Watering down the EU's Climate Policies
a multi-pronged corporate attack

Corporate Europe Observatory, December 2008

As the UN climate talks (COP 14) in Poznań begin, the negotiations on the EU's climate and energy package aiming to reduce greenhouse gas emissions by 20% have moved to a higher gear. Despite intense negotiations between the Commission, European Parliament and Council, there is little chance of having the package fully approved this year[1]. This article looks at some of the key strategies being deployed by business to weaken and delay the climate and energy package, which was originally put forward by the Commission in January 2007.

The climate and energy package contains five key elements:

- a commitment to cut greenhouse gas emissions by 20% by 2020 and by 30% provided other industrialised countries sign up to comparable cuts;
- a "burden sharing" agreement to allocate emission reductions between Member States;
- a review of the emissions trading system (ETS) ahead of the third phase (2013-2020);
- a directive setting a target of 20% renewable energy by 2020, including a 10% target for agrofuels;
- a controversial directive for the development of the capture and storage of carbon (CCS).

A directive on emissions from cars is being negotiated together with the four official ingredients of the package.[2]

The energy sector, the chemicals industry, the aviation sector and car manufacturers have all been lobbying in their own right as well as under the umbrella of the European employers' confederation BusinessEurope and through the European Roundtable of Industrialists (ERT), which brings together chief executives from Europe's largest corporations, to:

- keep the ETS as a market where they can make windfall profits while not reducing emissions;
- delay urgent measures such as the renewable energy targets,reduced emissions from cars and reduced emissions from energy intensive industries;
- promote false solutions such as agrofuels and controversial technologies which provide new market opportunities.

Banking on Emissions Trading?

The EU has made its Emissions Trading Scheme (which allows industry to buy and sell CO_2 permits) a key element in its strategy for reducing greenhouse gas emissions. The scheme is being reviewed ahead of phase three (post-2012) and the Commission has said it intends to auction some of the "permits to pollute", which until now have been handed out for free.

The ETS has so far failed to reduce greenhouse gas emissions, while generating windfall profits for some of Europe's biggest polluters. Energy companies are resisting attempts to tighten up the scheme.

1 The French Presidency wanted the package approved at the European Summit (11-12 December) coinciding with the Poznań UN talks (1-12 December 2008). This will not be possible, as the vote by the European Parliament, which was expected for December 3-4, has been postponed to the 17th, few days after the EU Summit and the closing of COP 14. On-going negotiations between the EU institutions (the trialogue) have so far failed to reach consensus. The most controversial issues will be solved by "horse-trading" between governments, and the European Parliament will have either to approve a very weak package or delay the process. See: MEPs postpone climate vote, EurActiv.com, 24 November 2008.

2 For details, refer to the dedicated web page on the EC Climate Action and Renewable Energy Package, DG Environment website.

The ETS has enjoyed broad political support, but this could change as the multiple broader problems with relying on carbon markets become more visible. In the future, the ETS is intended to fully merge into a global carbon market, enabling EU corporations to keep avoiding reducing emissions at home by buying up yet more CO_2 credits from developing countries. This could be disastrous, given the experiences with the Clean Development Mechanism (established under the Kyoto Protocol) which allows industry to acquire carbon credits through investment in projects abroad, mainly in developing countries. Many of these CDM projects, such as industrial tree plantations, have been shown to cause severe damage to the environment and livelihoods of local communities[3].

Flashback: Fox designs Henhouse security

Europe's ETS was modelled on an emissions trading scheme established in the UK which, according to a forthcoming report from Platform and CEO, was heavily promoted by BP and other corporations eager to pre-empt more effective regulation, as a carbon tax.

Before the EU adopted the ETS, it was already clear that the UK scheme[4] had failed to reduce emissions[5] but the EU repeated the same mistakes, giving in to the demands of heavy industry lobbying by over-allocating emissions permits.

BP, Shell and other interested industries lobbied against the tighter caps proposed for phase two (January 2008 – December 2012) and against the auctioning of permits. A number of companies made windfall profits in the first phase of the ETS, but have complained that the scheme is undermining their competitiveness.

The Commission initially proposed including refineries as one of the sectors for which permits would be auctioned in phase three. Yet shortly before the Commission adopted the proposal, the reference to auctioning in the refining sector was removed, without any explanation.

Making money from the ETS: biggest emitters want allocations for free

Other energy intensive industries are also opposed to auctioning and are threatening that they will relocate outside of the EU – where they can continue to pollute, resulting in 'carbon leakage' – if auctioning goes ahead. Emissions will not be cut, but jobs in Europe will. The Alliance of Energy Intensive Industries[6] has put forward similar arguments, as has the ERT, wrapped in softer rhetoric[7].

Following lobbying by ERT, the Commisision agreed to consult with the industry federation BusinessEurope before it finalises the list of exemptions in 2011. BusinessEurope believes that "manufacturing industries exposed to international competition must receive 100% free allocations […] until there is an international agreement,"[8].

---

3 Carbon offsets not welcome here, Larry Lohmann, Carbon Trade Watch, 27 February 2007.
4 The UK Emissions Trading Scheme: a new way to combat climate change, House of Commons, Public Account Committee, Forty-sixth Report, 9 November 2004.
5 Stern Words While in Europe They're Trading Hot Air, Kevin Smith, Carbon Trade Watch, Parliamentary Brief, December 2006.
6 The Alliance of Energy Intensive Industries includes 11 highly emitting sectors: the chemical, cement, paper, ceramic, glass, lime, ferro-alloys, chlor-alkali, iron and steel, metal and clay industries. A few days before the Commission published its proposal for phase three of the ETS, the Alliance sent a letter to Commissioner Barrot, asking for entirely free allocations for all their industries and rejecting any form of auctioning. Letter to Commissioner Barrot, Alliance of Energy Intensive Industries, 11 January 2008.
7 Letter to Commissioner Verheugen, European Roundtable of Industrialists, 17 January 2008.
8 BusinessEurope position paper on the proposal of the European Commission for the revision of the EU emission trading directive, BusinessEurope, 26 May 2008.

Industry's case is supported by the German government and by allies in the Parliament, such as MEP Eija-Ritta Korhola (EPP-ED, Finland)[9] and Karl-Heinz Florenz (EPP-ED, Germany)[10], who have put forward amendments reflecting industry's demands.

According to the International Energy Agency (IEA)[11], the likelihood of carbon leakage is largely exaggerated, but in times of looming recession, decision-makers are susceptible to scare-mongering and as a result the climate package might be further weakened.

Corporate lobby groups are also lobbying for unlimited use of the Clean Development Mechanism (CDM). This would result in the market being flooded with controversial CDM credits, which will counter any positive impact from reducing the emissions cap.

The aviation industry fights inclusion in the ETS

Emissions from aviation are not currently covered by the ETS, so when the Commission proposed their inclusion in December 2006, the aviation industry launched an offensive. Two of the most active players were the Association of European Airlines (AEA), which reluctantly supported the proposal, hoping to influence it, and IATA, the International Air Transport Association which lobbied aggressively to oppose it.

Although the European Parliament supported the Commission proposal and tried to strengthen it, the Council pressed to weaken the scheme. MEPs finally bowed down to a deal with the Council in June 2008, allowing airlines free permits to cover 85% of emissions (rather than auctioning) and delaying the start to protect their national aviation industries. This means that by 2020, emissions from aviation will be reduced by the equivalent of one year's growth under a 'business as usual' scenario. Aviation is the fastest growing source of CO_2 emissions in the EU, increasing by 87% since 1990.

The aviation industry is still fighting the measures, urging the International Civil Aviation Organisation (ICAO) – the body charged by the UN with tackling emissions from aviation – to challenge the legitimacy of the EU ETS and introduce its own voluntary scheme.

Blurring renewable energy targets

The climate and energy package proposes a 20% target for renewable energy by 2020 and includes incentives to further develop clean sources of energy. But corporate lobbies, particularly energy traders and producers[12,] are trying to hijack the proposal.

BusinessEurope and other corporate lobby groups have consistently labelled the 20% target as "out of reach"[13]. They argue that the costs of renewables are too great and that these targets will also lead to carbon leakage in some industries[14]. Instead they want flexible targets within a

---

9 http://www.korhola.com/html/?id=2285&limit=z, Eija-Riitta Korhola, Guest Commentary, 19 September 2008.

10 Wolf in sheep's clothing? Climate rapporteur seeks to weaken emissions trading rules, Stop Climate Change website, 6 October 2008.

11 It is "highly unlikely that carbon leakage would wipe out entirely an effort to reduce emissions in an industry [globally]". Issues behind Competitiveness and Carbon Leakage – Focus on Heavy Industry, Julie Reinaud, International Energy Agency, October 2008.

12 EFET, the European Federation of Energy Traders (see online membership list) tries to cancel the much needed efforts to improve the Community counting scheme of renewable energy. See also: For the promotion of electricity from renewable energy sources, EWEA Postion Paper, November 2004.

13 BusinessEurope Letter to Michael Glos, 30 May 2007.

14 Going Global: The Way Forward. Securing EU's Export Competitiveness, BusinessEurope Study, October 2008. This publication refers to a study commissioned to energy consultancy Pöyry, which concludes that "in the situation where the percentage of electricity consumed by European industry remains constant, industry should, based on these figures, have to pay approximately between €107.7 and €146.3 billion over the whole period and between €7.8 and €10.6 billion a year, depending on the implementation of a permit and trading system on

trading system for renewable energy, creating a market for “guarantees of origin” certificates for producers of heat and electricity coming from renewable energy sources. There are strong concerns about this demand, not only because it could become a disincentive for some countries to invest on renewables, but also because it would benefit the largest energy firms and harm community-level renewable energy projects, concentrating the energy market in the hands of a few very large corporations.

Other companies have lobbied for their specific interests – for example French energy giant EDF want electrical heat pumps to be considered as a renewable energy source, although they are essentially an energy-efficiency measure. Pro-incineration lobbyists (eg CEWEP)[15] want a part of the energy produced from waste to count as renewable even though this is not necessarily the case[16].

Promoting false solutions

The agrofuel folly

The proposed renewable energy directive still includes a controversial target to increase the use of agrofuels in road transport fuel to 10 percent by 2020. This proposal was presented as a major step in combating climate change, yet there is strong and growing evidence that agrofuels will accelerate climate change, as well as aggravate a range of other social and environmental problems.

The EU’s agrofuel folly has been influenced by the lobbying activities of interested industries, such as car-manufacturers, biotech companies and the oil industry. The Commission has enabled these corporate interests to shape EU agrofuels policy by setting up industry-dominated advisory groups such as the Advisory Research Council for Biofuels (BIOFRAC) and its successor, the European Biofuels Technology Platform (EBFTP).

Car manufacturers, such as Volvo and Volkswagen, have advocated agrofuels to avoid lower CO_2-emission criteria for passenger cars. The biotech industry sees agrofuels as a chance to overcome public resistance to genetic modification. GM crops may be more acceptable for fuel. Oil companies have also invested in agrofuels, benefiting from subsidies but also securing a future market for fossil fuels, which are blended with agrofuels[17].

Carbon Capture and Storage: saving the energy model, not the climate

Carbon capture and storage (CCS) is a new technology designed to capture CO_2 at the point of generation (eg in a power station) for storage underground or under the sea. It is controversial not least because the technology has not yet been fully tested and it is very expensive. Its inclusion in the proposed energy and climate package would provide a major boost to its future development.

In the last 10 years, energy companies, including RWE, Vattenfall, Siemens, Alstom, BP, Shell and Statoil have already received millions to develop CCS technologies. Research funds for CCS will double under the 7th Framework Program (2007-2013)[18].

---

renewable energy production.

15 The Confederation of European Waste-to-Energy Plants (CEWEP) represents about 340 Waste-to-Energy Plants across Europe. See the CEWEP website.

16 Major Concerns on Biomass Definition, CEWEP, ESWET, FEAD, 25 September 2008.

17 For more information see The EU’s agrofuel folly: policy capture by corporate interests, Corporate Europe Observatory, June 2007.

18 From €15-20m per year under FP6 to €30-40m per year under FP7. Supporting Early Demonstration of Sustainable Power Generation from Fossil Fuels , European Commission, Brussels, 23 January 2008 , COM(2008) 13 final.

Industry dominates the two advisory bodies which advise the Commission on CCS[19]. Proposals by those industry-dominated groups have resulted in the construction of up to 12 demonstration plants to be completed by 2015.

CCS has found a strong advocate in British liberal MEP Chris Davies, who has put forward an amendment proposing to set aside 500m free carbon allowances to finance demonstration projects[20] and called industry to lobby his colleagues in favour of it. Within the informal trialogue Davies and the CCS lobby are backed by Energy Commissioner Andris Piebalgs, and the UK and Dutch governments.

The proposed support for CCS puts it almost on an equal footing with renewable energy, in terms of funding[21]. But CCS cannot help reduce emissions by 2020 because it will not be commercially operational in time[22]. Extra state aid and financial support for renewables could however make a difference. As in the case of agrofuels, EU is putting commercial corporate interests ahead of the precautionary principle and a genuine fight against climate change.

Nuclear revival: the old environmental foe now a climate saviour

In recent years, the leadership of the European Commission has departed from its traditional neutrality regarding the use of nuclear energy. Nuclear energy always had supporters within DG energy, but now a number of influential Commissioners also have revealed their true colours.

Commission President José Barroso and energy Commissioner Andris Piebalgs have both made public statements in favour of nuclear energy as a necessary solution to avert climate change. Piebalgs said that 30% of the EU's energy should come from nuclear[23], compared to 15% today[24].

The nuclear lobby has been influential in achieving this policy shift. FORATOM, the European federation of nuclear industry spends €1.5 m a year coordinating the pro-nuclear Brussels campaign[25], organising events and visits to nuclear sites, drafting amendments tabled by MEPs[26]. Rolf Linkohr, a professional nuclear lobbyist, was an official advisor to Commissioner Piebalgs while the energy white paper was being prepared[27]. BusinessEurope, the ERT and other corporate lobby groups are also promoting a nuclear revival.

The creation of the European Nuclear Energy Forum (ENEF), promoted by the European Commission and the Czech and Slovak governments, has consolidated, if not institutionalised, the privileged status of the nuclear lobby. ENEF is clearly not balanced forum as it is dominated by industry representatives and has a clear agenda of planning the nuclear re-launch [28].

---

19 The European Technology Platform for Zero Emission Fossil Fuel Power Plants (ETP-ZEP) and the Expert Group on Coal combustion, clean and efficient coal technologies, CO_2 capture.

20 Environment committee ETS vote in detail, ENDS Europe Daily, 7 October 2008.

21 The whole range of financial means are planned to support CCS: EU research money, national state aid, the European Strategic Energy Technology Plan (SET Plan), European financial institutions (EIB and Risk Sharing Finance Facility) and grants under the Trans-European Energy Networks (TEN-E), European Commission, Brussels, 23 January 2008 , COM(2008) 13 final.
See also the most recent non-paper of the Commission on the issue: Policy Options Paper: Financing large scale demonstration of emerging energy technologies (e.g. CCS Demonstration Plants). November 2008.

22 It will be fully operational only in 2030 according IEA, CO_2 capture and storage: fossil fuel power generation, from: Energy Technology Perspectives 2008, IEA, July 2008.

23 Commission backs nuclear in 'energy revolution', EurActiv.com, 3 October 2007.

24 An energy policy for Europe, European Commission, Brussels, 10 January 2007 , COM(2007) 1 final .

25 FORATOM, Profile of interest representative, European Commission Register of interest representatives, date of last update: 23-06-2008.

26 Nuclear Power Grab, Corporate Europe Observatory, December 2006.

27 Watchdog group applauds European Commission action against special adviser's conflicts of interest, Corporate Europe Observatory, February 2007.

28 1st meeting of the Bratislava-Prague forum, November 2007, Bratislava.

The Commission's recent Strategic Energy Review aims in stimulating investment in nuclear energy[29]. Moreover, nuclear lobbyists expect more concrete steps by the next Commission and the next European Parliament after 2009[30].

The car lobby – full speed ahead

With emissions from road transport increasing by 26% between 1990 and 2004[31], the Commission finally attempted to set a legal framework obliging industry to reduce emissions in 2006. This triggered a massive lobby campaign by the car industry, led by ACEA, the European automobile manufacturers association, targeting first the Commission, then Member States and finally the European Parliament.

They successfully persuaded the Commission to modify proposals for a binding target of 120 g/km average emissions by 2012, with a misleading media campaign led by the German car industry. Backed by the Enterprise Commissioner Günter Verheugen and German Chancellor Angela Merkel, the target was reduced to 130 g/km[32].

In the second phase, lobbying was directed towards national governments, resulting in a Franco-German agreement to bring the target to 136-138 g/km. The deal reflected the end of an internal dispute in the European car lobby with the German industry prevailing[33].

In the Parliament, the Forum for the Automobile and Society, a corporate funded business-parliamentarian forum tried to curry favour with MEPs. Some of them, like Malcolm Harbour and Martin Callanan received very generous hospitality and gifts from the car industry[34]. Car friendly MEPs tried to support the Franco-German deal postpone the deadline to 2015 and reduce fines to law-breakers. Counter campaigning by Friends of the Earth and Greenpeace resulted in the Environment Committee rejecting industries' demands[35]. When Green and Left MEPs asked for roll-call votes many MEPs changed their position[36].

The car dossier is being considered alongside the climate package. In the midst of the global financial crisis and their own overproduction crisis[37], the car lobby has asked for a €40 billion low-interest loan to develop fuel efficient technologies[38]. Industry Commissioner Verheugen was very quick to support the idea of an EIB loan[39], despite the fact that the car industry has spent more than ten years lobbying to delay a gradual shift to cleaner technologies.

---

29 FORATOM welcomes second Strategic Energy Review and updated PINC, FORATOM, *press release*, 14 November 2008**.**

30 FORATOM event on the 2nd meeting of ENEF, 12/6/2008. See website of the European Nuclear Energy Forum.

31 Commission plans a legislative framework to ensure the EU meets its target for cutting CO2 emissions from cars, European Commission, *press release*, IP/07/155, 7 February 2007.

32 Car industry flexes its muscles, Commission bows down, Corporate Europe Observatory, March 2007.

33 Driving climate change, Greenpeace briefing on the Franco-German car deal of 9 June 2008, Greenpeace, 4 July 2008.

34 Ibid.

35 European Parliament wards off disaster on car emissions legislation , Greenpeace European Unit, *press release*, 25 September 2008.

36 Climate triumphs over car industry!, GUE/NGL, *press release*, 25 September 2008.

37 Restructuring of the car industry has led to the closing down of factories and massive job losses (a.o. the VW site in the Brussels area). Internationally coordinated strikes have taken place and strike movements have occurred in countries considered as relocations' destination like Romania. The car industry tries to link the threat of job losses to climate policy obligations, but job losses happened already as a result of overproduction and are completely unrelated to climate measures.

38 European auto industry calls on EU to help sustain changeover to low-emission car fleet, ACEA, *press release*, Brussels, 6 October 2008.

39 European carmakers may get €40bn loan, Matt Williams, *The Parliament Magazine*, 29 October 2008.

The road to Poznań and beyond

Despite pressure to get the energy and climate package approved at the European Summit on 11-12 December to boost the EU's negotiating position at the UN talks in Poznań, disagreement between member states, "sabotage" from several MEPs[40] and corporate pressure makes it very unlikely EU will adopt it before the end of the year. Large European corporations do not want the EU to make unilateral commitments which might place them at a competitiveness disadvantage, and argue that the EU should instead focus on working out an international agreement within the UN.

BusinessEurope, which has made the climate issue one of its top priorities, has spelled out the conditions that such an agreement needs to have, including commitments from advanced developing economies (such as India, Brazil or China) to start discussions on targets before 2020; country-wide measures to create a "level playing field" for industry and the inclusion of nuclear energy, clean coal under the Clean Development Mechanism, as "cost-efficient" means of reducing emissions.

European corporations coordinate their campaigns across global industry, through concerted efforts led by the International Chamber of Commerce (ICC) and the World Business Council for Sustainable Development (WBCSD) aiming at the UN. A key player in this is Nick Campbell, of Arkema (the chemical division of Total), who chairs the climate working groups of BusinessEurope, CEFIC (the European chemical industry lobby) and the ICC (the world business organisation).

As negotiators move towards COP 15 in 2009 – the deadline for an international agreement on the second phase of Kyoto – lobbyists will undoubtedly line their route.

The EU has cultivated an international image as the leader in fighting climate change, while adopting climate policies which serve corporate interests and don't tackle the climate crisis. Its flagship policy, the ETS, was designed to pre-empt more effective options such a carbon tax, while allowing large corporations to continue emitting and profiting from a new market. It is also promoting false solutions, such as agrofuels, CCS and nuclear energy, with severe environmental and social impacts.

It funds research into false solutions and controversial technologies. The largest part of the small energy research budget has been invested in nuclear fusion, a technology that will not deliver before 2050 if ever[41]. Yet it is failing to provide sufficient investment for energy efficiency measures and renewable energies, which are the only effective means of reaching the 20-20-20 targets (20% improvement of energy efficiency and 20% of renewable energy by 2020.) Renewable solutions have vast potential, and could provide 50% of global energy by 2040[42].

At a more fundamental level, the EU should stop putting the interests of corporations before those of global justice, solidarity and the effective protection of people and the environment. It should have the political courage to stop promoting false solutions and take the only way which can avert climate change: a far-reaching change which departs from the current model of unsustainable production and consumption.

---

[40] The German delegation of the EPP is by far the most outspoken supporter of postponing the final adoption of the measures beyond the European elections of 2009.

[41] "IEA: EU Wasting Money On Fusion Research; Neglecting Efficiency", WISE, *Nuclear Monitor*, No. 679, 13 November 2008.

[42] Renewable energy scenario to 2040, Half of the global energy supply from renewables in 2040, European Renewable Energy Council, May 2004.