BUSINESSEUROPE

Mr Charles Michel
President of the European Council
European Council
Rue de la Loi 175
BE – 1048 Brussels
BELGIUM

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Dear President,

Message to the special meeting of the European Council on 24-25 May 2021
Smart decisions needed on COVID, climate, EU-UK relations and Russia to help the recovery

With encouraging signs that Europe is starting to get out of the COVID crisis, now is the time to make the next steps to pave the way to a solid recovery. Steps which do not create unnecessary burden but build companies' long-term competitiveness to empower them to invest in the future. The European Council will discuss COVID 19, the Green Deal, EU-UK relations, and Russia. It is essential that the European Council takes the necessary decisions to speed up vaccination and the creation of the green digital certificate, give clear guidance on how to ensure that the Green Deal becomes a real growth driver, how to tackle problems linked to the implementation of EU-UK agreement and how to address increased tensions with Russia.

Regarding the Covid-19 pandemic, the focus must be on addressing vaccine production challenges and putting in place an inter-operable EU-wide vaccine, test, and immunity certificate.

In the second half of April 2021, the number of daily EU vaccinations reached the level needed to meet the EU's target of vaccinating 70% of adults by the end of summer. Having hit this important milestone, the European Union must keep vaccinating at accelerated pace throughout its territory and must avoid disrupting international vaccine supply chains.

Furthermore, it is more important than ever to put in place an inter-operable EU-wide vaccine, test, and immunity certificate before the summer, based on the Commission proposal for a digital green certificate and avoiding a repetition of the mistakes made with national corona applications which do not operate across the European Union. This digital green certificate is key to restore free movement of people in our Single Market in safe sanitary conditions and should pave the way to a globally applicable solution.

Many countries in the world are still facing acute problems of access to vaccines. There is undoubtedly room for improvement in international access to COVID vaccines. However, a WTO waiver of Intellectual Property Rights for COVID-19 vaccines is not the right answer. Without the right balance between access to life-saving medicines and protection of intellectual property rights, the ability to develop vaccines and innovative solutions in the future will be undermined. Furthermore, intellectual property protection is also key to ensure product safety and a safe deployment of vaccines.

The challenges that we face rather relate to production capabilities, risk-control conditions, logistics and infrastructure and they should be addressed by increased investments and global cooperation. The business community is open to work together with governments in finding solutions that help to effectively address the problem of shortage of supplies.

Regarding climate policy, we urge member states to use the green transition as a driver for economic growth.

To make the green transition a true driver of economic growth, industry needs a common carbon price at least at G20 level, technology-open investment and innovation incentives, a massive expansion of energy, transport and digital infrastructure, a modernization of EU state aid law and strong carbon leakage measures. BusinessEurope notably underlines the urgency of accelerating the scale-up of hydrogen in the European economy.

Regarding the announced carbon border adjustment mechanism, we call upon the European Council to endorse the conclusion of the Commission's updated Industrial Strategy that "Existing tools to address the risks of carbon leakage of globally exposed energy-intensive industries should continue to be used until fully effective alternative arrangements are in place ".[1] The European Council should thus ensure the continued application of those measures against carbon and investment leakage which have proven effective; especially as long as other partners are not following up with climate ambitions and concrete carbon pricing schemes equivalent to the EU's. Free allocation in particular, due to its benchmarking system, has been successful not only in preventing carbon leakage, but also in driving emission reduction and innovation. Only the top ~5% of most efficient installations receive full free allocation and the benchmarks are continuously updated in line with the latest technological developments. Therefore, firms constantly have a strong economic incentive to always increase their efficiency and improve their emission performance. Continued protection for industries at risk of carbon leakage via free allocation in the EU ETS needs to be ensured.

The EU ETS has proven an effective instrument to reduce GHG emissions. However, the ETS and carbon pricing alone cannot deliver the complete decarbonisation of our industries as it cannot address all barriers to the development and deployment of low and zero emissions solutions. Therefore, additional instruments are necessary to support industries on their way to becoming climate neutral by 2050 (e.g., improved state aid rules, support for strategic infrastructures, implementation of new technologies, R&D, and carbon contracts for difference etc.). Complementary EU policy actions in non-ETS sectors are also indispensable. At the same time, double carbon levies on the same sectors from both the EU and national levels must be avoided.

When deciding guidelines for the upcoming climate legislation, it is important that member states base the Effort Sharing Regulation (ESR) on cost-efficiency concerns primarily and leave sufficient flexibility for each member state to reach their share of emission reductions,

[1] European Commission, Communication: *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery,* p. 18.

taking into account national specificities. The European Council should stress that the criterion of cost efficiency will become increasingly important as decarbonisation deepens.

It is essential that in the future the non-ETS sectors will contribute more to the reduction of GHG emissions than in the past. The additional effort, due to increasing the 2030 target, must not lead to the current ETS sectors continuing to contribute disproportionally more than others. If ESR sectors increase their goal to 40% GHG reduction for 2030 for example, this would imply ca. 58% reductions in ETS sectors (assuming road transport and buildings are transferred into an ETS-like system). However, the “traditional” ETS sectors will likely face even steeper reduction pathways.

In general, any extension of the ETS’ scope must be considered very carefully. Due to the vast discrepancies in marginal abatement costs, adding new sectors too swiftly is likely to distort market signals. New sectors should be kept in separate systems at the beginning, with a view of only possibly merging the systems towards 2050. To facilitate the entry into the market driven system, revenues (from all sectors) should as much as possible flow back into the sectors concerned, to finance investments and help achieve the emission reductions necessary as well as supporting these sectors to compete globally. At EU level, the largest share of ETS revenues should be used for the innovation and modernisation funds to equally ensure it benefits the sectors carrying the main burden of the transformation in an inclusive manner.

Last but not least, global efforts towards achieving the Paris Agreement remain inadequate. The recent announcements by several major global emitters represent a positive development, but of limited value until backed up with concrete strategies and tangible plans. We therefore call on international partners to present, in view of COP26 in Glasgow, concrete policy measures to reach their renewed ambitions.

Regarding the implementation of the EU-UK Trade and Cooperation Agreement, the European business community welcomes the timely completion of the ratification process of the Trade and Cooperation Agreement (TCA).

The UK is the third biggest trading partner of the EU, which makes this deal one of the most important trade agreements the EU has ever finalised. The permanent entry into force of the agreement removes a major element of uncertainty, while companies on both sides are still adjusting to the new reality of trading while struggling with the COVID-19 challenges.

The agreement covers many areas that will have a strong impact on the competitive environment for EU and UK companies, ranging from climate change mitigation to digital transformation, competition, or standards. It is now urgent that both sides put in place the implementing bodies under the agreement. This will open the path for smooth implementation and structured cooperation. It is important that business is informed regularly about the work of these bodies and the business community stands ready to engage and contribute actively to this process.

Data flows are a key enabler of trade in goods and services between the EU and the UK. Having a data adequacy decision as soon as possible is of critical importance to create trust and legal certainty for economic operators in the EU and the UK.

Regarding Russia, business does not operate in a vacuum and companies are fully aware of the challenges and existing tensions in EU-Russia relations.

In this context, European business will stand behind the decisions of the European Union that should always be proportionate and targeted to avoid unwanted spill-over effects and far-reaching consequences. European companies continue to operate in Russia despite the difficult and challenging conditions and they should get the necessary support both at technical and political levels.

We count on the European Council to take clear and smart decisions on COVID, climate, EU-UK relations and Russia and you can count on us to work constructively with you in these difficult tasks.

Yours sincerely,

Pierre Gattaz
President

Markus J. Beyrer
Director General