

GREEN GROWTH PLATFORM



How can the 2030 Energy & Climate Package Foster Competitiveness? Keynote Sandrine Dixson-Declève

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LEADERS GROUPS



CLIMATE

Enabling the transition to a low carbon economy



NATURAL CAPITAL

Staying within the limits of the Earth's natural systems



FINANCE

Designing a financial system that values the long term

Learning - Leadership - Change
Enabling business leaders to be heard
Setting new standards of responsible business practice
Demonstrating what is possible



EU Green Growth Platform Advisory Board Steering Committee

(EU CLG Secretariat and Business Leaders)

**Ministerial
Green Growth
Group**
(15 Ministers)

**Business
Green Growth Group**
*(30- 50 Companies - 15
active CEOs)*

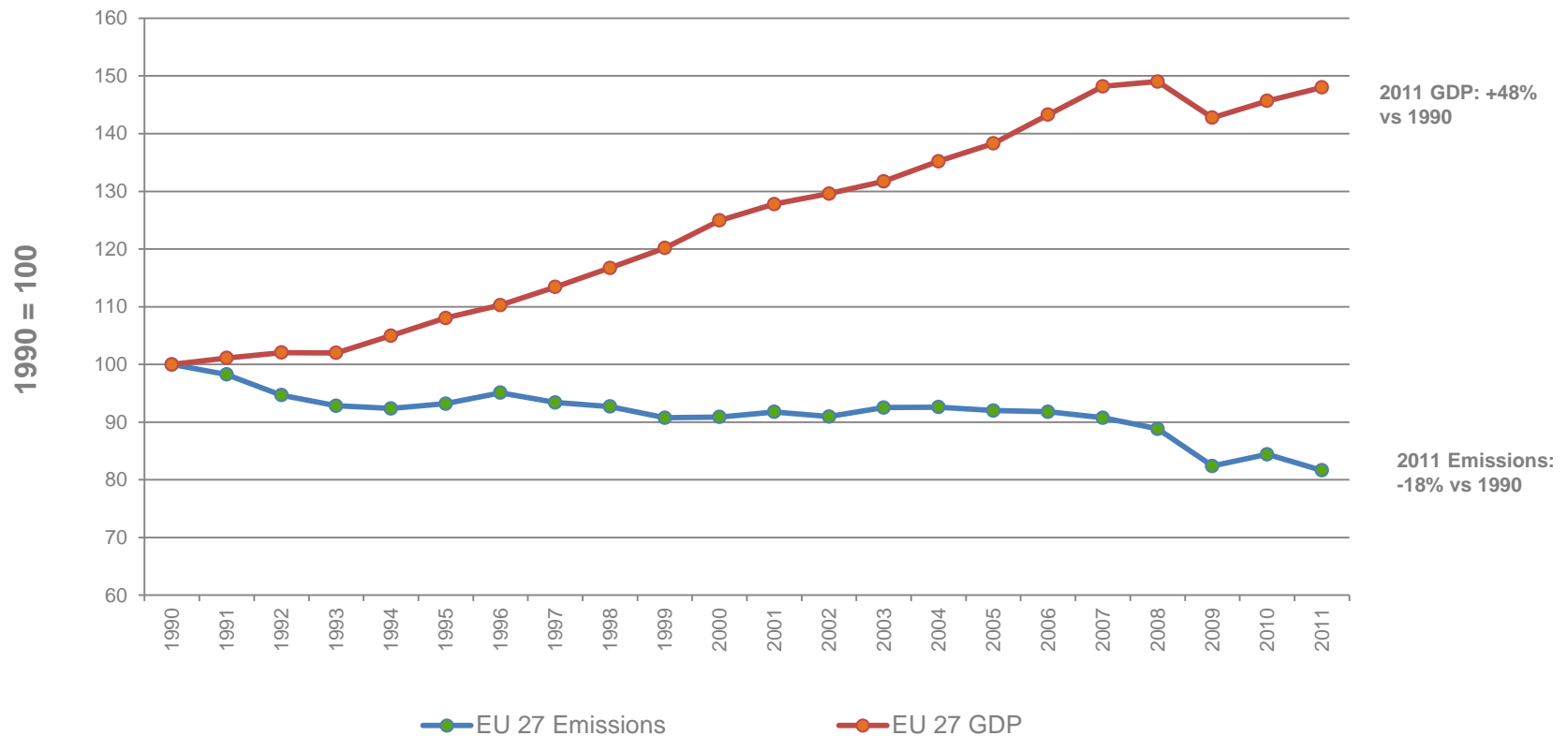
**MEP Green
Growth Group**
*(to be formed after
May 2014 elections)*
(15 MEPs)

**Advisory
Council I**
*Economics of Jobs, Growth
& Competitiveness*
Co-Chairs: Alex Bowen,
Grantham Institute & Laurence
Tubiana, IDDRI

**Advisory
Council II**
*Sectoral Deep Dives &
Related Issues: Energy
Intensive Sectors, Power,
EE, etc.*
Chair: Philippe Joubert, EU
CLG/WBCSD/WEC + Consultant
Tomas Wynns, VUB



PREMISE: EU GDP and Emissions have Decoupled



Source: EEA 2013



2030 PACKAGE REFLECTIONS: Platform Advisory Council I

- Europe's high energy prices is being directed at its ambitions on climate change, while the **main factor – the high cost of imported energy – is ignored**
- **Long-term policy stability and short-term policy clarity** needed for industry and investors to invest in the wider EU economy
- Two track approach: **protect short-term competitiveness while ensuring long term growth (broad innovation: process, product, business model, social and policy)**
- **Joined-up EU industrial, climate and energy strategy**
- **Supportive industrial framework** for all sectors to offset productivity gap
- **Further unemployment not an option** in existing manufacturing base and new sectors
- **Reform EUETS incl. de couple ETS sectors** e.g. between industry and power
- **Maximise GHG reductions from ETS/non ETS sectors** e.g. EE in buildings & Transport
- **Maximise potential for new products and technologies**
- **Maintain the current carbon leakage list until 2020**
- **Extension and re-design of current NER-300 mechanisms** EU-wide industry Innovation Fund (focus on breakthrough technology, demonstration, scalability)
- **Support for at least domestic 40% GHG target** as most cost effective



IEA's World Energy Outlook (2013) highlights:

- Even if CO₂ prices rose to €20/tonne they would still only represent a few percentage points of average industrial electricity prices.
- Economically counter-productive to avoid early/ambitious low carbon action
- Every year of delayed mitigation action adds \$500 billion to the global low carbon energy investment bill between 2010 and 2030.
- Every **\$1** of low carbon investment avoided today means **\$4.30** of low carbon investments needed after 2020 to meet the 2°C goal.
- **Delaying further action** until after 2020 could require an extra \$5 trillion of investments from 2020-2035 across the economy.

Euroelectric Conclusions (2013):

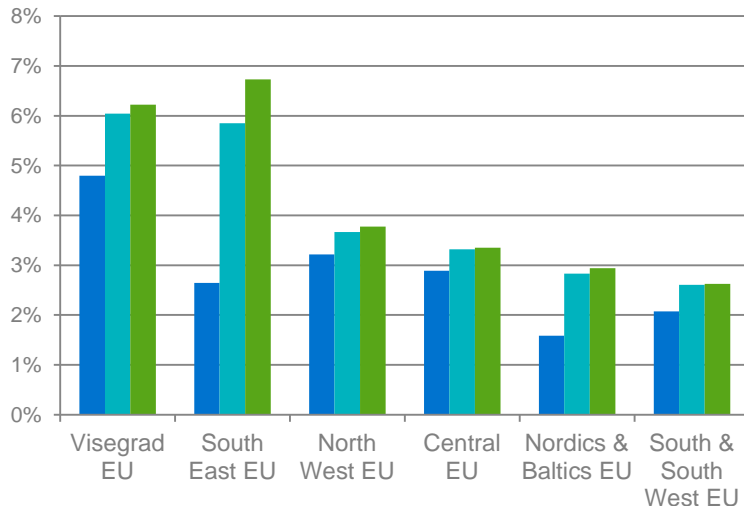
- Delaying de-carbonisation of power sector leads to dramatic dash to catch up later causing bottlenecks in equipment supply, price effects due to overheated demand, and stranded assets because of exaggerated investments in redundant capacity.
- A “crawl today, sprint later” approach to energy de-carbonisation will cost an extra €5.5 billion in additional costs by 2050.



EU Risks losing low carbon market leadership

- **Global low carbon and environmental business market = €4 trillion a year, expected to grow to €5 trillion by 2016** (Low carbon energy market alone predicted growth \$2.2 trillion)
- **EU = 22% share** worth over €900 billion p/a + **35% of global low carbon patents + 7.8 million employed** in 1 million companies
- **EU competitors** invested <15% of post-crisis stimulus packages in low carbon energy projects (\$380bn) while EU global investment share decreased from 40% in 2009 to just 25% in 2012

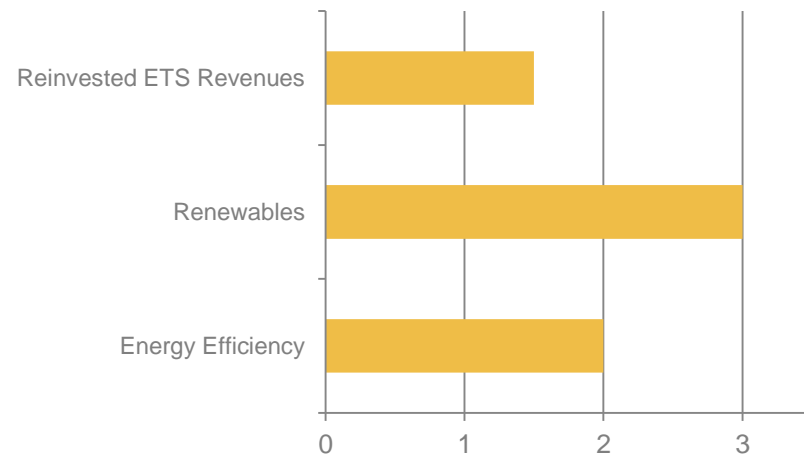
Growth in the Low Carbon & Environmental Goods & Services Market across Europe, BIS LCEGS Data



■ Growth 08/09 to 09/10 ■ Growth 09/10 to 10/11 ■ Growth 10/11 to 11/12

Source: UK BIS 2013

Job Creation Potential by 2020 (millions CEC 2012)



■ Job Creation Potential by 2020 (millions)

Source: European Commission 2012



EU-27 Most Energy Efficient Economy in the World: Energy Intensity 1990 – 2010

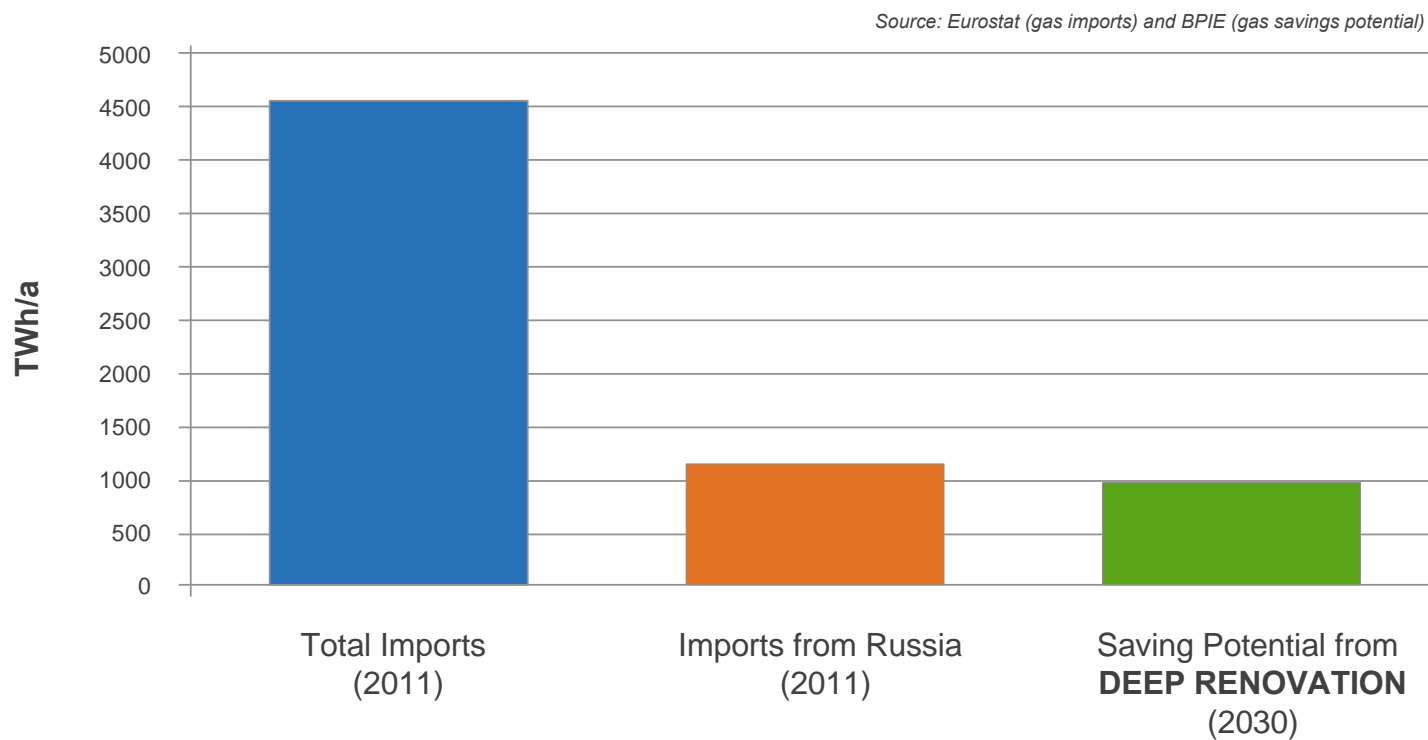
- Energy efficiency one of the most cost-effective ways to cut emissions.
- Energy intensity today 50% lower than 1990 i.e. EU uses half the energy for every €1,000 of GDP added to economy.
- EU ahead of curve making energy efficiency vital to competitiveness.
- Without EU EE leadership recent fossil fuel price rises and volatility would have been much greater: Yearly average oil prices increase by nearly 300% (2003-2012) while Europe's dependency on oil imports has risen to 85%.



Source: Eurostat



Energy Security – Energy Efficiency Balance for EU

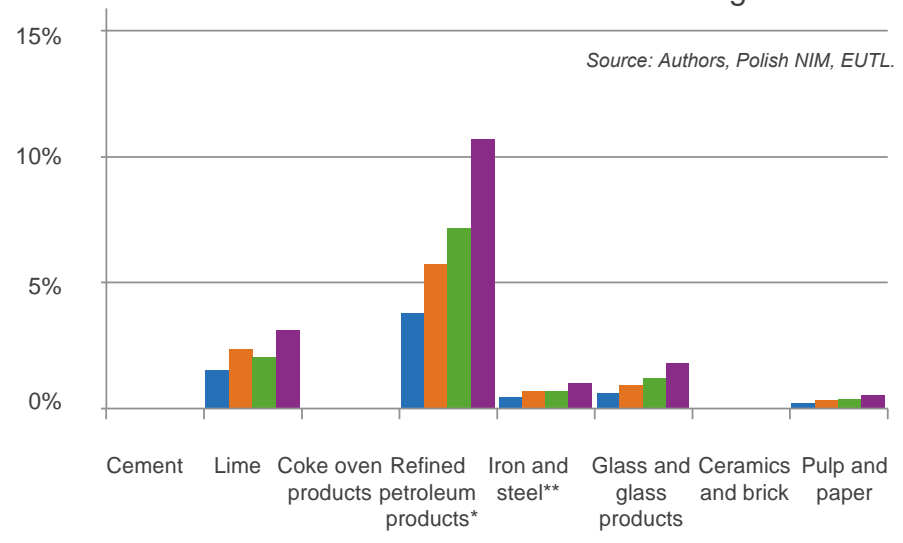




REALITY CHECK 1: Overall the system works

- Current allowance system works: EU industrial sectors face very low **aggregate compliance costs**
- Need to address overall investment climate in EU = permitting, labour costs, energy contracting and high energy prices.

Direct EU ETS cost estimates after benchmark-based free allocation & banking



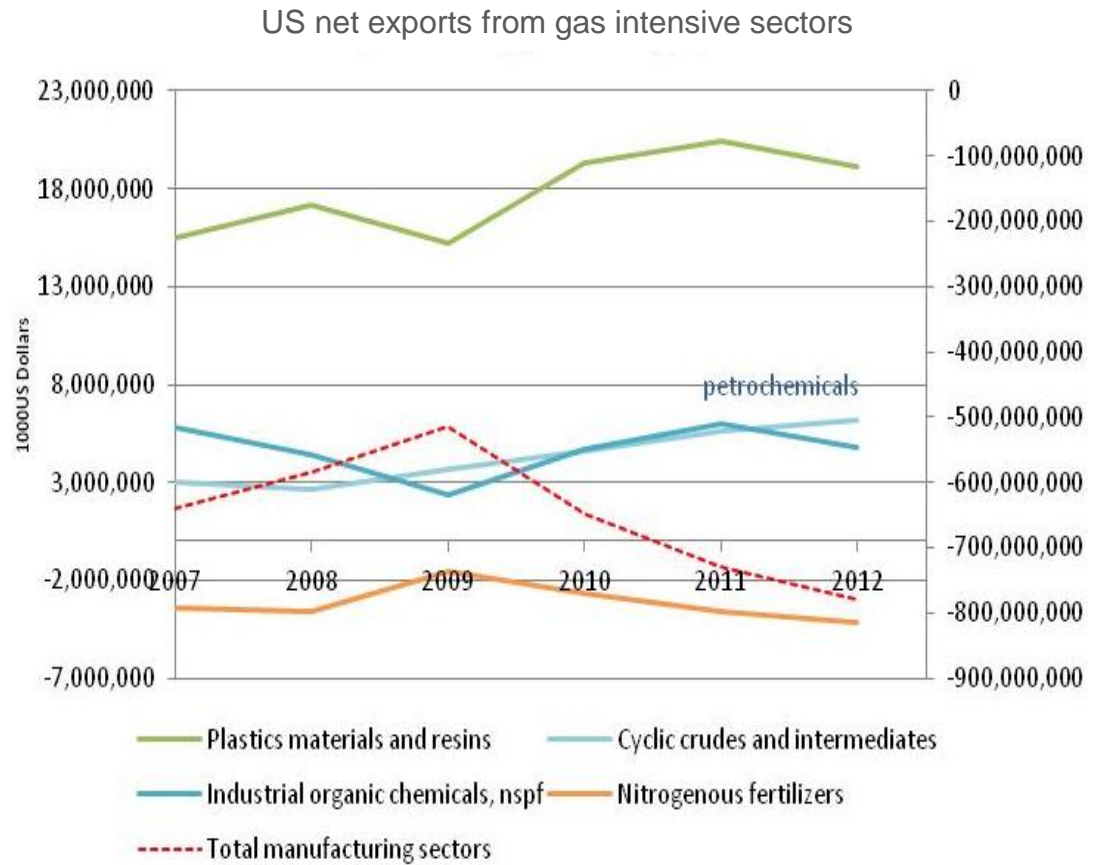
● % GVA post banking and free allocation (20 €/tCO₂) ● % GVA post banking and free allocation (30 €/tCO₂)
● % Operating profit post-banking and free allocation (20 €/tCO₂) ● % Operating profit post-banking and free allocation (30 €/tCO₂)

Source: IDDRI 2014



REALITY CHECK 3: Competitiveness hindered by cheap US gas

- Competitiveness benefits mainly limited to sectors using gas as a feedstock and with low transport costs (e.g. ethylene and related products)
- These sectors are strongly driven by gas prices.
- With the right supportive policies, robust carbon pricing should not change outcomes in these sectors.



Source: IDDRI 2014



REALITY CHECK 4: Europe Needs to Invest in Infrastructure

- **To keep the lights on** and stay on a cost-effective decarbonisation path EU must replace old power stations and upgrade infrastructure
- **Energy infrastructure essential for economic growth:** by 2020 investments must increase by 30% for gas and 70% for electricity
- **Enabling €1 trillion of investment in energy infrastructure** by 2020 could be useful net contributor to short-term growth, with strong multiplier effects across the economy (IDDRI 2014)
- **Clean energy investments grew six fold since 2004: Costs of scaling up domestic low carbon energy coming down** e.g. wind turbine prices globally down by 30% in the last 4 years, while solar PV installation costs down 50% in last 5 years.
- **The time is right:** low borrowing costs & private capital underemployed



2030 PACKAGE REFLECTIONS: Platform Advisory Council II

- **Fundamental principles for EII's:** Long term contracting, ETS reform, carbon leakage list unchanged, policy linkages (state aid, industrial policy, internal market rules, level playing field, value chain thinking)
- The possibility of **differentiation of EU ETS post 2020 cap correction factors** between industrial sectors and the power sector under a post 2020 EU ETS while maintaining the over-all integrity and liquidity of the EU ETS.
- Policy support for the **demonstration phase** of industrial low-carbon breakthrough technologies, including EU ETS auto-financing options.
- The role and opportunities for large power consumers in Europe's 2020-2030 (renewable) energy framework through **demand side management** and enhanced auto-production. Includes identification and elimination of barriers.
- **Support for cross-sectoral roadmaps and innovation collaboration.** Is there a role/need for an European ARPA-I (Advanced Research Project Agency for Industrial innovation), with the Community assisting industry through angel/seed financing of cross-sectoral product and process innovation



Conclusions

“Waiting is not an option... if we do nothing at this stage, everything will simply become much more expensive.” – **Chancellor Angela Merkel**, *Petersberg Climate Dialogue, May 2013*

“Action on climate change is one of the great economic opportunities of the 21st century.” – **US President Barack Obama**, *June 2013*

“If there is a lack of confidence that climate change policies will persist, then businesses may not factor a carbon price into their decision-making. The result may be overinvestment in long-lived, high-carbon infrastructure which will make emissions cuts later on much more expensive and difficult.” – **Nicholas Stern, 2008**

“Energy infrastructure is essential for economic growth. Since before the industrial revolution transformations in how energy is generated, transported and consumed have underpinned technological progress...” - **Her Majesty’s Treasury, UK Government, 2013**