

# Durban 2011: Swiss business as an active partner in climate policy

## dossierpolitik

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**International climate policy** The negotiations over climate policy started moving again a year ago in Cancún. Unfortunately, no progress was made beyond abstract declarations of intent, such as staying within the two-degree-Celsius goal. Negotiations with a view to extending the Kyoto Protocol or creating a follow-up instrument and broadening its scope to include further countries were not, however, forthcoming. Even within the European Union there is a dwindling willingness to maintain elevated climate-protection targets unless additional countries enter into comparable commitments. A further factor is that, following the occurrences in Fukushima, nuclear energy is only going to contribute to climate protection in Germany and Switzerland for the duration of the reactors' residual service lives. Despite the fact that the playing field is far from flat, Swiss business reiterates its continuing commitment to active climate protection and is going forward by setting successful examples. Nonetheless, the challenge spanning generations can only be successfully tackled if as many countries as possible play their part.

### Position economiesuisse

▶ economiesuisse is in favour of Switzerland playing an active role in Durban and of demonstrating how a future climate policy can be shaped.

▶ The approach followed by Switzerland to date (of relying on a combination of incentives, voluntary measures and business investments) has most definitely turned out to be successful. Switzerland's climate policy and thus its compliance with the Kyoto targets would fail miserably but for the achievements of business.

▶ The mix practised to date of domestic and foreign measures is guaranteeing that Switzerland is able to continue to make its contribution to climate policy in an optimum manner in the international context. It is important to pay attention to ensuring that in the new CO<sub>2</sub> legislation Switzerland's measures are not solely domestically focused but include an international angle too.



## Climate protection: business is pointing the way.

► What is of primordial importance for Switzerland is how the European Union's climate policy is going to evolve.

### Difficult wrangling over a new climate convention

Now that no successes were recorded at the climate summit in Copenhagen in 2009, the international negotiations are only advancing very slowly. In the aftermath of last year's summit in Cancún, there are no visible signs of progress being made on either the prolongation of the Kyoto Protocol or the extension of the scope of the Climate Convention. This is highly regrettable, since the Kyoto Protocol established a good general framework for the establishment of a low-emission development in the developing and emerging countries. The point that interests Switzerland above all else is how the European Union's climate policy is going to evolve. The European Commission has, however, recently announced that no further commitments would be assumed if they were to go on leading to disadvantages for business and increase the costs of electricity supplies. Switzerland would hardly be in a position to bear tough climate-protection objectives in the absence of an international commitment in this direction.

### Switzerland's course to date has a proven track record

Economics and ecology are not opposites; they complement one another. In the final analysis, the success of climate policy is going to be decided on by the general framework conditions established nationally and internationally. The course followed by Switzerland to date (of relying on incentives in combination with voluntary measures or business investments) has shown itself to be successful. With today's mechanisms for agreeing on targets, it is possible to establish the objectives for reductions in CO<sub>2</sub> in accordance with the real capabilities of companies. In this process, the investments necessary for achieving the targets are always profitable. Via the roundabout route of adhering to an agreed target, the companies are rewarded by being exonerated from the CO<sub>2</sub> levy.

### A linkup with the European Union's emission trading scheme must become possible

► Future climate policy must be determined by solutions combining a market focus and a practical orientation.

There are no rational grounds for departing from this approach. Quite apart from the level of the targets set internationally from 2012 onwards, it is obvious that the existing Swiss CO<sub>2</sub> regime offers big advantages and represents a favourably priced and pragmatic solution by international comparison. For that reason, future climate policy too must be directed towards practicality and feasibility. Market-based solutions, in particular trading in emission certificates, must remain possible in future as well. If Switzerland is considered in isolation, the market for emission certificates is too small. It must therefore be possible for industrial operations with activities in Switzerland to join in the European Union's emission trading scheme. It is vital to avoid complicated arrangements that would be impossible to implement without new provisions pushing up the costs. In the context of the planned new CO<sub>2</sub> legislation, it is intended that in future Switzerland will be able to participate more intensively in the European Union's market for emission certificates and that a single market in emission rights will come into being.

Business remains willing to make a crucial contribution to solving this problem during the 2012-2020 period as well. If it is going to be able to do that, however, it also needs to continue to have the greatest possible room for manoeuvre.

## What can be expected of Durban?

► It is uncertain whether the industrialised countries are going to abide by their financial undertakings for the benefit of the developing countries.

► Many countries are ready to offer reductions – but without international commitments.

### **Go-ahead solely for technical implementation matters**

The climate conference in Durban is not going to come to an end with no results at all. On the other hand, there are not going to be any major breakthroughs as regards the goal envisaged since the Cancún summit of keeping the increase in the temperature of the Earth's atmosphere at less than two degrees compared with the pre-industrial period. The arrangements announced for funding the adaptation and climate-protection measures in the developing countries are now ready to be decided on. At the 2009 climate conference in Copenhagen, the industrialised countries held out the prospect of providing a hundred billion US dollars annually up until 2020 to the developing countries. It is necessary to reappraise whether it is now still reasonable to rely on such sums in the light of the current debt crises in the USA, the EU and Japan. At all events, any practical arrangements proposed for decisions in Durban ought to make it possible to distribute funds to the developing countries. It is also possible that the new requirements for reporting on the individual countries' progress in climate policy could be ready for adoption too. It is further envisaged that there will be agreement on mechanisms for reinforcing the mutual trust amongst the members as well as on intensifying the pooling of experience on best practice. Another item waiting in the negotiating pipeline is a mechanism for improving technological cooperation and communication between countries.

### **In 2011, the face of the world has changed again**

In the meantime, many parameters have changed. The oil price has crossed the USD 100 threshold many times over and seems to be settling somewhere between USD 80 and 100, but is still fluctuating with the cyclical economic trends and the state of the market. The automotive sector is now offering a huge range of vehicles with lower fuel consumption. New propulsion technologies and electric vehicles are ready for the market or will be so in just a few years. Improving energy efficiency and private and state investments in renewable energies have been put into practice throughout the world. The renaissance of nuclear energy has admittedly suffered a setback with the reactor accidents in Fukushima. Many countries are, however, still backing nuclear energy as a means of guaranteeing dependability of supplies whilst still being able to reach the climate-protection goals.

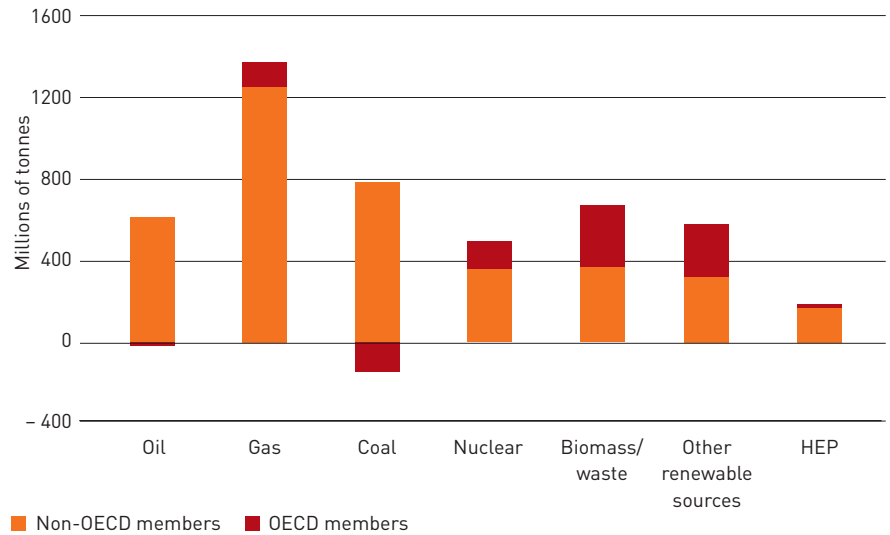
Within only a short period of time, new means for extracting gas from shale have, furthermore, revolutionised the world gas market. Today's assumption is that global gas supplies will last for over 200 years. Natural gas prices have been virtually halved in next to no time. This has encouraged many countries to shift from coal to gas for the generation of electricity, resulting in a drastic reduction in the amount of CO<sub>2</sub> emitted. China too is talking of a lower-CO<sub>2</sub> development and is envisaging the introduction of an emission trading scheme by 2015. On the basis of these developments, many countries are ready to offer CO<sub>2</sub> savings but without being obliged to take on binding new commitments under international law.

**Fig. 1**

▶ CO<sub>2</sub>-free energies have a future especially in the industrialised countries.

**Growth tendencies in energy supply up until 2035 in the industrialised and emerging/developing countries broken down by primary energy**

In millions of tonnes of oil equivalent



Source: IEA World Energy Outlook 2011

▶ In 2010, CO<sub>2</sub> emissions were at the highest level ever.

**Need for a clear signal from Durban**

Despite the encouraging progress being made in technology and on the marketplace, worldwide CO<sub>2</sub> emissions are at a higher level today than ever before. In 2010, 30.4 billion tonnes of CO<sub>2</sub> were emitted (approximately 50% more than in 1990, when the figure was 20.9 billion tonnes). Despite the international crisis mood, the Durban conference ought thus to produce clear signals for strengthening the globally effective market mechanisms. That is the only way to ward off a failure of climate policy.

▶ The International Energy Agency is assuming that demand is going to continue to increase for all energy sources.

**Is a maximum of two degrees Celsius warming unattainable?**

On 9 November 2011, the International Energy Agency (IEA) published its World Energy Outlook 2011. Working on the basis of the Copenhagen Treaty (i.e. the non-binding target of limiting the Earth's warming to two degrees Celsius compared with the pre-industrial level), the report concludes that the measures announced in various countries are a long way short of adequate for reaching the two-degree goal. According to the IEA projections, this target does not appear to be unattainable. It would, however, be necessary to resort to very elaborate and expensive measures after 2020. The IEA has serious doubts regarding the feasibility of transforming the global energy sector in the time available, particularly as regards the practical implementation of the necessary reductions in emissions. According to the agency's calculations, an increase in demand for all the energy sources is to be expected. Despite the efforts in the field of climate policy, more than half of this growth would be accounted for by fossil energies. Natural gas, which causes lower CO<sub>2</sub> emissions than the other fossil fuels and which can now be more easily extracted than in the past, is going to display stronger growth in consumption.

## Wrong recipes in climate policy

► Protectionist measures are being camouflaged as climate protection.

### Penalty customs duties are not a solution

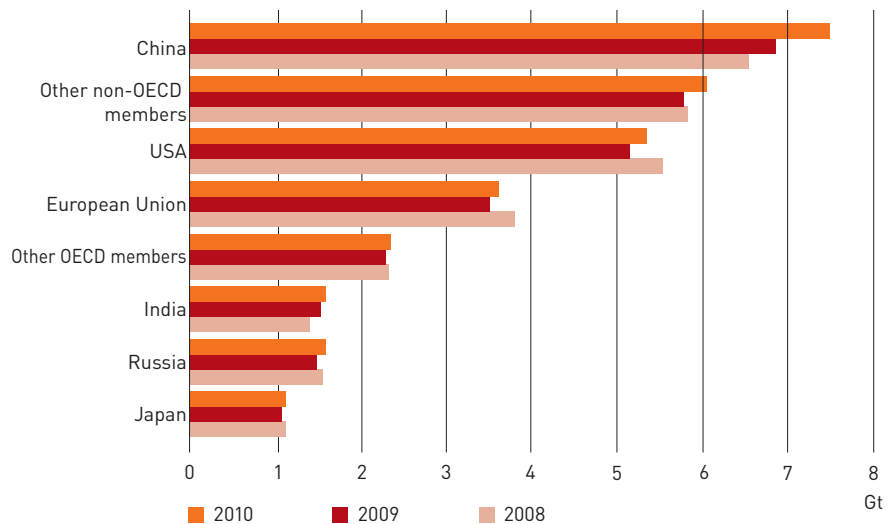
There has been growing pressure to introduce penalty duties especially against China and India, which have not committed themselves to any reduction, with a view to making their CO<sub>2</sub>-intensive products more expensive when imported. Such demands are also being voiced again and again in the European Union. France, in particular, has repeatedly demanded the introduction of penalty duties on products from countries whose CO<sub>2</sub> emissions are continuing to increase unabated. Such measures in the field of trade policy are controversial, and their effectiveness for climate protection is extremely doubtful. A significant consideration is that this demand conceals protectionist intentions, which could have serious consequences for free trade. In addition to that, it is impossible to enforce duties on so-called «grey CO<sub>2</sub> emissions» in the case of more complex goods and where large numbers of companies are involved as suppliers, and manufacturing is spread over several countries. Levying penalty customs duties on strategically important goods would primarily have the effect of punishing domestic buyers and would thus result in a veritable own goal for those countries wishing to introduce them.

**Fig. 2**

► Strong growth in emissions despite the 2009 economic crisis in the developing and emerging countries

### Energy-related CO<sub>2</sub> emissions of various countries and regions

In gigatonnes, 2008 to 2010



Source: IEA World Energy Outlook 2011

► Sooner or later, subsidy systems run out of funds.

### Subsidies distort the market and are not sustainable

The European Union's climate policy is increasingly affecting the structure of industry, especially of the more energy-intensive sectors. That explains the recent circulation of proposals originating from the European Commission to subsidise those businesses for which the European Union's climate policy causes additional costs and competitive disadvantages. This proposal is worse than merely dubious. Whenever businesses in particular sectors receive grants from the state, relevant price and cost signals are lost. It is also likely to be difficult to distinguish between a company being uncompetitive on account of its own internal operational problems or competitive disadvantages that have genuinely arisen because of the provisions of the European Union's emission trading scheme. There is thus a danger of public money being used to prop up operations that are

no long capable of maintaining their position in the market. The state intervention in the market would lead to the costly maintenance of the existing structure without any recovery prospects for the businesses affected. The payment of subsidies is bound to come up against the limits of available finance sooner or later, in particular in the light of the current state of indebtedness of many of the European Union's member states. If the subsidies suddenly had to be curtailed for financial-policy reasons, the necessary structural adaptations would then be correspondingly more painful

## Switzerland stands to gain economically.

### One of the key drivers of climate policy is technological innovation

In Durban it is going to be necessary to chart a clear course for a realistic global climate policy. One of the important drivers for this is technological innovation. If the emerging countries and the industrialised countries can be successfully persuaded to steer the same course, Switzerland will stand to gain economically as well. But how is the target of limiting planetary warming to two degrees going to be attained? What is obvious is that there is hardly a political consensus on the basis of which this could be turned into reality through statutory instruments and commitments. The national concepts in the USA and China are too far apart for that. There is, however, also big a difference in the starting positions of the two countries whose stance on this question is decisive.

### Ability to separate growth and emissions

As is so often the case, the key to a solution here is likely to lie in the use of technology: more efficient energy applications and possibilities of adapting to climate changes along with completely new technological innovations capable of bringing about drastic reductions in greenhouse-gas emissions. In the final analysis, climate policy depends on the capacity of the business world to create greater prosperity, while at the same time decoupling emissions and growth. It is precisely over this question that the industrialised countries and the emerging countries along with the developing countries form different camps confronting one another. Whereas the industrialised nations must find an effective path along which to reduce their emissions, the emerging and developing countries are aiming for greater prosperity.

### Internationalisation reduces the risk of «carbon leakage»

There can be no doubting that Switzerland too is affected by international climate policy. Each and every step towards a global convention brings two advantages for Switzerland. Firstly, we are today already a business location in which climate policy is being responsibly implemented. «Carbon leakage» (the process whereby industrial operations migrate to countries with less severe climate-protection requirements) is and will remain a sword of Damocles for all countries that have rooted climate protection in legislation – and thus for Switzerland too. As climate policy becomes more and more internationalised, however, this risk is going to decline. Switzerland must nonetheless play its part in contributing to reducing the emission of greenhouse gases – no matter where they occur. Secondly, it is producing significant opportunities for Switzerland. If a global climate convention is achieved, then its implementation is going to call for inputs from countries with good technological solutions and concepts for cutting back emissions and adapting to climate change. That is going to create export opportunities, even without action by state industrial policy. Swiss business is very well positioned here, with a varied range of products and services to offer.

► Industrialised, emerging and developing countries are pursuing divergent objectives.

## To sum up

▶ Successful measures ought to have more than a purely domestic focus.

### **Maintain the successful mix practised to date**

economiesuisse advocates Switzerland adopting an active role and pointing the way in Durban as to how to shape a future climate policy. In drawing up the domestic-policy aspects in the new CO<sub>2</sub> legislation, it is thus important to pay attention to ensuring that Swiss measures are not focused on its home territory alone but incorporate international facets too. The mix of domestic and foreign measures adopted to date represents the best guarantee that Switzerland will be able to continue to make its contribution to climate policy in the international context in an optimum manner.



## economiesuisse is organising the presence of Swiss business in Durban: actions not words

Swiss business is represented at the climate conference in Durban within the Swiss Pavilion and is presenting solutions that constitute an effective contribution in the campaign against climate change in technological, regulatory and economic dimensions. Coordination of the presence of Swiss business is being undertaken by economiesuisse.

The Swiss companies and associations are going to be present on the spot with information material inside the Swiss Pavilion. In addition, daily video conferences are to be organised between 28 November and 9 December to show how technical and regulatory solutions can contribute to combating climate change. It is planned to hold highly informative lecture presentations every day, with the audience seated in the Swiss Pavilion and the speaker in Switzerland, including a direct live link for questions and answers. With this simple, climate-friendly measure, it is going to be possible to draw the attention of delegations from 170 countries, the media representatives and representatives of the non-government organisations to Switzerland.

In addition to economiesuisse, the following individual companies are also going to be present:

- ▶ Siemens
- ▶ Credit Suisse
- ▶ Swisscom
- ▶ Swisscleantech
- ▶ öbu – Network for Sustainable Business
- ▶ hotelleriesuisse
- ▶ Cleantech Platform (OSEC)
- ▶ SQS
- ▶ Swiss Re
- ▶ Energie Agentur der Wirtschaft / Agence de l'énergie pour l'économie
- ▶ Climate Cent Foundation
- ▶ My climate
- ▶ South Pole Carbon
- ▶ South Pole Carbon / Cornèr Bank

Further information about the presence of Swiss business during the climate conference in Durban is also to be found at [www.economiesuisse.ch](http://www.economiesuisse.ch).

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