



## Media briefing on the European Commission staff working paper

### *Analysis of options to move beyond 20% greenhouse gas emission reductions: Member State results*

30 January 2012

#### **Introduction**

The European Commission's working paper *Analysis of options to move beyond 20% greenhouse gas emission reductions: Member State results* outlines the costs and benefits for individual EU countries of enhancing their climate action to a collective 30 percent emission reduction target for 2020. It concludes that increasing the EU climate ambition will deliver great financial, health and environmental benefits for all member states, including €7bn extra government revenues per year from a reinvigorated European carbon market. It will also propose a series of options to accelerate clean energy investments in Central and Eastern Europe (CEE). This briefing, prepared by Climate Action Network Europe, WWF and Greenpeace, outlines the NGOs' response and recommendations to this paper.

#### **Not enough incentives for green investments**

In recent years, generous allocation of emission allowances and lower industrial output due to the economic downturn have resulted in record-low carbon prices within the EU's Emissions Trading Scheme (ETS). Due to abundant ETS allowances, businesses can comply with their carbon reduction obligations without additional effort.<sup>1</sup>

The Commission working paper warns that low carbon prices have increased the risk of Europe getting locked into new high-carbon investments, such as inefficient power stations and industrial plants.

According to the European Commission, two thirds of countries are already projected to overshoot their targets under the EU's Effort Sharing Decision, with existing and planned measures. Therefore, low-cost carbon reduction options in sectors covered by this decision, such as the built environment, transport and agriculture, are at risk of remaining unexploited.

#### **Sharing the opportunities between member states**

Using three economic models (PRIMES, GAINS and CAPRI) the Commission looked at the economic effects of strengthening the EU carbon market and additional non-ETS measures for individual member states, including energy system costs, fuel expenses, air pollution control and health.

The Commission concludes that a move beyond a 20 per cent emissions reduction target for 2020 would require more investment effort from low-income countries, mainly in Central and Eastern

---

<sup>1</sup> Deutsche Bank, 'EU Emissions: what is the value of a political option?', 29 November 2011.

Europe. However, these countries would be well compensated thanks to three financial instruments suggested by the Commission:

1. The Commission proposes that with a higher target only high-income countries would reduce the amount of ETS allowances to be auctioned. This will boost carbon prices and raise government auctioning by €1.9 billion in high income countries by 2020, and by €5.4 billion in lower income member states.
2. For non-ETS sectors, the Commission emphasises the potential for income from sales between member states of surplus emission allocations. Tightening member states' effort sharing targets by 6% will raise asset values and increase total revenues from trade, in particular for CEE.
3. The Commission also takes into account investment support of €13.7 billion under the EU's Cohesion Policy for the period 2014-2020 for climate and energy measures in Central and Eastern Europe.

The European Commission points out that together these three mechanisms could reduce the costs of enhanced climate action for Central and Eastern Europe to virtually zero (0.02% of GDP), while the social and economic benefits in terms of investment, employment, cleaner air and health benefits can be maximised.

Moving beyond the 20 percent target will have major benefits for all countries. A 30 percent climate target would mean that, between 2016 and 2020, countries would reduce fossil fuel expenses by €31.3 billion annually (calculated with a conservative oil price of 88 dollar per barrel in 2020). The investments required to move beyond 20 percent would be offset by fuel cost savings. Europe would thereby shape an economy more resilient to fuel price spikes. The Commission estimates that air pollution control costs would go down by €3.6 billion annually and health benefits would be worth between €3.3 and €7.6 billion annually.

### ***Recommendations***

Climate Action Network Europe, WWF and Greenpeace welcome the working paper as an opportunity to increase the EU's climate ambition, while addressing the current weaknesses in the carbon market and creating an enormous potential for investments in the green economy in both the poorer and richer EU countries.

The environmental groups call on the Danish Presidency and EU leaders to urgently address the ailing carbon market and resulting low incentives for carbon reduction investments. Furthermore, action is required to deliver cost-efficient emission reductions in sectors not covered by the ETS. The proposed energy efficiency directive, which is currently being discussed by the EU institutions, provides an excellent opportunity to make progress on both fronts.

The NGOs welcome that the Commission has formulated an investment package to support the transition to competitive and efficient energy economies in CEE, helping prevent a Europe of two speeds in decarbonisation and energy system modernisation. However, the Commission proposals could be improved by attaching robust greening criteria to any investment support, so as to ensure that additional funds would, maximise climate and socio-economic benefits.