. Emerging, long-term RES costs in member states are increasingly unsustainable.

How can fragmentation of the internal energy market best be avoided, particularly in relation to the need to encourage and mobilise investment?

Market-based instruments like (ultimately global) ETS will steer investments most efficiently.

Which measures could be envisaged to make further energy savings most cost effectively?

As an example, measures should be encouraging and incentivising non-ETS sectors, which in turn would stimulate the EU economy to deliver competitive, lower carbon solutions to their customers. Such measures should be kick-off type tools and must not lead to long-term subsidy dependencies.

How can EU research and innovation policies best support the achievement of the 2030 framework?

Research and innovation are essential if the EU is to reconcile its energy and climate goals with the need for competitiveness and economic growth. We support many research programmes already – and are hoping to gain EU support for a Public Private Partnership (SPIRE) to deliver solutions for energy and resource efficiency in the process industries.

We advocate a much more targeted approach to R&I policies, in which the key technical barriers to delivering a competitive low carbon economy are identified and projects (for instance PPPs) are developed to overcome those obstacles. Temporary financial support for bringing new technologies to market can be acceptable to stimulate innovation. Permanent long-term subsidies are not.

4.4. Competitiveness and security of supply "Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?"

European industry needs competitive energy costs and security of supply. Where the “green economy” is dependent on subsidies, or on regulatory taxes on consumers or industry, it is unlikely to be economically sustainable. Where innovation creates new “greener” products for which there is a demand – or where new demand is created (eg

for insulation, through public procurement) – then climate and energy policies can stimulate sustainable economic growth.

Global climate agreements must be the EU's priority. This will allow for everyone to benefit: a level playing field is created for companies, climate change mitigation is genuinely implemented and a global market is created for cleantech (a "win-win-win" solution). Global revolution of energy market and prolonged economic recession in the EU together with the present global climate inaction should force the EU to take a necessary time needed for comprehensive and diverse analysis of the global climate policy situation, the EU's economic situation, "lessons learnt" from the EU's 20-20-20 targets, sectoral emission reduction potentials and costs, and competitiveness issues among other things. In addition, alternative scenarios and cost impact calculations are needed for the regrettable possibility of global climate deal not been achieved.

Governments must find ways to ensure that actions taken to address climate change can assist economic growth and development. This can only be achieved by a transparent and thorough assessment of the effectiveness, costs induced and positive impacts of climate policies over the economy and society at large.

A positive engagement in discussions with all business sectors, and in particular with those most affected, can be instrumental in supporting this process. As an example, the setting of realistic targets should be built up by consensus and through the interaction with those that are required to take the actions to meet such targets. The development of a global carbon price would perhaps be the most effective way forward.

What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

Competitive pressures have been high on the EU energy-intensive industries for decades. However, the European chemical industry has been affected by carbon and investment leakage due to the steep development of emerging economies and, more recently, the exploration of shale gas in the US. New investments worth an unprecedented $100 billion have been officially announced for the US for the coming five years. Once these plants come on stream, products will seek markets to the disadvantage of European operations.

Major chemical investments are made in other parts of the world and no longer in Europe.

Import of goods has been increasing in the EU, so carbon foot print has not decreased as much as compared to statistical emission reductions inside the EU. This means that industrial production and jobs have already been transferred outside the EU (carbon and job leakage).

Even if there will be new jobs from e.g. renewable energy, the net effects of the EU policies have to be very carefully evaluated. Carbon and job leakages are increasing because of cheaper energy in the U.S. and China. The EU must try to keep the jobs and industrial production in Europe, ie. outsourcing of emissions and jobs outside of Europe has to be avoided. The EU's climate measures should not lead to a competitive disadvantage for companies competing in global markets.

Solution: Until the enforcement of a balanced global climate scheme, sectors exposed to carbon leakage should receive free emissions allowances (direct costs) from the EU. Furthermore, a full compensation against energy price increase due to the price of emission allowances (indirect cost effect) is needed until other countries like the U.S. and China are involved evenly in emission reduction costs. This compensation must be EU-wide and obligatory for all the Member States to implement in order to avoid relative competitiveness differences inside the EU. The easiest way of doing this would be to allocate auction revenues from ETS to energy-intensive industry.

Also the increase in energy costs must be curbed both in the EU and nationally by all means available.

What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

The greatest price effects in Europe are mainly related to taxes as well as subsidies, the additional costs consumers are forced to pay to politically chosen generation types. Similar price effects are expected if capacity payments for other technologies are taken into use.

EU should encourage member states to avoid such costly governmental interactions. Power generation is one of few areas where state aid is currently allowed. This understates the use of resources from other EU-states as well as from third countries.

How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

The EU aspires to lead the world in this area by its example. However, you cannot be a leader unless the others are following. If the EU gets too far ahead of the rest then it will not be leading anyone and will put itself at serious disadvantage.

Three simple observations:

o The EU will decrease its share of global emissions from about 16% in 1990 to about 8% in 2020.
o If the EU were to try and achieve ambitious emission reductions through increased carbon prices (and hence energy prices), then the effect on EU manufacturing would be severe. The key factor in this is the relative cost of energy (and feedstock) vis-à-vis competing countries. The EU should therefore measure its activities by reference to the impact on the relative cost of energy.
o On current trends, the increase in emissions elsewhere in the world means that, even if the EU were to meet its 80% reduction in carbon emission today, it would only delay the increase in atmospheric CO2 by six months to a year

The global efforts should be taken into account when steering the EU's climate policy, especially with regard to competitiveness of the EU's industries. The risk of carbon leakage should be controlled with smart and least distortive ways of utilizing the ETS allocation, auction revenues and state aid. The ETS should be developed in a manner allowing further linking with other schemes and enabling the use of the current or future flexibility mechanisms.

How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

Subsidy schemes lasting for decades will rule out all flexibility from the market. The same applies to regulation. All new regulation should be assessed also from the perspective of enabling new innovation. Focus of regulation should be only to things that need to be regulated, avoiding micro-managing.

There should be no deadline or end date for sectors' carbon leakage status, no cross-sectoral correction factor and no more single linear reduction factor since all these current provisions work against the interest of companies wanting to invest in Europe - even with the best available techniques.

The EU should maintain a conditional objective for EU emission reductions dependent on the level of ambition of an international binding agreement, taking into account the level of EU financial support and the economic impact on the EU.

How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

The aim should be at managing the long-term cost of decarbonisation by investing in R&D and demonstration of a variety of emission reduction technologies. The first priority of the use of auction revenues should be the allocation of auction revenues to energy-intensive industry against indirect cost effect of ETS until global climate agreement is achieved. The second priority would then be R&D and demonstration projects.

The simple answer to the question is that industries tend to invest when they see the possibility of a return on that investment. The best way to stimulate that investment is to create a demand for the new products that are being developed. If the demand is there, then the investment will follow.

How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

We fully support the development of unconventional energy sources as a means of keeping the price of energy (and feedstock) competitive. The EU can contribute to this by ensuring a clear and stable regulatory framework that facilitates the safe exploitation of these resources.

With regard to unconventional energy resources and especially shale gas, there are three significant impacts on Europe and globally: The EU will become less competitive compared to the U.S. and later also to China, the position of the U.S. in the climate negotiations will change because of rapid decrease of CO2 emissions and the context of global security and geopolitics will change significantly.

EU should invest in development of unconventional energy sources, but even at its best it could be only a small part of the solution. We believe that well-functioning and fully integrated internal market with all energy options open is the key for European competitiveness.

How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

An effectively functioning market is the best way to improve security of supply.

The question however seems to be more related to gas markets. Security of gas supply, having alternative routes (e.g. a LNG terminal funded partly by the EU) would increase security of supply as well as competition by creating a real gas market.

4.5. Capacity and distributional aspects

- *How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?"*

  Energy and climate policy should not consider these societal issues, but the EU should find other ways to compensate the poorest or the least developed countries. It is crucial for the EU's competitiveness that climate target is achieved as cost-efficiently as possible. That means that emission reductions are made there, where they are the cheapest (e.g. Eastern European countries). Present situation as well as all the efforts (e.g. in energy-efficiency) made since 2005 must be calculated for every country and then implement a truly fair cost-based effort sharing. Forerunners must not be penalized but rewarded.

- *What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?*

  Please, see previous answer.

- *Are new financing instruments or arrangements required to support the new 2030 framework?*

  Yes, for energy-intensive industries, in addition to free allowances (direct cost effect), a full compensation against energy price increase due to the price of emission allowances (indirect cost effect) is needed until other countries like the U.S. and China are involved evenly in emission reduction costs. This compensation must be EU-wide and obligatory for all the Member States to implement in order to avoid relative competitiveness differences inside the EU. The easiest way of doing this would be to allocate auction revenues from ETS to energy-intensive industry. This should be the first purpose of use of auction revenues, the second being R&D and demonstration projects.