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MORE AGGRESSIVE CARBON REDUCTION GOALS IN EUROPE ARE AFFORDABLE

Raising Europe's carbon reduction target for 2020 from 20% to 30% will cost EU countries under 0.04% of GDP, with some member states getting a net benefit

London, 26 April 2012. The European Union could be much more ambitious about reducing carbon dioxide emissions between now and 2020 with minimal economic costs, according to research published today by leading analysis company Bloomberg New Energy Finance. The cost would be no more than the equivalent of a few cups of coffee per person per year.

The research was undertaken to determine whether raising the EU's target for CO2 reductions to 30% by 2020, as advocated by some member states, would be damaging to the European economy at a time when it is struggling to emerge from recession. Current EU policy is to achieve a 20% reduction in greenhouse gas emissions from 1990 levels by 2020.

Guy Turner, head of carbon and power research at Bloomberg New Energy Finance, said: "Our analysis shows that increasing the 2020 target to 30% from the current 20% would result in an additional cost of €3.5bn on average per year for the EU as a whole, from 2011 to 2020. This is equivalent to 0.03-0.04% of EU GDP, or €7 to €9 per inhabitant per year. Clearly, a more ambitious policy would not be nearly as painful as some countries fear."

Some countries stand to receive an economic benefit from any move to a 30% target, specifically Belgium, Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, Slovakia and Slovenia. These countries benefit by being able to sell surplus carbon allowances to other EU countries that are short of them. The first group will have those surpluses because its members will be able to make use of more low-cost abatement opportunities, such as energy efficiency improvements, and because of the structure of the proposed targets that take into account differing levels of national income across Europe. Some of these countries would benefit by up to 0.5% of GDP.

Countries facing the highest additional costs in absolute terms would be France, Germany, Italy and the UK, with between €1.1bn and €2.5bn per year of cost each. These costs would however represent a maximum of 0.05% of GDP.

These estimates are made by comparing the incremental cost of implementing a 30% target to a "business-as-usual" scenario with existing EU policies. This business-as-usual scenario includes the EU Emissions Trading Scheme with the current reduction target of 20% for 2020, the same trajectory beyond, and aviation joining completely in 2012. Business-as-usual also assumes implementation of the EU Renewable Energy Directive with a target of 20% of energy coming from renewable sources, and distributed between countries and sectors as per the announced National Renewable Energy Actions Plans.

Current policies allow for the use by European emitters of credits imported from outside the EU, for instance those issued in developing countries under the UN's Clean Development Mechanism. The research published today estimates that, as a result, if a 30% target were imposed in Europe, actual greenhouse gas emissions in the EU27 in 2020 would fall by 21% from 1990 levels, compared to an actual reduction of 17% under the 20% target. [1]

Raising the emission-reduction target to 30% would require additional emission cuts from sectors covered by the Emissions Trading System, including power generation, steel, cement and oil refining, and from those outside the Trading Scheme, including agriculture, transport and buildings.

The report was independently researched and written by Bloomberg New Energy Finance, and commissioned by the UK Department of Energy and Climate Change.

ABOUT THE ANALYSIS

The analysis uses Bloomberg New Energy Finance's proprietary model of the European energy and emissions system. The model has been developed over the last 10 years and covers all sectors of the economy and six greenhouse gases: CO2, CH4, SF6, PFCs, N2O and HFCs. It is used by governments and private companies to provide regular projections of carbon prices in the EU and their economic impacts.

The model is built up from a detailed analysis of 50 economic sectors, ranging from the key EU ETS industries of power, steel, cement and oil refining to the less energy intensive sectors of agriculture, buildings and transport. Across these sectors the model simulates the deployment of over 300 energy-consuming technologies, and how the use of these technologies will change under different carbon and energy prices.

In simulating the adoption of these technologies the model incorporates several constraints to reflect "real world" barriers and practical decision-making. These include taking account of short-term investment horizons in the private sector by assuming payback periods as short as three years for some technologies, resource constraints for renewable energy using GIS mapping of wind speeds and solar radiation across Europe, lead times for building new plants, and localised fuel prices. The latter is particularly important in some Eastern European countries with access to low-cost sources of coal and lignite.

Several sensitivities are modeled in the analysis. These include varying the "clearing date" for the Emissions Trading System (2020 or 2028), different fuel prices (low, medium and high) and different burden-sharing distributions (two alternatives as well as the EC's Effort Sharing Decision).

In conducting this analysis Bloomberg New Energy Finance used the latest economic, emissions and market data, from a wide variety of sources. In total over 100 different data sources have been used.

The report can be found here: http://www.bnef.com/WhitePapers/download/74

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Bloomberg New Energy Finance is the world's leading independent provider of news, data, research and analysis to decision makers in renewable energy, energy smart technologies, carbon markets, carbon

[1] The 17% reduction under the 20% target has been amended from initial version of this press release released on 26th April which showed a 13% reduction. 17% is the correct figure. We apologise for any confusion.

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