FEDIL

Positionen

WILL COVID-19 CHANGE CLIMATE POLICY AMBITIONS?

In only a few weeks, the coronavirus pandemic is overrunning health systems around the world, claiming thousands of lives, disrupting travel and trade, and bringing to a halt the global economy in an unprecedented way.

Luxembourg is no exception. Most of the industrial sectors represented by FEDIL are hit. Production activities of local automotive part suppliers have either stopped or are running on much–reduced capacity as car manufacturers around the globe are stopping their activities. The same goes for businesses from the construction sector. Cement and glass production, which generally sell their output on the local and regional markets have come to a halt as Luxembourg's construction sector has been closed-down and cross-border regional demand is falling rapidly. Other activities, such as steel and aluminium production, or fuel distribution, are running on a significantly reduced pace. Sectors that currently experience high demand, such as food–, and packaging materials production and the logistics or ICT sectors struggle to keep going because up to 30% of their employees are either on sick leave or on leave for family reasons.

Luxembourg's government is reacting well to contain this health crisis, and the measures it puts in place to help the economy to overcome this extraordinary shock help businesses in the short–term. Indeed, 'short–term' is the keyword; companies are evaluating their options daily. They must adapt their decisions constantly, according to how market demand is fluctuating, according to how their workforce is available and according to how cash flow can be forecasted. Hopefully, the crises too will be short-termed, and yet businesses who succeed to overcome it might be weakening financially for years. Many will have to review their business strategies and investment plans and continue to focus on the short–term to regain strength as rapidly as possible.

For a government that focuses some of its primary objectives on the very long-term horizon, this situation is a test. It is a test on how committed the government is about its 2030 and 2050 long-term climate objectives. Back in 2019, the government started-out by setting some of the most ambitious climate objectives in Europe. Then in early 2020, its National Climate and Energy Plan chose some of the most expensive options to reach them. Those options include a substantial delocalisation of tax incomes from road fuels, discarding the possibility to buy emission rights from other EU countries or dismissing carbon capture technologies as unsustainable.

Today, the corona crises changed many of the hypothesis and variables that seemed to be so evident only a few weeks back. COVID-19 is altering the assumption that might have tolerated to pursue such expensive climate measures. Currently, the government is confronted with substantial short-term spending to finance its economic stability package, trying to keep businesses alive and to avoid unwanted social consequences. And once the crises is behind us, companies will have a significantly reduced investment power and will contribute in a much less vivid pace to re-establish public finances.

FEDIL thus sees a need to evaluate how the sharply weakened and in some cases even completely eradicated post-crises, private and public sector investment capacities are affecting Luxembourg's climate ambitions. Climate and environmental obligations must, therefore, be reviewed to also contribute preserving short–term liquidity of businesses. Further, FEDIL urges the government to assess corrective measures that can reconcile the necessary climate actions with the new economic situation. The industrial community thus proposes considering the following points without compromising national CO_2 emission reduction targets.

On the short– to mid–term:

- Avoid the COVID-19 crises to distort energy efficiency achievements which would affect companies adhering to the voluntary agreement;
- Allow companies to postpone scheduled energy efficiency or emission reduction related investments, and without losing already agreed financial incentives by the government;
- Allow flexibility on the 30th of April deadline for surrendering EU ETS emission allowances in case this obligation cannot be met in time due to circumstances related to COVID-19 disruption;
- Make sure that the COVID-19 related production and CO_2 emission cuts in the ETS sector will not reduce the amount of post-2020 CO_2 certificate allocations: The allocation of emission allowances for Phase IV (2021-2030) is based on average production in the 2014-2018 period but adjusted based on 2019-2020 figures. Advocate at EC level to discard this adjustment as the 2020 activity level is not representative.

On the mid- to long–term:

- Adopt a more prudent excise duty policy on transport fuels to avoid losing significant sources of public income and prevent public finance from recovering rapidly;
- Consider the acquisition of emission rights and re-assess energy efficiency targets for all sectors to relieve businesses from having to invest in new technologies temporarily;
- Accept the whole portfolio of technological flexibility including carbon capture and other technologies to reduce CO_2 emissions;
- Create the framework conditions as well as the infrastructure to provide businesses rapidly with abundant and competitively priced renewable sources of energy: low carbon gases, alternative fuels, and renewable electricity;
- Implement measures to durably take advantage of the transport– and mobility–related emissions reduction potentials demonstrated by the crises through using digital technologies.

Finally, put at the heart of the post-crises stimulus package investments that promote clean technologies. Stimulate the development of clean technology infrastructures that help the industry to realise the energy transition more cost–effectively: Boost solar energy, wind power, batteries, as well as hydrogen and carbon capture infrastructures. In times where the attractivity of an economy is increasingly determined by its capacity to provide clean energy to businesses, investments that transform the country's energy infrastructure can make a lasting difference in Luxembourg’s future.