THE CLIMATE GROUP

UNIVERSITY OF CAMBRIDGE
PROGRAMME FOR SUSTAINABILITY LEADERSHIP

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JOINT BUSINESS DECLARATION

INCREASING EUROPE'S CLIMATE AMBITION WILL BE GOOD FOR THE EU ECONOMY AND JOBS

Business welcomes the strong public endorsement given to the 30% greenhouse gas reduction target by Denmark, France, Germany and the UK. Moving to a 30% emissions reduction target is a win-win-win for Europe. As well as the numerous economic and social benefits of cutting greenhouse gas emissions, it will spur innovation and investment thus creating millions of new jobs in a low carbon economy, with the global low carbon goods and services sector estimated to be worth over €3.4 trillion and growing rapidly[1].

Businesses call for the EU to prepare to increase its greenhouse gas reduction target to 30% to drive low carbon investment:

- Climate action will boost economic growth and create new jobs
- The EU needs the right policies to maintain its leadership and competitiveness in the global low carbon economy
- The EU must ensure energy security through greater low carbon energy investments
- The EU needs to invest now for tomorrow's technology and infrastructure to avoid high carbon 'lock-in' and the financial risk of needing to engineer a rapid shift away from such stranded assets
- The recession has made emissions cuts easier and cheaper but market incentives are required to spur action
- 'Carbon leakage' should be evaluated and concerns addressed based on real facts and data about competitiveness

By implementing the above, the EU can regain its global leadership status.

The following businesses have explicitly supported this Declaration so far: **Acciona**, **Alstom, Asda, Atkins, Barilla, BNP Paribas, BSkyB, Capgemini, Centrica, Climate Change Capital, Crédit Agricole, DHV Group, Elopak, Eneco, F&C Asset Management, GE Energy, Johnson Controls Inc, Kingfisher, Google, Marks and Spencer, Nike, Philips Lighting, SKAI Group of Companies, Sony Europe, Standard Life, Swiss Re, Tryg, Thames Water, and Vodafone**.

<u>EU climate and energy policy is at a crossroads and there is a compelling case for the EU to take the road to a low carbon, prosperous future</u>:

Climate action will boost economic growth and create new jobs. Active and targeted government policy is the key driver of low carbon employment opportunities. A recent study[2] by the Global Climate Network suggests that as a result of policies to reduce carbon emissions, more than 20 million new job opportunities could be created across nine major economies between now and 2020. Moreover, these will significantly outnumber any losses in high-carbon industries. In the UK, it has been estimated that the carbon capture and storage sector will be able to sustain 100,000 jobs by 2030 and generate up to £6.5 billion (€7.8 billion) a year[3]. The German government has adopted emissions reduction targets and has been an early mover in renewables. Consequently, 278,000 workers are employed in renewable energy, more than in conventional energy. By 2020, the study estimates this number could increase to between 353,500 and 400,000. Export markets would stimulate further employment.

[1] HM Government: Department for Business, Enterprise and Regulatory Reform and the Department of Energy and Climate Change. "Low Carbon Industrial Strategy: A Vision". March 2009. URN 09/571.
[2] Global Climate Network. "Low-Carbon Jobs in an Inter-Connected World". March 2010.
[3] HM Government. "Clean coal: an industrial strategy for the development of carbon capture and storage across the UK." March 2010.

The EU needs the right policies to maintain its leadership and competitiveness in the global low carbon economy. So far the EU has been at the forefront of low carbon technology growth, but its competitors are catching up fast. China and the US led the world in new clean energy technology and infrastructure investment in 2009. China saw a surge in investment. Out of $119 billion invested worldwide by the financial sector in clean energy companies and utility-scale projects, $33.7 billion took place in China, up 53% on 2008[4]. Together the US and China accounted for the top five clean-tech Initial Public Offerings in 2009[5]. And although Germany is in third place in new clean technology patents worldwide, the other four countries in the top five are the US, Japan, China and the Republic of Korea[6]. Analysis[7] by the Carbon Trust states that "European companies are likely to be less competitive in the global clean energy marketplace." Therefore the EU's competitiveness is at risk if it doesn't up its ambition and stimulate capital investment in Europe. Policymakers need to work with industry to redouble market and financial efforts and take advantage of the opportunities of low carbon jobs and growth.

The EU must invest in its energy security. The IEA forecasts[8] that conventional crude output will plateau in 2020. Oil prices will therefore be on the increase. Deutsche Bank for example, forecasts[9] that oil prices could hit US$175 by as early as 2016. As well as the threat of peak oil, the EU energy networks are based on large scale centralised production and a cheap and plentiful supply of coal and natural gas. The bulk of European gas imports come from Russia, Norway and Algeria, and imports are expected to increase from 61% in 2008 to 73% by 2020[10]. There is no high-carbon low-cost future for Europe. The EU must build its resilience to energy price volatility by investing in its energy security and ensure well-functioning energy markets with adequate liquidity.

The EU needs to invest now for tomorrow's technology and infrastructure. The decade to 2020 will see enormous capital stock added to energy infrastructure worldwide to meet growing demand and replace out-dated supply. Europe's electric utilities sector is set for at least €1 trillion of capital expenditure by 2020 even under business-as-usual[11]. Without the right policy framework to inform investment decisions, there is the substantial climate risk of 'lock-in' to high-carbon technology and infrastructure, and the financial risk of needing to engineer a rapid shift away from such stranded assets. Delaying action until after the economic recovery is not an option. Although there is some investment delay effect from the recession, this brings another risk of supply shortfall, which would lead to rising energy prices. Energy efficiency is core to achieving a low carbon economy and softening supply issues. Efficiency improvements and the accompanying shift towards alternative energy sources would result in €80 billion worth of savings by 2020 and a net gain of 50,000-250,000 jobs even when accounting for potential employment loss in conventional energy industries[12].

The recession has made emissions cuts easier and cheaper but market incentives are required to spur action. One silver-lining of the recent economic downturn is that it has made meeting the current 20% emissions reduction target essentially a business-as-usual scenario. Therefore the current EU Climate and Energy Package no longer provides sufficient market incentives to invest in a low carbon future. At the heart of the Package, the Emissions Trading System (ETS) was intended to play the central role in driving down EU emissions and driving forward investment in efficiency and technology. But its impact has been weakened by a combination of falling carbon prices, free allowances for industry, and generous offset provisions overseas, which dilute the domestic economic stimulus. International Energy Agency data[13] suggests that the 20% target could potentially be met without any further domestic abatement taking place between now and 2020. The EU shouldn't be complacent:

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[4] Global Trends in Sustainable Energy Investment 2010(UNEP)

[5] The Cleantech Group. "China continues cleantech IPO dominance?" January 2010.

[6] Bernice Lee, Ilian Iliev and Felix Preston. A Chatham House Report. "Who Owns Our Low Carbon Future? Intellectual Property and Energy Technologies". September 2009. ISBN 978 1 86203 222 4.

[7] The Carbon Trust. "Investment trends in European and North American clean energy 2003 to 2008 - The rise and fall of clean energy investment". July 2009. CTC756.

[8] The Guardian. Interview with Fatih Birol, chief economist of the International Energy Agency. "When will the oil run out?" December 2008. http://www.guardian.co.uk/business/2008/dec/15/oil-peak-energy-iea

[9] Deutsche Bank. "The Peak Oil Market: Price dynamics at the end of the oil age". October 2009.

[10] European Commission. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. "Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan." November 2008. COM(2008) 781 final.

[11] Citi Investment Research & Analysis. "Pan European Utilities: The €1,000,000,000,000 (trillion) Decade". October 2009.

[12] European Climate Foundation. "Roadmap 2050: A practical guide to a prosperous, low-carbon Europe". April 2010.

[13] International Energy Agency. "World Energy Outlook 2009". November 2009. ISBN 978 92 64 06130.

the costs of taking action have been slashed. New Carbon Finance analysis[14] suggests that achieving a 30% target by 2020 is now less costly than the 2008 predictions for the 20% target. The European Commission's own analysis[15] states going to the 30% reduction target represents an increase of €11 billion compared to the absolute costs of the climate and energy package in 2020 as projected in 2008. The Commission acknowledges this cost doesn't include the 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).

'Carbon leakage' should be evaluated and concerns addressed based on real facts and data about competitiveness. Much of the opposition to a stronger target comes from energy-intensive industries concerned that operations would move to countries without similar carbon constraints. A survey[16] by The Climate Group of nine energy-intensive companies, accounting for about 5% of emissions covered under the ETS, showed that there has been no major impact on these companies' competitiveness: they have not relocated their operations, reduced their workforce, or lost market share. Other evidence[17] suggests that only a few sub-sectors representing as little as 1% GDP are at risk. Sectors deemed to be at risk of carbon leakage will be allocated up to 100% of their allowances for free. Free allocation must be assessed with care as the revenues are needed to increase investment in low carbon R&D. Some evidence to date suggests that energy intensive industries may have benefited under the ETS from over-allocation of allowances. Nonetheless, carbon leakage must be avoided to ensure European competitiveness and a balanced approach requires further discussion and carefully-targeted, evidence-based measures for those energy-intensive industries that genuinely need support.

The EU can regain its global leadership status. For over a decade Europe has championed the goal of limiting global climate change temperature rise to below 2°C and succeeded in having this benchmark recognised by all parties to the Copenhagen Accord. A more ambitious EU target can help create the momentum needed to ensure these and other major emitters establish their targets and programmes at the most ambitious level possible. The EU should also use the influence of its single market that has often enabled EU standards to become global standards. However, this influence cannot be taken for granted and depends on Europe being a first mover.

Recent economic studies show that a more ambitious climate policy is in the EU's strategic and self interest. Smart policies alongside clear market signals can alleviate specific concerns of particular countries and industries and the economic rationale is clear. We urge the European Commission to immediately assess the best policies and market instruments to support an ambitious greenhouse gas reduction target and build a robust low carbon economy. If Europe is serious about achieving its climate change goals and supporting its businesses in the transition to a low carbon economy it should act now.

Contact:

- Luc Bas, The Climate Group, LBas@theclimategroup.org +32 4 78 56 20 35
- Sandrine Dixson-Declève, The Cambridge Programme for Sustainability Leadership (Brussels Office), Sandrine.Dixson@cpsl.cam.ac.uk +32 4 77 44 94 39
- Bruce Haase, WWF Climate Savers, BHaase@wwfepo.org +32 4 91 15 61 97

[14] New Carbon Finance. "Recession lowers cost of EU Emissions Trading Scheme by a half". March 2009.
[15] European Commission. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. "Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage". May 2010. COM(2010) 265 final.
[16] The Climate Group. "The Effects of EU Climate Legislation on Business Competitiveness." September 2009.
[17] European Parliament: Policy Department Economic and Scientific Policy. "Competitive distortions and leakage in a world of different carbon prices Trade, competitiveness and employment challenges when meeting the post-2012 climate commitments in the European Union". July 2008. IP/A/CLIM/ST/2008-03 07 08 & 14.

To read further analysis on the main arguments outlined in this manifesto, see E3G's report "Building a Sustainable and Low Carbon European Recovery: How moving to a 30% climate target can deliver core European interests" at www.e3g.org