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The future of European industry is in low-carbon innovation

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Opinion

For EU industry to grow it must embrace innovative climate-friendly technology, writes Gerben-Jan Gerbrandy.

Europe's industrial production is slowly recovering after years of sluggish growth. This is good news for the millions of jobs that depend on manufacturing. Despite growth in the number of people employed in the service sector, industry still remains a fundamental building block for the EU's prosperity.

However, European manufacturing can only continue its progress if it remains competitive in the long-term and keeps abreast of changing trends in industry, such as the emergence of decarbonisation and eco-innovations.

Today, 17 carbon market schemes are in operation across four continents, covering about 40 per cent of global GDP. By putting a price on carbon and giving financial value to each tonne of carbon emissions saved, the systems have placed emission reductions and clean technology on the agenda of company boards around the world.

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It is not just the EU and other traditional environmental supporters committing to participate in international climate change negotiations.

For the first time, China and the US have put forward climate action plans ahead of the United Nations climate change policy summit held in Paris later this year.

Although the US has not yet implemented a carbon trading scheme, it is reducing emissions through a strict regulatory approach.

The upcoming legislative revision of the EU's domestic carbon market - the EU's emissions trading scheme, ETS - will be of great importance in ensuring European industry can capitalise on these global developments. The revised ETS must contribute to reducing emissions and ensuring European industry leads in low-carbon innovation.

Luckily we are not starting from scratch. The EU, member states and the industries participating in the ETS are used to the system, having worked with the scheme for over 10 years.

In 2008, the European Parliament took part in the first major reform of the system, aimed at a harmonising the ETS across EU member states and making more emission reductions.

The reform was followed by smaller-scale improvements in 2012 ('backloading') and 2014 (the 'market stability reserve') and measures to protect the ETS against fraud.

The European Commission also restricted the inflow of several low-quality international carbon credits.

However, several problems remain with the ETS, and the upcoming revision is much-needed.

For instance, European aluminium and steel producers face an uneven playing field due to different compensation schemes across the EU member states for the higher electricity costs, induced by the CO2 price.

At the same time, investments in low-carbon industrial technologies, such as coke-free steel production or bio-based refining are struggling to take off.

In addition to a higher level of ambition, the ETS requires the next phase of harmonisation. Furthermore, the proposed ETS industrial innovation fund should be designed to better leverage the required investments.

Another issue is that too many sectors are exempt from buying carbon emission allowances at auctions.

Some of the sectors benefiting from free pollution truly require protection, to prevent the relocation of production to third countries with more relaxed climate change policies (so called 'carbon leakage').

But for others, like tomato pulp and underwear producers, the exemption from paying for carbon allowances is highly questionable.

With an increasing scarcity of carbon allowances, we need a more targeted approach, focused on firms that truly need protection.

About the author

Gerben-Jan Gerbrandy (NL) is Parliament's ALDE group shadow rapporteur on Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve

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