

SMEUnited's position paper on the future EU climate policy

Key messages:

- ✓ SMEUnited welcomes the EU's efforts to reach climate neutrality by 2050. However, due to the Covid 19 pandemic, the European Green Deal, including the European Climate Law, should additionally focus on providing the best possible support to companies to achieve the necessary recovery;
- ✓ SMEs should be provided with the right information and support measures to fight climate change. Legislative measures should be tested regarding their impacts on SMEs;
- ✓ Once European rules are approved, national diverging proposals and gold plating should be avoided not to fragment the Internal Market;
- ✓ SMEs need a stable and predictable policy and legislative framework in order to make the necessary investments. Consequently, it is important that one single, new long-term increase of the climate target is fixed, avoiding continuous increases in a short time, which create uncertainty and delay investments;
- ✓ Climate change mitigation will only succeed, if all major economic areas team up. Consequently, the EU should put efforts to obtain a global carbon price for the sectors with the highest emissions;
- ✓ The EU should maintain the mechanisms to prevent carbon leakage, like allocating free allowances to the sectors that are prone to it. A carbon border adjustment mechanism should be compatible with the WTO's rules and designed in such a way to avoid unfavourable effects on multilateral trade;
- ✓ Another instrument should be a European Decarbonisation Fund that supports businesses, and particularly SMEs, in their transition to low or zero carbon production;
- ✓ The transition to a zero-carbon society requires measures boosting research & development and innovation applying technological neutrality. Moreover, security of supply deserves a special focus;
- ✓ Europe must open up to global cooperation allowing Member States to count emission-reducing cooperation projects with developing or emerging countries against their target achievement.

I. Introduction

The first European 'Climate Law' was published by the Commission in the beginning of March in the framework of the European Green Deal with the aim to enshrine the 2050 climate neutrality in legislation. In this framework, the Commission will also propose an impact assessment plan by summer 2020 to increase the EU's greenhouse gas emissions reductions target by 2030 from 40% to at least 50% and towards 55% compared with 1990 levels in a responsible way.

SMEUnited welcomes the efforts of the EU to tackle climate change and to make the EU a global model region with the intention to reach climate neutrality by 2050. This means to manage a balancing act. On the one hand, we need ambitious mitigation targets while on the other hand decision makers must ensure that our economy remains competitive in a globalised world. This is particularly true now that the massive negative repercussions of the current COVID-19 pandemic on the European businesses, and in particular SMEs, have to be taken into account. This is why all (preparatory) works referring to the European Green Deal, including the European Climate Law, have to additionally focus on providing the best possible support to companies to achieve the necessary recovery and the transformation towards a low-carbon economy.

In order for the Green Deal and its Climate Law to achieve this balancing act the proposals below are relevant:

II. Eight proposals to the European Institutions

1. Make SMEs climate-fit

SMEs are at the heart of growth, employment, social cohesion and the fight against poverty in the EU. Many of them are already at the forefront to implement innovative, circular, green and sustainable initiatives in different sectors such as eco-industry, energy efficiency, renewables, in the building and transport sectors as well as in areas like maintenance and repair. At the same time, SMEs are quite vulnerable due to their scarce technological, human and financial resources. Because of this, they need stability and certainty about climate policies and legislation to comply with as well as an

enabling framework at EU and national level to unleash their potential to fight climate change. Consequently, it is essential that SMEs are provided with the right information, technical assistance, an easier access to financing as well as upskilling and reskilling of their workforce. Capacity building for SME associations at all levels is also important to turn them into one-stop-shops orienting SMEs towards circularity and sustainability, including the implementation of the Emissions Trading Schemes (ETS).

Moreover, the conception and the implementation of future political and legislative measures of the Green Deal must be thoroughly and specifically tested regarding their impacts on SMEs. This group is more vulnerable to disruptive changes and should be unburdened and supported. Proportionality should be applied and, where necessary, measures must be adjusted to mitigate unfavourable effects on SMEs. These mitigating efforts may contain, for instance, exemption clauses for SMEs.

In practice, to ensure businesses' and SMEs' interests are really taken into consideration, it is necessary that the EU climate law is well coordinated and consistent with the new EU Industrial and SME Strategies.

2. Guarantee a level-playing field within the EU

The EU's sustainability agenda must become a holistic policy. The challenge here is twofold. Primarily, coherent targets, rules, and instruments are decisive. This can however only work in combination with coherent implementation and enforcements of those targets, rules, and instruments. National diverging proposals and gold plating have to be made unnecessary once we have one set of European rules. Crucially, the EU's approach must integrate SME policy in the sustainability agenda and prevent any fragmentation of the internal market rules. In order to reach these aims, the EU should strengthen its action to monitor the effective implementation of national legislations.

Harmonised European instruments will be more effective to facilitate the green transition than national initiatives on their own. Particularly, the EU ETS should be the cornerstone for effective and

cost-efficient decarbonisation. A sufficient prevention of carbon and investment leakage has to be ensured.

3. Compliance with the Paris Agreement

According to the Commission, an increase of the 2030 Greenhouse Gas (GHG) emissions reduction target from 40% to 50 or 55% is necessary to be on track to comply with the Paris Agreement. Businesses, and particularly SMEs, need a stable and predictable policy and legislative framework in order to make the necessary investments. Consequently, it is important that one single, new long-term increase of the target is fixed, avoiding continuous increases in a short time, which create uncertainty and delay investments. At the same time, it is fundamental that any increase is based on sound science and on the three pillars of sustainable development, allowing businesses to adapt and stay on the market, thus ensuring growth and jobs in the EU. Therefore, in-depth impact assessments are necessary to assess the consequences of the envisaged measures (such as the additional costs for SMEs related to any increase of the target) on the economic perspectives and social cohesion and not only on climate change. In addition, the EU must bear part of the increased target. For example, ensure that sufficient renewable energy is available to meet decarbonisation needs and that creditable compensation projects are initiated and implemented worldwide.

4. Call for a global carbon price for selected parts of industry and the energy sector

The EU is responsible for about 10% of the global GHG emissions. Therefore, it is clear that Europe cannot stop climate change on its own, but a global effort is needed. Climate change mitigation will only succeed, if all major economic areas team up. Consequently, the EU should put efforts to obtain a global carbon price for the power sector and the sectors with the highest emissions. This is the most effective way to tackle the problem at its roots and prevent industrial production from shifting to places, where climate change protection does not have a price (carbon leakage). Without a level playing field, technological innovations for climate protection measures will be held off. The EU should, therefore, strongly support the inclusion of a global carbon price and of other market mechanism in the Paris agreement.

5. Keeping mechanisms which prevent carbon leakage

The EU ETS is the most cost-effective way to reduce GHG emissions in the EU. However, high CO₂ costs could make businesses shift their production to regions, where CO₂ cost is close to zero. This means that carbon leakage, if not properly faced, could even result in an increase of the global GHGs emissions. Therefore, the EU should maintain the mechanisms to prevent the carbon leakage, like allocating free allowances to the sectors that are prone to it.

Another possible mechanism that would prevent carbon leakage is a carbon border adjustment mechanism (CBAM). This should be compatible with the World Trade Organisation (WTO)'s rules and designed in such a way that unfavourable effects on multilateral trade are avoided and the danger of a negative spiral of protectionism is prevented. However, sufficient free allocations must be ensured until a fully functioning implementation of the CBAM. Nevertheless, free allocations on one side might lead to price increases on another side, as overall mitigation targets still remain (balancing effects). Therefore, such an approach should ensure that any potential negative effects on SMEs will be taken into account.

6. The EU must provide funding to low carbon technologies

The full transition of the energy system also opens opportunities for our economy. These can be best exploited, if Europe consolidates its role as a technology pioneer. Now, many European companies, which are technology leaders, have to spend an enormous amount of money due to costs generated by the ETS. Consequently, this money is missing for large investments that are necessary to initiate the transition. Therefore, a central instrument of European climate policy must be a European Decarbonisation Fund that supports businesses, and particularly SMEs, in their transition to low or zero carbon production. Moreover, SMEs will also require compensation for incremental costs, for instance, through a reduction of national energy tax rates or tax rates related to investments in sustainable actions (e.g. circular economy, renewables, energy efficiency, etc.).

The EIB will be further developed to become a “climate bank”. It will be important that in its new role the EIB continues to provide SMEs with unbureaucratic financial support, climate-related and beyond.

7. The EU must take its responsibility to provide climate-friendly energy

The transition to a zero-carbon society will require measures boosting research & development and technological innovation covering all possible alternative ecological fuels, all methods to reduce, capture and reuse greenhouse gas emissions as well as fostering new disruptive technologies. It's important to apply the principle of technological neutrality, to be sure to adopt the most effective and efficient solutions. Moreover, security of supply deserves a special focus. Most of today's energy mix will have to be replaced by other forms of energy. Substitutes must be available on time, supply must be secured and the energy has to be affordable. These aspects also need to be checked before proposing any measure, as well as a deep analysis of the condition of energy networks in order to check the possibility of their evolution in terms of “smart grid”.

The EU should consequently develop cooperation agreements for energy partnerships with third states. Moreover, the EU should grasp all the possibilities that some Member States offer in terms of alternative clean energy (coming for instance from the sun, the wind and the sea) ensuring that electricity is available for other Member States via a strongly connected and integrated European power grid, for which additional investments are necessary. Modernisation and stepping up the capacity of existing national networks also has to be carried out urgently. In practice, the creation of an efficient and well developed European grid must be the basis for an European energy market, in order to guarantee fair competition among businesses.

8. Incentives for carbon offset schemes outside the European Union

Europe must open up to global cooperation. Member States shall be allowed to count emission-reducing cooperation projects with developing or emerging countries against their target achievement. It can be called a revival of the flexible mechanisms of the Kyoto-Protocol. The underlying idea that every tonne of

reduced CO2 is worth the same, must be reinvigorated. Ideally this should be a global cooperation. However, as a first step, this can be done within the G20.

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