

Draft Response to The Green Deal Proposals (Carbon Border Adjustment Mechanism, Energy Taxation Directive And Climate Law)

Schneider Electric, 27 March, 2020

- **Europe must pave the way for a zero-carbon world by putting climate neutrality by 2050 into law:** At Schneider Electric, we want to lead by example. In 2019, we have committed to become carbon neutral by 2025¹.² Intermediate targets and milestones are also critical to ensure Europe is on the right path to become climate neutral mid-century. The European Union shall also consider increasing its CO2 emissions from 40% to 55% by 2030 if it wants to become the first climate neutral continent on the planet, and the global leader of the new world of energy.
- Achieving climate neutrality will require bold actions to build an ultra-efficient economy and accelerating direct electrification: As stated by the IPCC report, urgent and unprecedented efforts are needed. Three critical elements are required to make sure Europe is on track, through a mix of legislative and non-legislative measures: **energy efficiency, electrification (fuel switch), and decarbonization of energy sources.**
- EU Green Deal and industry policy hand and hand: The EU Green Deal must become a driver for Europe's strategy and rebuild the European economy, in the aftermath of the COVID-19 crisis, with decarbonization as the main driver.
- Policy-wise, the most urgent action is to develop carbon pricing instruments that would be effective both internally and externally. EU has been one of the front runners in carbon pricing within the Emission Trading Scheme (ETS) first phase starting in 2005 and covering almost half of its CO2 emissions; furthermore, and for the part not covered by the ETS a number of member states have incorporated in their national energy taxation a carbon component which may be significant.
- **Within the green deal it is the right moment to reevaluate the carbon pricing instruments.** We are drafting a common response document to the European Commission's consultations on the Energy Taxation Directive (ETD) and the Carbon Border Adjustment Mechanism (CBAM), also looking at the link with the Emission Trading Scheme (ETS). We call the European Commission to develop an common approach for those three policy instruments.
- Today electricity represents around 20% of final energy use and all 2050 carbon neutral scenario converge towards a multiplication by 2 to 3 to this share of electricity based on massive electrification of heat and transport based on low carbon power generation. This will require a significant transformation of the actual demand side with an active participation in energy efficiency, local low carbon generation and storage and the development of active flexible electricity demand.
- The use of carbon revenue is key in earmarking money towards low carbon investments. Equally important is look at the social acceptance of carbon pricing by mitigating the distributional effect on low income people,; impact assessments shall evaluate how carbon revenue can be 100% earmarked with these two objectives.

As far as Carbon Border Adjustment Mechanism (CBAM) is concerned:

- Risks of commercial retaliation (WTO compliance) shall be carefully evaluated as well as consequences on final prices to European businesses and consumers
- Compliance with WTO shall be a prerequisite and the impact assessment shall make a deep evaluation of this.

¹ Schneider Electric press release for the COP25: https://www.se.com/ww/en/Images/06-release-cop-25_tcm564-111592.pdf

² Schneider Electric press release for the COP25: https://www.se.com/ww/en/Images/06-release-cop-25_tcm564-111592.pdf

- A careful and detailed analysis of what shall be the CO2 parameters and indicator to be used shall be made and the complexity of what shall be in place will have to be evaluated in detail.
- Competitive advantage of a powerful domestic low carbon market; will certainly bring add-value to the EU industry. Such parameter should be taken into account in the context of the work on CBAM.
- A possible alternative would be to support low-carbon production of products in industry, by introducing incentives for reducing embedded carbon in production with emission benchmarks for low-carbon alternatives (e.g. recycling steel, etc.).

As far as Energy Taxation Directive is concerned

- ETS is covering only 45% of EU emissions, some member states have added a carbon price component within carbon taxes on the non ETS sectors and specifically building and transport, this shall be generalized at EU level.
- Today, in Europe, taxation and levies are far higher on electricity than on gas and this hamper electrification development specifically for heating. On top of this, the current ETD is looking at electricity tax irrespective of its source, meaning electricity coming from renewable energy sources is taxed the same way as electricity stemming from fossil fuels. A level playing field considering CO2 content of the energy vector would avoid today limitation on electrification development ; hand subsidies to renewable are basically supported by electricity consumers in the retail cost of electricity (the overcharge can go up to 25%) while gas consumers benefits from subsidies in the form of taxes reductions which can go up to 30% (ref 3) and (ref 4).
- Energy Taxation Directive and the per-unit energy tax widely implemented in the European Member States do not provide consumers with financial incentives for demand flexibility and demand response; impact assessment shall evaluate implementation of tax incentivization of demand flexibility in smart dynamic retail tariffs
- A specific attention on electricity used for EV charging is needed in order to avoid burdening of EV operation cost and smart charging and use of EV in demand flexibility shall be encouraged possibly with lower taxation and levies
- A significant amount of tax exemptions on fossil fuels is still a reality in EU : 50 billion Euro according to a study made by Trinomics in 2018 for the European commission (ref 5) ; a plan to phase out these fossil fuels subsidies (possibly gradually with a target of full phase out by 2030) furthermore any tax exemption could be conditional to low carbon actions implementation such as energy efficiency, renewable local generation, increase of demand flexibility etc.
- We call on the European Commission to consider minimizing the level of taxes applied to electricity in order to foster clean and renewable based electrification.
- We call on the European Commission to avoid double taxation of electricity by notifying in the ETD revision that electricity cannot be considered as end-consumption when supplied to storage facilities.

As far as Emission Trading Scheme is concerned

- Carbon has a cost, and this should be reflected in the energy price; This CO2 price shall be predictable, growing over the time and within certain limits.
- In the last years Carbon price has been very volatile with a long period of low prices (few euros only) due to sur allocation of quotas followed by a significant increase (in the range of 25 to 30 €) further to adaptation with backlogging and Market Stability Reserve (ref 2). Brexit on one hand and impact of COVI 19 will clearly increase price volatility with a decrease phase
- This price volatility shall be limited by a mechanism with at least a price floor and possibly a price cap organizing a type of corridor in a growing predictable evolution over the time

- The extension of ETS to other sectors (in particular heating in building) shall be evaluated carefully and comparison with a carbon tax made in term of complexity of feasibility, cost of verification and control and costs for the energy users ; Cap and trade and carbon tax should not be opposed but used in synergy. Carbon pricing policies for buildings should be considered to ensure a decarbonization of the building stock. Free allocation to Carbon Intensive and Trade Exposed (CITE) industries should be given with counterparts such as R&D in green tech, investments in energy efficiency, investments in renewable etc.
- Carbon price global convergence should be organized through international negotiations within appropriate organizations (COP 26 will be an important opportunity for this)
- Critically, a dedicated carbon pricing policy for buildings is crucially needed. Europe should start by addressing CO2 emissions of cities and buildings, which are the bedrock of global decarbonization. We call on the European Commission to consider an emissions cap on large C&I buildings
- One policy example lies in “The Climate Mobilization Act”, adopted by the city of New-York in 2019. The new legislation requires that any building of 2000m2 or larger will need to reduce their greenhouse gas emissions by 40% by 2030 from a 2005 baseline, increasing to a 80% reduction requirement by 2050. The measure will mainly affect non-residential buildings.
- A possible pathway could be to introduce first limits for the most carbon-intensive 20% of buildings, and then extend the limits for the most carbon intensive 75% of buildings. An earlier timeline should be deployed for buildings own by governments.

Reference

1/ <https://openknowledge.worldbank.org/bitstream/handle/10986/32247/UsingCarbonRevenues.pdf?sequence=7&isAllowed=y>

2/ <https://www.refinitiv.com/perspectives/market-insights/will-high-european-carbon-prices-last/>

3/ <https://op.europa.eu/en/publication-detail/-/publication/d7c9d93b-1879-11e9-8d04-01aa75ed71a1>

4/ <https://ec.europa.eu/eurostat/documents/2995521/8489689/8-29112017-AP-FR.pdf/9f521832-eb7f-4613-9c38-6c7b45cdf029>

5/ http://trinomics.eu/project/energy_prices_costs_and_subsidies_and_their_impact_on_industry_and_households/

6/ [Böhringer, Balistreri & Rutherford \(2012\) – The role of border carbon adjustment in unilateral climate policy: Overview of an Energy Modeling Forum Study](#)