

Margot Wallström

European Commissioner responsible for Environment

“Towards a low carbon economy”

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

European Business Summit

Brussels, 11 March 2004

Ladies and Gentlemen,

I would like to start this speech by quoting one of my favourite writers, Rolf Edberg. In 1966, he wrote: "This is mankind's home", "in the narrow borderland between the deathly heat beneath our feet and the coldness of space above us". He describes the fragility of our existence in poetic terms: "the atmospheric layer is so thin that it cannot be represented on any globe with even the finest brushstroke. At its thickest, it is only a few fractions of a millionth of the Earth's radius. This thin layer is what makes the difference between our planet and the sterile landscape of the moon." After reading that, one does feel the need to take better care of this fragile layer.

It is a pleasure for me to address this conference today. I have four main messages:

- Climate change is happening.
- The Kyoto Protocol is an efficient and ingenious instrument to deal with the challenge of climate change.
- In the fight against climate change, there are significant opportunities for business and we are already seeing the first success stories for European companies.
- There are real solutions to the problem of climate change – public authorities and business need to work together in applying these solutions. This would be to the benefit of all.

(Climate change is happening)

As the quote I just read to you illustrates - climate change is one of the decisive challenges that our generation has to tackle. Our civilisation can be traced back by about 10.000 years – exactly those 10.000 years that were characterised by a pretty stable global climate. Now we are endangering this stability, with unpredictable consequences for the lives of our children and our grand-children.

Already in 1988, the UN brought all the important scientists of the world together under the umbrella of the IPCC (Intergovernmental Panel on Climate Change). They peer-reviewed all the scientific evidence and have reached consensus on three major reports so far. The writing is on the wall.

We now know that the 20th century was the warmest century in this millennium.

Even more, all of us that are here at this conference today have experienced the 10 warmest years on record – they have all taken place since 1991. In most parts of Europe, the summer of 2003 was the hottest ever. In France alone 15.000 people died due to heat stress, in combination with increased air pollution by ozone and particulates.

Southern Europe was plagued by large-scale forest fires. Agricultural losses across Europe were estimated at over €10 billion. The energy sector, too, proved to be vulnerable. The electricity supply was threatened in many countries of Europe due to a lack of cooling water for fossil fuel and nuclear power plants.

To put it bluntly: How much more science do we need?

Fortunately, people are waking up. A report from the Pentagon warns that the consequences of climate change will reduce the carrying capacity of our earth. As global and local carrying capacities decline – new tensions are likely to arise due to the fight for natural resources such as water. According to the Pentagon, this would have implications for the US national security. In a different area, insurance companies keep reminding us of the staggering costs this already involves today. If the current trends of natural disasters continue, total insured economic losses are estimated to be in the range of 30-40 billion US \$ in only 10 years time. This reminds us that climate change is far more than an environmental issue – it is a threat to the economy. In considering the costs of slowing down climate change, we should always keep in mind the costs if we do not take action.

(Kyoto Protocol: a first but vital step)

The Kyoto Protocol is the only credible and comprehensive international framework for addressing climate change. And, all the more better, the Kyoto Protocol is a particularly ingenious tool. It allows for common but differentiated responsibility – respecting the specific economic and environmental situation of each country. It provides clear targets towards which we can mobilise our efforts and measure our progress. And it caters for flexible and market-based instruments to reach these targets.

Some are saying the EU is alone in its defence of the Kyoto Protocol. When you read certain reports, you would get the impression that the EU is riding off like some kind of Don Quixote fighting windmills alone. This is wrong! The Kyoto Protocol has been ratified by more than 120 countries representing some three quarters of the world's population, including most of the developed nations. In the United States, 10 North-eastern states are establishing a regional CO₂ trading scheme based on an initiative by governor Pataki from the state of New York.

True, the EU is a global leader in these efforts, but it is a leadership in active partnership with all countries and other stakeholders that are involved in the fight against climate change. And besides, we would not fight the windmills but rather support them.

We need to get our facts right. Unless we adopt the right policies, emissions are expected to rise to about twice the level of 1990 around 2050. The only way out is the move towards a low carbon world limiting global warming to 2°C. In order to achieve that, world emissions would have to peak around 2015 and then fall substantially. What are 2° C ? Not much some of you might think – but let's keep in mind that during the Ice Age, the average European temperature was only 5 ° less than it is now. This is how much a few centigrade can mean.

This shows us clearly that whatever happens to the Kyoto Protocol – the threat of climate change will not disappear.

A recent report by the IEA (International Energy Agency) shows how much we have been doing since the 1970s to reach this path and also ... unfortunately ... how much we are at risk today of nullifying the useful efforts made in the past. The IEA countries have significantly reduced the need for energy to fuel economic growth. Today, it takes one-third less energy to produce a unit of GDP as compared to 1973. Without these savings, energy use today would be 50 % higher than it actually is. However, the growth in the transport sector, in particular passenger cars, means that total oil demand is still the same as it was in 1973. What we have to do is continue to step up our efforts to invest in energy-efficient and low-carbon equipment.

(Opportunities for European business)

World-wide, mankind is spending €2.7 trillion per year on energy. Of all primary energy, some 80-90% is being lost, for instance in energy conversion and transport processes, inefficient industrial processes, heating and cooling.

Limiting this huge amount of waste makes a lot of economic common sense. But it also represents a huge business opportunity and will improve Europe's security of energy supply. Being the first mover can give European business the competitive edge. Environmental technologies can help us raise productivity, increase employment and improve our environment. Across the globe, carbon constraints are becoming clearer – this is giving EU companies new market shares thanks to the international framework in which we operate. Let me give you two examples.

- 40% of energy is consumed in our homes and buildings. Existing low-energy buildings require up to ten times less energy than today's building stock. And this can be done with cost-competitive off-the-shelf technology and expertise.
- Secondly. China is a booming automotive market. In 15 to 20 years' time, China's total vehicle fleet could overtake that of the US. Today, Chinese authorities are seriously considering implementing fuel economy standards for passenger cars. For almost 10 years, the European Union, in cooperation with the car manufactures, have been developing the world's most ambitious strategy in this field. This sustained strategy was successful in Europe and will give us a significant first mover advantage on the fast growing car markets of the future.

And you in business know that developing countries such as China, Brasil or South-Africa no longer go for second best technology, instead they go for the "first best". And right they are!!!! European companies should be ready to seize the new business opportunities of the future. I am heartened to see that many of them are already doing so today.

(Emissions trading: a cost-efficient instrument to meet Kyoto)

But, of course, we need to see to it that our measures to fight climate change are truly cost-effective. This is why the Commission invited all stakeholders from industry, NGOs and academia to contribute to the question: how can we create market-based incentives to reward those technologies that we are going to need much more in the future? One of the strong messages emerging has been clear and simple: by creating a price for carbon and by creating a European market for emission reductions. This indeed leaves ample room for entrepreneurial flexibility to choose the most cost-effective response to emission reductions across Europe.

But a market-based instrument also implies scarcity, so as to create a positive price signal. That is the basic task the Member States are currently undertaking in preparing for the National Allocation Plans under the Emissions Trading Directive. I understand the pressures they are under, as those who will receive allowances for free want to obtain as much as they can. But I trust the common sense of both public and private players to ensure that no more allowances are distributed than the relevant companies need. By over-allocating Member States would deprive themselves of the tools they need to get on “the path to Kyoto” as prescribed by the directive. In this case, the Commission would have to act - and will act if necessary.

Some have stated that price signals, for instance increased electricity prices, are an unintended effect. Some even went so far as to state that this element was overlooked when the Emissions Trading Directive was being developed. I can be formal in my reply: this was not the case! Many reports, including those of the IEA (International Energy Agency), have shown that price signals are the consequence of any climate change policy that calls on the market. We do know however that these price developments are going to be limited, in particular in comparison to the price decreases expected following liberalisation of the electricity market.

In less than a year from now, the emissions trading scheme will be up and running. It is attracting a lot of attention from around the world and in particular from industrialised nations such as Canada, New Zealand, Australia and others who have expressed interest in linking up their own future trading schemes with the European one. I am also pleased to see that the debate involves the US. Over there businesses have already set up the Chicago Climate Exchange, a voluntary trading scheme, while climate and trading policies are being developed in several states. Also the discussion in the US Senate on the Mc Cain-Liebermann Act shows a welcome policy development on a nation-wide trading scheme quite similar to the EU experience.

(new technologies and renewables)

I have been underlining the role of technology repeatedly today, and that is also the goal of the new Environmental Technologies Action Plan that the Commission adopted a few weeks ago. I know this issue is raised during your conference and I will therefore not address it in any further detail.

Very shortly and in general terms, ETAP recognises that many environmental technologies have a great potential to boost the competitiveness of companies while decoupling growth from pressure on the environment. ETAP seeks to overcome the barriers that still exist to the use of these technologies through a common European effort with all relevant stakeholders including business.

This is only one of many interesting developments going on at the moment. Some technologies have a spectacular future in front of them. But for several of them the jury is still out and the right incentives should lead to the promising results.

CO₂ capture and storage, for example, would allow considerable CO₂ savings and would 'buy time' until alternative solutions become available or become less expensive. Hydrogen and fuel cells can deliver important energy efficiency gains with respect to present-day technology, and could give a significant boost to the use of renewable energy sources in the long term.

By far the most promising source of energy are renewable energies as they are clean with low greenhouse gas emissions - or none at all. They are an alternative to importing fossil fuels and so help ensure energy security. Because many of them are decentralised, renewables can also remove the need to expand distribution and transmission systems. Renewables create new jobs and businesses – many of them in rural areas. In considering policies related to renewables, all potential benefits need to be taken into account.

The EU is at the forefront in promoting renewables. We have established an ambitious target of increasing the share of renewables in primary energy to 12% by 2010. As regards wind energy, European businesses lead a market now worth €15 billion and growing at 30% per year. This should encourage Europe to strive for world leadership in other areas as well, like photovoltaics for example.

To encourage investments in renewables we need a stable long-term perspective and that is why countries around the world should develop targets for 2020. Similarly new public private partnerships are promising, but we should now move away from words to deeds.

One way to do so is the Johannesburg Renewable Energy Coalition that the EU launched at the 2002 WSSD. JREC - as we call it - has since grown to include 86 Governments. These members –strongly supported by financial and corporate stakeholders, are committed to build a coherent and stable global framework to support renewable energy and set smart targets.

In this context, I very much welcome the initiative taken by Chancellor Schroeder in Johannesburg to host a world conference on renewable energy in Bonn in June 2004. At this Conference, the Commission – which is hosting the JREC Secretariat – will among others present the results of its “Patient Capital Initiative”.

Here, the Commission is exploring the feasibility of creating a new global public-private “fund of funds” aimed at risk sharing and risk capital formation. This should provide support to SMES and financial intermediaries that are driving the market today.

I expect the business community to take a leading role in this most important event. And that is why I hope to see you there in large numbers, with lots of fresh ideas and practical plans for developing the emerging low carbon economy.

Thank you very much.