Ibec policy brief

ISSUE 05 · December 2015

Businesses should support the EU's leading role in combating climate change. *But the policy framework hands Ireland an unfair share of the most ambitious target in the world. Our Government needs to fix it.*

Many Ibec members are active in the Green Economy. We believe that the Irish Government should strive to meet its climate targets in a cost-effective manner that delivers economic, health and social benefits for the nation.

At the time of writing, the outcome of UN climate negotiations in Paris hangs in the balance. Five more working days remain for nearly 200 countries to hammer out a long-term agreement capable of preventing dangerous climate change. Ibec's Head of Infrastructure, Neil Walker, is participating in the event as an observer. The case for decisive action to reduce global greenhouse gas (GHG) emissions is beyond doubt. Even so, there is no guarantee that a workable deal will emerge this week. Decarbonising the world's economy at the required rate will be a monumental task for decades to come. Vast sums of money are involved.

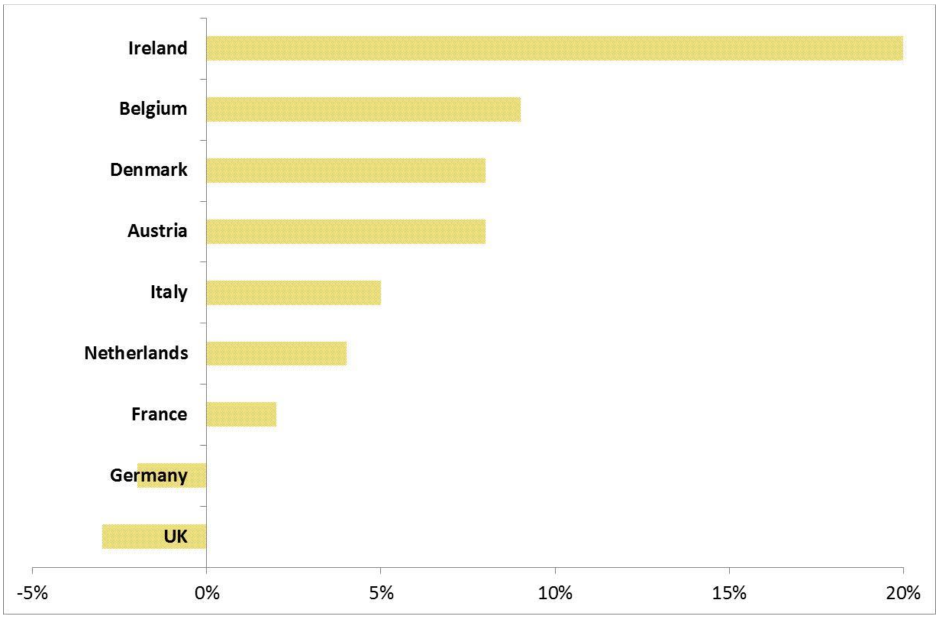
OECD countries are expected to make deep cuts in their own emissions but this won't be enough. Greater efforts also need to take place in developing countries whose governments claim to be unable (or unwilling) to fund the necessary investment without hefty financial inducements. Transfer of new clean energy technologies to the developing world could also be part of the solution, provided that intellectual property rights are respected. Meanwhile, the EU is pressing ahead.

Earlier this year, European leaders collectively committed to reduce their domestic emissions by at least 40% over the period to 2030. This is substantially more ambitious than the most recent pledges of countries like US, Russia, Japan and Australia. A successful Paris conference could result in Europe ratcheting up its self-imposed target even further. Doing so would inevitably mean undertaking costlier projects with longer paybacks. In the absence of comparable efforts by other advanced economies, it will make European industrial electricity prices even more uncompetitive. The European Commission is aware of the risks, and is encouraging member states to put in place measures to protect the most exposed industries. Some are now doing so while others, including Ireland, are not. The lack of a level playing field between member states places Ireland's energy-intensive industries at a potential disadvantage in competing for future investment.

Rising electricity costs are only part of the problem we face. Emissions from heating and transport fuels and agriculture fall in the so-called 'Effort Sharing' sector for which every member state has a separate legally-binding obligation over the eight-year period to 2020. The European Council will shortly be setting new national targets for a further ten year period. In Ibec's view the formula used to set these targets is flawed because it only takes account of the *per capita* GDP of each country. We believe that the formula should also take some account of the profile of national emissions.

Ireland's domestic emissions are forecast to be well above our national target in 2020 despite us hitting our renewable energy targets and energy efficiency targets. Because of the country's unusual emissions profile, it would be completely uneconomic to achieve the 20% reduction target within our borders over the period in question. How do we know? Because the European Commission has published forecasts of how much reduction each member state would undertake by 2020 if the objective was to meet the overall EU target at minimum total cost. In this hypothetical optimum scenario, Ireland was forecast not to reduce its emissions at all by 2020. In other words, our Effort Sharing target is fully 20% beyond what the Commission considers to be cost-effective. No other member state in North West Europe faces a burden anything like this (see chart).

Margin by which 2020 greenhouse reduction targets exceed cost-effective opportunities



The challenge for future governments here in Ireland will be how best to close a rapidly-growing compliance gap after 2020. The European Commission recommends that we co-fund projects in less wealthy EU member states who can easily over-achieve their lenient GHG targets. This makes obvious economic sense and it should not be misconstrued as 'buying our way out of trouble'. That said, it may well be worth supporting some decarbonisation projects in Ireland that are costlier than co-funding similar projects abroad. The government can and should take account of additional societal benefits such as job creation, reduced traffic congestion, improved air quality, better energy security and alleviation of fuel poverty.

It is wrong to view Ireland's partial reliance on co-funding as a symptom of national policy failure. If there is a failure, it is that Europe's 'one size fits all' approach unintentionally penalises Ireland. The problem is that we never had a large industrial base and our climate is suited to beef and dairy farming, for which there is limited decarbonisation potential. There are some in Ireland who advocate scaling back our beef and dairy farming or even shutting parts of it down altogether. Doing so would devastate a vibrant export industry without conferring any benefit on worldwide GHG emissions. Farming and food production would simply shift to less sustainable producers in other regions. We need to get a fairer target for 2030 and we must make well-informed choices about how to achieve it.