

Memorandum of the Union of Entrepreneurs and Employers on European climate policy

The Union of Entrepreneurs and Employers recognises the need for concern about climate and environmental protection. However, we express our opposition to the model of combating climate change proposed by the European Commission. The instruments used are often ineffective, and the European climate policy is full of internal contradictions. Some of the recently proposed changes are of a purely political nature, and embedding them in pro-environmental rhetoric by the European Commission is an example of plain green washing. Ultimately, the implementation of the changes proposed in the Fit for 55 package may lead to a significant deterioration of the European economy and impoverishment of Europeans, to which we cannot agree. We believe that it is necessary to look for alternative and reliable ways to combat climate change, instead of blindly following the path of politically set goals.

Concern for the climate must not come at the expense of reducing the competitiveness of European companies or decreasing the quality of life of Europeans. The European Union is responsible for a relatively small percentage of greenhouse gas emissions, so unilateral actions based on the introduction of stringent norms and standards within the Community will not lead to a radical improvement in the state of the global environment. In the meantime, there is no doubt that Europe is losing its economic momentum – what we need are deregulatory initiatives and support for entrepreneurship rather than proposals for further self-limitation which often turn out to be counterproductive.

Lack of effectiveness of the instruments used

The European Emissions Trading Scheme (ETS) is considered one of the greatest successes of the European climate policy. Its actual impact on reducing greenhouse gas emissions remains very limited. Extensive literature and various studies seem on the surface to confirm the effectiveness of the ETS. However, if we look at these studies, we see that the vast majority of them are ex ante models, not empirical ex post studies. This conclusion was reached by Professor Jessica Green of the University of Toronto, who conducted a literature review on the topic of ETS and found fewer than 40 empirical studies of their effects. On the EU-ETS, Green concludes: “Despite the extensive human and financial resources invested in developing and managing the EU-ETS, annual emissions reductions (i.e. across all sectors) range between 0% and 1.5% per year.”[1]

At the same time, the system is burdened with serious flaws that allow it to be used as a speculative tool. It is therefore surprising that the European Commission has decided to extend the ETS to cover buildings as well as air transport. On the one hand, extending the ETS to buildings may lead to widespread energy poverty in Europe. The Union of Entrepreneurs and Employers has serious doubts as to how this effect can be reconciled with another strategic EU objective – namely a Europe with a strong social dimension. On the other hand, applying the ETS to air transport, which at the moment has no viable low-carbon alternatives, will increase flight prices and reduce the mobility of Europeans, hitting the core of the EU: the single market. Reduced demand for flights, in turn, could significantly reduce the sector’s projected ETS revenues – after all, the purpose of the ETS is to provide funds for green investments.

Internal contradictions in European climate policy

As our Union has previously warned, EU climate goals are being achieved at the expense of deforestation while having little real impact on greenhouse gas emissions. This is because EU law

recognises bioenergy (including biodiesel and biomass) as climate-friendly and imposes on member states the need to achieve an appropriate share of renewable energy in final energy consumption. However, the original assumption about the “greenness” of bioenergy is due to an incorrect estimate of the greenhouse gas emissions that arise from its use. This error has been acknowledged by the European Commission itself in two reports on alternative land use cost (known as ILUC). These studies showed that when ILUC is taken into account, palm and soybean oil-based biodiesels have three and two times the emissions of traditional fossil diesel, respectively.

Worse even, the increased use of biofuels is leading to massive and unsustainable land conversion. A report by Transport & Environment found that EU’s demand for soybean and palm oil biodiesel required 4 million hectares of land, while demand for palm oil alone required the conversion of 1.1 million hectares of mature land in Southeast Asian countries into new palm plantations.[2] According to Euractiv, the deforested area is equivalent to the size of the Netherlands. To make matters worse, the forests converted are orangutan habitats.[3] T&E estimates that the EU’s increased demand for palm oil biodiesel is responsible for the destruction of 10% of the world’s remaining orangutan homes.

Politically motivated changes embedded in pro-environmental rhetoric

The carbon border adjustment mechanism (CBAM for short), or simply the EU carbon duty, is an example of green washing by the European Commission. The EC embedded this protectionist tax in pro-environmental rhetoric, even though its introduction is not supported by any rational evidence.

According to the EC, the introduction of the carbon duty is necessary to prevent the phenomenon of the so-called carbon leakage. This theory assumes that when emissions are taxed (see: ETS), high-emission production will be moved outside the EU, to countries where emissions are not taxed and therefore cheaper. In order to prevent production in areas with cheap emissions and the import of non-environmental products into the EU, CBAM is necessary. Unfortunately, there is no substantial evidence to support this theory.

A study by Frédéric Branger, Ph.D. and Philippe Quirion, Ph.D. of the Centre International de Recherche sur l'Environnement on the EU ETS has yet to find any significant evidence of carbon leakage.[4] Furthermore, a team led by Antoine Dechezleprêtre Ph.D. of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics used Carbon Disclosure Project data covering 2007-2014, which tracks the declared emissions of multinational corporations. In theory, it is these companies that should be affected by carbon leakage because, unlike, say, the SME sector, corporations have sufficient resources to move factors of production to another country. Meanwhile, Dechezleprêtre and his team found no evidence that the ETS has led to carbon leakage outside the EU.[5] In 2019, the World Bank agreed with these conclusions and concluded that there is little evidence of carbon leakage.[6] There is a plausible explanation for this phenomenon – the cost of the ETS is lower than the cost of moving factors of production.

At the same time, the EC is aware of the protectionist nature of the CBAM and the consequences that may result. This is evidenced by the fact that designing a World Trade Organization-compliant carbon adjustment mechanism has become an important item on the agenda of the EU institutions.[7] To make things worse, the continued pursuit of CBAM shows that the EC is decisively and consciously moving away from its longstanding work and commitment to multilateralism and liberalism, the strategies that has allowed the EU to gain its current global position.

Deterioration of the European economy

The proposals contained in the Fit for 55 package will lead to a worsening of the condition of the European economy, and consequently to the impoverishment of Europeans. The EU’s unilateral

climate action will not achieve the intended climate goals for several basic reasons. First of all, the energy transition requires investment at the industry level, and economic regression will make this impossible. Secondly, for consumers to embrace new climate-neutral technologies, they need the resources to do so. It is obvious that burdening Europeans with additional taxes will reduce their disposable income, which they could spend on green investments. Third, the EU accounts for only a small portion of global emissions. Unilateral actions, although they may give a political impulse, are not able to generate real benefits for the climate. At the same time, these actions undermine international rules of cooperation and may make it harder, not easier, to reach a global consensus. Ultimately, the EU, at its own behest, becomes the world's guinea pig for the "green" transition. In this situation, other countries may use the EU as a model, and implement only proven solutions themselves sometime after their introduction.

Conclusions

The Union of Entrepreneurs and Employers recognises the need to respond to the challenges of climate change. We are also in favour of reliable and reasonable actions motivated by concern for the future of the planet. However, taking into account the enormous costs for entrepreneurs and consumers, as well as the serious risks associated with political green-washing at the international level, we strongly oppose the actions of the European Commission.

In view of the above, in the discussion on climate regulations we appeal for honesty and fairness, respect for the needs of entrepreneurs and consumers, as well as genuine concern for the climate.

We appeal to the Polish government to oppose plans that will lead to a loss of Europe's competitiveness in the global economy and to the mass impoverishment of its citizens. The issue is extremely serious – we need to build a coalition of countries, industry, consumers and stakeholders to stop these plans. We will support the government's activities in this regard.

[1] <https://iopscience.iop.org/article/10.1088/1748-9326/abdae9/pdf>

[2] <https://www.transportenvironment.org/sites/te/files/publications/Biofuels%20briefing%20072021.pdf>

[3] <https://www.euractiv.com/section/transport/news/eu-biofuels-goals-seen-behind-deforested-area-as-big-as-the-netherlands/>

[4] <https://www.reuters.com/article/us-climate-change-eu-carbontax-explainer/explainer-what-an-eu-carbon-border-tax-might-look-like-and-who-would-be-hit-idUSKBN1YE1C4>

[5] <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2019/01/working-paper-165-Dechezlepretre-et-al-July-2019.pdf>

[6] <http://documents1.worldbank.org/curated/en/486921568877882882/pdf/Report-of-the-High-Level-Commission-on-Carbon-Pricing-and-Competitiveness.pdf>

[7] https://www.europarl.europa.eu/doceo/document/A-9-2021-0019_EN.html