# Never Wasting a Crisis

INDUSTRY CLIMATE LOBBYING DURING THE COVID-19 PANDEMIC EXPOSED

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## Summary

This briefing counters industry attempts to use the coronavirus pandemic as a pretext to weaken international, European and national climate and carbon pricing laws. It debunks myths and provides policy recommendations to decision-makers.

The examples include large polluters pushing for delays in implementing the EU Green Deal and national climate policies and airlines aiming to secure unconditional public bailouts and trying to weaken the future aviation carbon market.

It will be crucial to ensure that the world emerges from the health crisis with a strong determination to deliver a green recovery. In the case of Europe, this means, in particular, sticking to the promises made with the European Green Deal. Now is the time to uphold and strengthen existing and future climate policies and attach strict environmental conditions to any bailout packages. Governments must act in the interest of people, not corporations.

# Large polluters seek to undermine EU and national climate action

### BusinessEurope asking for a delay of the EU Green Deal implementation

In a letter to the EU Climate Commissioner Frans Timmermans, BusinessEurope claimed that the extraordinary circumstances brought about by covid-19 posed a barrier for industry to properly contribute to public consultations on several legislative files related to the Green Deal. The industry lobby group also lamented the difficulty in adhering to the requirements for data collection and submission under the EU Industrial Emissions Directive (IED) and the Emissions Trading System (ETS).

**Our take:** While claiming that European businesses are committed to “making the EU Green Deal a true success”, BusinessEurope calls to extend all “non-essential” environment and climate-related consultations. In doing so, the lobby group effectively asks for major existing regulations and future legislative initiatives to be put on hold. The list of public consultations and EU regulations that the group wants the European Commission to delay are all key pieces of legislation that constitute the Green Deal and regulate industrial pollution (like the EU Emissions Trading System and Industrial Emissions Directive).

If the EU is serious about its commitment, it should not afford further delays. Despite what BusinessEurope claims, there is no such thing as “non-essential” climate and environmental regulation. The small effort required to reply to public consultation - usually the work of lobby representatives in Brussels - or implement long-standing EU regulations will not encroach significantly on the work and resources which are still available to European businesses.

These unhelpful claims from an industry lobby group claiming to speak for all enterprises in Europe risk undermining the EU's capacity to reach its climate objectives. EU policymakers cannot and should not give in to unfounded excuses to delay or halt the implementation of crucial legislation.

### Trade associations asking to delay national climate policies

EU legislation is not the only target of industry lobby. National trade associations are also strongly pushing back on climate policies in their respective countries. This has happened at least in France, Germany and the Netherlands.

In a leaked letter, the French business lobby MEDEF asks for a six-month delay of environmental and climate legislation, claiming that the current situation does not leave room to the business sector to dialogue with the government on these rules.

As reported by Clean Energy Wire, the Association of German Chambers of Commerce and Industry (DIHK) is pushing for a delay in the introduction of a national carbon price in the transport and heating sectors. According to the association, “the expected drop in emissions this year [caused by the lockdowns due to the pandemic] would "make further climate policy measures unnecessary for the time being," and that regulatory relief during a "transitional period" would help the industrial sector to cope with the virus' fallout.

In the Netherlands, industry lobby attempted to convince the government to postpone its plans to implement a carbon tax on industrial installations included in the EU ETS due to the coronavirus impact. Despite the pressure, the Dutch ministry launched a public consultation on the proposal, with the aim for the levy to begin in January 2021.

**Our take:** In order to strengthen existing EU climate legislation, several member states had started laying out complementary plans to improve their climate policies at the national level.

Many initiatives concerned the introduction of a carbon tax or scheme to help reduce emissions from key sectors like transport, buildings and heavy industry.

Industry's efforts in these countries to undermine and delay legislation at the national level is particularly unhelpful and the justifications used for their claims patently unfounded.

While greenhouse gas emissions will drop due to the economic slowdown caused by the pandemic, this is likely going to be short-lived. Unless the response to the pandemic leads to lasting structural changes, the pollution will rebound quickly and possibly increase when economic activities pick up again. Now is the moment to make climate policies resilient against changing economic circumstances, at the EU and at national level.

### Industry asking for extensions to EU carbon market deadlines and safeguards to ensure the flow of free pollution permits

Under the EU carbon market rules, industry, the power sector and airlines operating flights in Europe must report their emissions for the previous calendar year by 31 March and surrender enough carbon permits to cover these emissions by 30 April.

Some industries asked the European Commission to extend the deadline for reporting on their emissions, citing difficulties in verifying them due to widespread homeworking. All high polluting sectors, such as cement, steel and glass manufacturers, were among the most vocal on the need for flexibilities from the European Commission, seeking to increase their share of free pollution permits under the EU ETS.

The European Commission, however, concluded that while they recognised the difficulties caused by the health crisis, the ETS rules provided flexibility on the modalities for compliance and that these would be sufficient for installations to comply with the legislation without requiring an extension to the deadline.

Finally, investors are also growing impatient with the industry's attempts to have their cake and eat it when it comes to protection against the hypothetical threat of "carbon leakage". In addition to coronavirus related lobbying, the conversation around the considered "border adjustment measure” has been hijacked by the EU steel and cement sectors that call for maintaining all free ETS emission allowances while a border adjustment measure for imported goods is implemented.

**Our take:** A delay of compliance deadlines would disrupt the carbon market. Firstly, the annual emissions data is needed to determine how many surplus permits are on the market. This is important as it determines how many permits will be cancelled by the Market Stability Reserve (MSR). This mechanism avoids a build-up of oversupply that could depress the carbon price.

If the MSR cannot do its job, it would cause regulatory uncertainty and upset the market’s balance. Moreover, the data on ETS emissions serves as a basis to calculate the number of free allowances allocated to industrial installations.

Under the new EU ETS free allocation rules, entering into force in 2021, an adjustment in allowances allocated for free is foreseen when an industrial activity increases or decreases by more than 15%.

By asking for delays in complying with the legislation, several companies are also asking the EU Commission to exclude the drop in industrial activity in 2020 from future free allocation adjustments.

This is problematic since accumulated surplus free allowances this year are valid for future use (or sale) as well. Windfall profits for industrial sectors are already being accrued and excluding the 2020 activity level from the free allocation calculations will increase them.

# Aviation lobby pushes for unconditional bailouts, tries to further weaken the global aviation carbon market

### Airlines are trying to ease their responsibilities under future aviation carbon market

Airlines are putting pressure on governments to revise the rules of the upcoming global aviation carbon market CORSIA, in order to reduce the costs associated with complying with the system.

From next year, CORSIA will require some airlines to offset the growth in their CO2 emissions from international flights above a certain baseline. This baseline is currently set at the average of 2019 and 2020 emissions levels. However, given the impact of the covid-19 pandemic on the aviation sector, the 2020 levels will be well below 2019 levels, and will hence lower the scheme's baseline. In the long term, this would increase offsetting requirements for airlines.

Depending on the speed of the recovery, the impact of the crisis could, however, also significantly lower the offsetting requirements during the initial years of CORSIA, because emissions might remain *below* the baseline as the aviation industry recovers. The International Air Transport Association (IATA), which represents many of the world's airlines, is asking for a change to the way the baseline is calculated. The proposed alternative is to use only 2019 emissions levels. This would leave the aviation industry with zero offsetting obligations for the scheme's pilot phase, i.e. until 2023, and would significantly lower obligations for the rest of the scheme.

**Our take:** Flexibilities already exist to shield airlines from significant costs. Lowering the CORSIA baseline would be equivalent to postponing the start of offsetting obligations by several years.

The fact that the baseline was set at an average of 2019-2020 already works to absorb some of the shocks from exceptional years. While the "carbon-neutral growth" logic of CORSIA is relatively straightforward, i.e. any emissions above the 2019-2020 average must be offset, the actual calculation is much more nuanced. For example, until 2023, airlines can apply the sector's growth rate to their own 2020 emissions to determine how many offsets they need to buy, instead of applying it to their actual emissions in each given year. Given that their 2020 emissions will be very low due to the covid-19 impact, this flexibility will already allow for a slight reduction in offsetting obligations.

CORSIA continues to be far weaker anyway than the type of climate policy we need for the aviation sector. It is too early to know exactly how much the scheme will cost the aviation industry, but with average offset prices around 3USD/tCO2e in 2018, very few experts anticipate a significant financial impact from CORSIA on airlines[1].

Continuing to weaken environmental regulation for the aviation industry will simply postpone the problem. The sector's current pollution growth trajectory is fundamentally unsustainable, fuelling the climate crisis that will increase the risk of future global catastrophes.

## Airline Bailout Tracker: billions in the double digits are sought by the aviation industry, with few or no environmental conditions

The aviation industry is hard hit by the covid-19 crisis, but several airlines have been exploiting the situation to push back on regulation and to secure unconditional public bailouts.

[1] See a comment on this in our article "CORSIA: demand, supply and scaremongering"

First, it should be noted that the aviation industry has gone through important crises before (e.g. in the aftermath of the 9/11 attacks), and that it has always recovered and continued on its rapid growth trajectory. Noting that the past is not always a good indicator for the future, however, it is worth looking at what the industry is seeking from governments today.

In Europe, our airline bailout tracker, shows that many of the biggest airline groups have received or are negotiating aid packages worth billions of euros. Yet many of these airlines registered record profits over the past years, while fighting all meaningful attempts at regulating the climate impact of their sector. Moreover, airlines do not pay taxes on fuels nor VAT on flights.

In the US, a bailout package for airlines will make up to $50 billion available in the form of grants and loans, with no climate conditions attached.

On both sides of the atlantic, failing companies have jumped on the occasion to find government support in order to survive a crisis which started long before the covid-19 pandemic. For example, both Boeing and Alitalia are in talks to receive large financial support, but the former has been burdened by several problems, including a global scandal around its Boeing 737 Max which were grounded after fatal crashes. The latter has been making losses for years and has already cost successive Italian governments billions of euros in aid, some of which is being investigated by the European Commission for illegal state-aid.

In a recent survey of over 230 leading economists, finance ministry officials, and central bank officials, unconditional airline bailouts were also deemed the worst performing package when it comes to long-term economic stimulus, as well as climate impact.

**Our take:** Airlines which have not contributed their fair share in taxes are now requesting the public to shoulder their losses, while rejecting any new conditions for this.

This is not acceptable, and no airline should receive unconditional public support. If bailouts are granted, they should not burden countries' finances (e.g. all loans must be repaid with interests at market rate) and they should not worsen the climate crisis.

The bailouts should be conditional on airlines accepting new climate policies, including fuel taxes and VAT on flights, as well as a complete phase-out of the free distribution of pollution permits to airlines under the EU's carbon market.

# What's next?

The pandemic presents immediate risks to people's health and livelihoods. But our response cannot be to return to the destructive *business-as-usual* path. This would put people's health at even greater risk by worsening the climate crisis. If the pandemic has taught us anything, it is that early and transparent action based on scientific evidence is crucial when it comes to protecting people, their health and their livelihoods.

The decisions made today will shape our societies and economies for years and decades to come. The response to the pandemic requires both short and mid-term efforts by governments and society at large. Immediate measures are needed to counter the spread of the virus and to stabilise the economy. But the medium-term response must focus on future-proofing our economies so that we come out of the pandemic stronger, more sustainable and more resilient.

The work to advance the European Green Deal must continue. Encouragingly, the European Commission and the Parliament have signalled that there will be no delays in the legislative work on the EU Climate Law and plans to increase the EU 2030 climate target.

For example, the EU industrial strategy that was released in March 2020, fails to put forward concrete policies to drive the industrial clean transition. Current carbon pricing policies in place, such as the EU Emissions Trading System (EU ETS), are barriers to industrial decarbonisation as demonstrated by the fact that carbon pollution from heavy industry has not declined since 2012. Therefore, when it comes to specific policies to drive industrial transformation, revising Europe's carbon market rules will be a key task. It needs a steeper emission reduction path, phase-out of free allocation, and its Market Stability Reserve (MSR) that absorbs surplus allowances from the market must be strengthened.

Other concrete measures needed to deliver industrial decarbonisation include introducing $CO_2$ performance standards, better public procurement rules, incentives to drive more circularity and increased funding for innovation.

As far as the aviation sector goes, it is time to end its tax holiday and demand that airlines move to greener fuels. In addition, the upcoming review of the EU carbon market rules is an opportunity to end the sector's free allocation of pollution permits and put a higher price on its pollution. Governments must furthermore strengthen the future international aviation carbon market CORSIA, which is nowhere near strong enough to mitigate the sector's destructive climate impact.

# Conclusions

Over the past month we have been witnessing several industry attempts to use the coronavirus pandemic as a pretext to weaken national, European and international climate legislation and the implementation of the EU Green Deal.

In addition, big polluting industries are pushing policymakers to grant them exemptions to serve their short-term economic interest and lock us into highly polluting and destructive fossil fuel based economies.

Governments must see beyond the short-term vested interest of polluters and plan for a future that benefits us all. They must refrain from taking irresponsible decisions, the implications of which will be felt far into the future and which will jeopardize the work that has been done so far to reach the EU's climate neutrality goal. It is imperative that they plan a just and clean transition that protects workers, communities, and the climate.

This is not only crucial to stop the climate crisis, but also the only effective route to ensure more resilient societies that will be better equipped to weather similar storms in the future.

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