

**EIB-Bruegel conference "Investment and
Growth in the Time of Climate change"**

Panel II: Decarbonisation and growth

George Papaconstantinou

Brussels 14 June 2012

**Is there scope for climate action to support the
economic recovery in crisis-hit countries?**

- **Calls to slow down the pace of climate change policies in the wake of the crisis:** too costly given the state of public finances and depressed growth
- **The prevailing underlying logic:** investment in low carbon technologies seen as a cost rather than a source of future revenue.
- **The reality of energy costs:** industry and households facing increasing energy costs; part of these traced to policies aimed to encourage renewable energy systems

Making the economic case for decarbonisation in a time of crisis

- **Stern Review** - failure to take action could cost the global economy 5-20% of global GDP each year. Max potential losses every year in perpetuity on a scale equal to the value lost in 2009 from the global economy due to the financial crisis – estimated at close to 20% of global GDP
- **IEA:** shifting carbon-intensive energy sector to low-carbon would require an additional USD 1.6 trillion per year of investment between 2030 and 2050 (USD 750 billion from 2010 to 2030) over and above existing investment. However, the 17% (USD 46 trillion) increase in global energy investment required to deliver low-carbon energy systems could yield cumulative fuel savings equal to USD 112 trillion between 2010 and 2050

Making the economic case: reduced imports, more jobs

- **Reduced imports:** Moving to a low carbon energy system can shift EU investment into technologies and jobs inside the EU, ending a dependence on imports of fossil fuels.
- **Reduced costs:** Exposure to fossil fuel price volatility drops in decarbonisation scenarios as import dependency falls to 35-45% in 2050. Energy efficiency, switch to domestically produced low carbon energy can reduce EU average fuel costs by €175 to € 320 billion per year (A Roadmap for moving to a competitive low carbon economy in 2050).
- **Jobs:** In just 5 years, the renewable industry increased its work force from 230 000 to 550 000. Construction: boost through a major effort to accelerate the renovation and building of energy efficient and zero emission houses

Where do current pressures come from?

- **Public finances:** RES schemes increasingly difficult to finance, pressures on public investment projects for energy conservation, reduced funds for applied research
- **Private investors:** lack of liquidity and difficulty obtaining project finance hamper realization of RES investment projects
- **Households:** reduced incomes and high current energy costs reduce investments in energy conservation

Illustrating with the Greek case

- **The macro and financing environment:** Severe budget constraints coupled with zero liquidity in the banking system
- **RES sector:** one of the very few growing (+30% installations last year, +100% in PVs) but at an unsustainable pace
- **Feed-in system:** Generous, with tariffs incorporating a risk-premium for investors, running a deficit and in danger of collapsing (2GW with locked-in prices)
- **Energy conservation:** the sector with most potential and highest social return on investment in terms of abatement; currently stalled because of lack of finance and household investment

Is there a long-run potential of renewable energies in correcting external imbalances?

The case of Project Helios

- **Installation of 10GW of solar energy** in Greece for export of energy produced to northern Europe; a 15 billion investment
- Can **reduce emissions** by 12 metric tons and induce annual fuel savings of 4 million Tons of Oil Equivalent
- Builds on **Greece's solar potential** (50% higher insolation than Germany) and on the **EU RES framework** on physical and statistical transfer
- Has potential to contribute to correcting external imbalances as well as reducing public debt
- Presents a number of **challenges**: land, grids, pricing, legal

Policy directions

- **Building European energy network infrastructure**: critical element; need to review current allocations
- **Reviewing national supporting schemes**: finding the right balance and flexibility in view of changes in costs and fiscal reality
- **New policy instruments**: individual carbon credits for RES investments
- **Financing issues**: EU Structural Funds, Project bonds, leveraging private investment
- **The role of the EIB**