

The economic case for 30% GHG reductions

The impact of ambitious collective and individual GHG reductions on global and national GDP is positive. Studies show that taking a leading position on cutting GHG emissions enhances economic growth and that the EU enjoys an increase in GDP when it acts unilaterally¹.

The commercial & economic risks of staying at a 20% target

- **The benefits of the 20% GHG reduction target were severely undermined by the economic recession.** The European Commission's assessment of absolute costs linked to the 20% target shows that these costs have fallen from a predicted €70 billion per annum (year 2020) to an estimated €48 billion today. Moving to 30% would cost €11 billion more than the total amount expected 2 years ago for the 20% target. The Commission acknowledges this cost doesn't include the economic co-benefits such as reduced imports of oil and gas (€40 billion saving) and health benefits from improved air quality (€3.5-8 billion saving).
- **The 20% target will not stimulate the innovation and market developments necessary to reach the 80-95% GHG reduction goals for 2050.** International Energy Agency² suggests that the 20% target could potentially be met without any further domestic abatement taking place between now and 2020.

¹ "Cutting the Cost: The Economic Benefits of Collaborative Climate Action" The Office of Tony Blair, The Climate Group, The University of Cambridge, 4CMR, CECambridgeEconometrics.
file:///Users/admin/Downloads/Cutting_the_Cost_-_BTCD_Report.pdf

² International Energy Agency. "World Energy Outlook 2009". November 2009. ISBN 978 92 64 06130.
<http://www.iea.org/weo/2009.asp>

- **By moving to a higher target, the EU will have a direct positive impact on the carbon price and on low-carbon market creation through to 2020.** This will deliver the economic signals and regulatory certainty that companies need if they are to continue investing billions of Euros in low carbon products, services, technologies and infrastructure. In addition, the costs of taking action now are much lower than predicted costs for any action later. By investing now in tomorrow's technology and infrastructure the EU avoids high carbon 'lock-in' and the financial risk of having to engineer a rapid shift away from stranded assets.

- **The spectre of high oil prices is likely to derail future economic growth.** Oil prices in the range of \$88 bbl will cost the EU economy approximately €40bn in fuel imports³. Deutsche Bank forecasts that oil prices could hit \$175 bbl by as early as 2016⁴ which could cost €80bn midway through the 2020 target deadline. Wider economic recovery could be choked off by rising energy prices, potentially leading to the worst-case scenario of a double-dip recession. A 30% target requires the necessary EU wide energy efficiency policies and innovative low-carbon technology investments to wean Europe off expensive fossil fuel imports.

- **The EU must attract international private equity to facilitate low-carbon growth.** UN Conference on Trade and Development (UNCTAD) annual World Investment Reports highlight the long term trend of private capital flows being captured by China, India, the Russian Federation, Brazil, Vietnam and the US⁵. Only Germany and the UK made it into this top 10 but their position has been steadily declining⁶. Furthermore, more than sufficient private-sector finance is available to help the EU meet the cost of the 30% GHG target. The value of assets under management by the global fund management industry was estimated as being over

³ European Commission, Communication, 'Unlocking Europe's potential in clean innovation and growth: Analysis of options to move beyond 20%.', Brussels, May 2010.

ec.europa.eu/energy/infrastructure/studies/doc/2010_0505_annex_en.pdf

⁴ Deutsche Bank, 'The Peak Oil Market: Price dynamics at the end of the oil age', October 2009.

file:///Users/admin/Downloads/The%20Peak%20Oil%20Market.pdf

⁵ UN Commission on Trade and Development, 'World Investment Report 2010, investing in the low carbon economy', Geneva, July 2010. . file:///Users/admin/Downloads/wir2010_presentation_en.pdf

⁶ Stephen D King, 'Losing control: the emerging threats to Western prosperity', Yale Press, 2010
<http://yalepress.yale.edu/yupbooks/book.asp?isbn=9780300154320>

\$80 trillion at the end of 2008⁷. Effective policies must be set up to capture this private finance and make the 30% GHG target reductions cheaper.

Why moving to 30% now is an important technical and economical part of the European recovery package

- **European companies need domestic growth if they are to retain their lead in clean-carbon markets and help bring the economy out of recession.** Structuring the right package of policies and measures is essential to delivering needed emission reductions as well as stimulating economic growth. The enabling role of the information and telecommunications industry should be also considered in this context.
- **Europe can choose to invest in new low carbon technologies, clean energy, and energy efficiency at home to fuel economic recovery** or remain at the 20% GHG reduction target and continue to see increasing amounts of capital flow out of the EU to purchase fossil fuel imports and energy technology which lowers growth potentials and worsens trade balances.
- **Effective and ambitious European regulation is a key vehicle for new revenue and market generation and facilitates high levels of GDP growth.** Policies such as energy efficiency in buildings, fuel switching and CO₂ standards in transport could deliver up to 80% of the 30% target at negative cost (363million tonnes of additional GHG reductions⁸).
- **Comprehensive energy efficiency programmes for buildings with transparent financial support for the more expensive energy efficiency measures in transport and industry are cheaper and more effective ways of stimulating economic recovery and job creation.** For example, large scale insulation for EU households today is estimated to cost €-115 per tonne of CO₂

⁷ Murray Brit, 'Engaging the private sector capital at scale in financing low carbon infrastructure in developing countries: Private Sector Investment Project', New Zealand, 2010.

⁸ CE Delft, 'Why the EU could and should adopt higher greenhouse gas reduction targets', Delft, March 2010. file:///Users/admin/Downloads/7213_finalreportSdB-I.pdf

reduced and delivers a reduction of 288 MtCO₂ from 2013-2020⁹. The Central European University estimated that a large-scale and deep renovation programme in Hungarian buildings could generate between 43,000 and 130,000 new jobs as well as improving the commercial value of real estate and generating new business opportunities.¹⁰

- **The “Carbon leakage” debate is predominantly an economic distraction.** The true risk to jobs in European heavy industries is not high carbon prices, but the current collapse of European demand in the construction and infrastructure markets. Ironically, the one sure way to increase growth and jobs in these markets is to incentivise investment in large-scale low-carbon infrastructure which is a voracious consumer of steel, cement, aluminium and chemicals¹¹. Although studies show that the overall risk of carbon leakage is small¹², consideration will have to be given to the inclusion of clear rules to prevent carbon leakage in the small number of sectors where it may be a problem such as the steel and cement sectors.

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⁹ ECOFYS, ‘Sectoral emission reduction potentials and economic costs for climate change (SERPEC-CC), Netherlands, October 2009. file:///Users/admin/Downloads/SERPEC_executive_summary.pdf

¹⁰ Central European University, ‘Employment impacts of a large-scale and deep building energy retrofit programme in Hungary: Technical assessment’, Budapest, 2010. <http://3csep.ceu.hu/projects/employment-impacts-of-a-large-scale-deep-building-energy-retrofit-programme-in-hungary>

¹¹ IDDRI, ‘Scenarios for transition towards a low-carbon world in 2050: What’s at stake for heavy industries?’, Entreprises pour l’Environnement & International Institute for Sustainable Development and International Relations (iDDRI), Paris, May 2009. [http://www.iddri.org/Publications/Rapports-and-briefing-papers/Scenarios-for-transition-towards-a-low-carbon-world-in-2050-What%27s-at-stake-for-heavy-industries-\(summary\)](http://www.iddri.org/Publications/Rapports-and-briefing-papers/Scenarios-for-transition-towards-a-low-carbon-world-in-2050-What%27s-at-stake-for-heavy-industries-(summary))

¹² The Carbon Trust, ‘Tackling Carbon Leakage: sector specific solutions for a world of unequal carbon prices’, March 2010. <http://www.carbontrust.co.uk/policy-legislation/insights/pages/reports.aspx>