Green economy holds out new opportunities for businesses

Analysis by credit insurer Euler Hermes

- **It is possible both to achieve growth and reduce carbon emissions, even during an economic slowdown.**
- **Some sectors, namely construction, transport, chemicals and cement, have major potential for developing the green economy.**
- **Growth of the green economy does not depend solely on regulations and public stimulus which should nonetheless be more constant and more selective.**

Paris, November 15, 2011 – Going counter to the generally accepted idea that economic growth must go hand in hand with increased carbon emissions, Euler Hermes has identified four promising sectors where the green economy offers medium and long-term growth prospects to companies that are prepared to invest in new technology and rethink their mainly costs-based strategies.

Production of green energy is too small to halt the rise in carbon gas emissions

Energy production – still based mainly on fossil fuels (67% of production) – currently accounts for 22% of total carbon emissions and consequently of greenhouse gases. With demand for energy growing steadily under the combined effects of population growth and improving living standards, the situation is distressing: carbon gas emissions are set to double between 2000 and 2030, pushed up in particular by development in emerging economies. Despite growing international awareness and efforts to limit the impact of and reduce greenhouse gas emissions (1992 United Nations Framework Convention on Climate Change and 1997 Kyoto Protocol), Euler Hermes notes that with regard to energy production the solutions are still at an embryonic stage. Renewable energy production is growing slowly and with difficulty, with bio fuels accounting for just 3% of total energy production in 2010, wind 1% and photovoltaic 0.2%, while nuclear energy's share has stabilised at 14%.

Targeting sectors with high carbon gas emissions

To reduce carbon gas emissions, not just in the area of energy production, there is an urgent need to reduce the energy consumed by the production of goods and services, particularly in sectors with high carbon gas emissions. This is the case of **construction and utilisation of buildings**, which are currently responsible for 30% of world carbon gas emissions. "*We foresee a steady rise in carbon gas emissions linked to fast-growing urbanisation*", says Euler Hermes' Chief Economist **Ludovic Subran.** "*Nevertheless, this sector holds out real prospects for the green economy, in the outset when designing construction materials and during building renovation, through better insulation for example. The amounts involved are significant. We estimate the additional economic potential at close to €20 billion a year over the next 20 years. Construction companies could take advantage of an opportunity to diversify and develop their businesses while consumers would benefit from lower energy bills."* In Europe, it currently takes 10 years to amortise the added construction costs of an HEQ[1] building.

There are also attractive prospects in the **transport** sector, which is responsible for around 20% of all carbon gas emissions (18% for road transport and 2% for air transport) and whose margins depend strongly on the cost of energy. New emission-reduction technology does exist, such as hybrid engines in the car industry, but these are still expensive. *"In the long term, both manufacturers and consumers will benefit as the cost of running a car will drop. The potential is all the greater in that the number of cars on the road is expected to more than double by 2030*," says **Yann Lacroix**, head of sector research at Euler Hermes.

Two **industrial** sectors, cement and chemicals, have particularly strong potential for green growth. Together they account for 12% of carbon gas emissions, a level that is decreasing slowly but steadily.

[1] HEQ: High Environmental Quality – ensures conservation of natural resources, reduced air pollution and waste.

Driven by production costs that were becoming unsustainable, **cement** companies have over the past twenty years developed production processes that consume less energy and achieve improved performances. Chemicals producers are also seeking to reduce their carbon footprint (5% of world carbon gas emissions). The European **chemicals** industry has already made substantial efforts and these have paid off.

The importance of targeted incentives

Like Japan, Europe stands out for its strong political will to reduce carbon gas emissions in order to combat climate change and reduce pollution. This said, in the present era of budgetary austerity, governments will undoubtedly reduce the tax incentives in favour of the green economy. These incentives, however, are measures that stimulate growth in the short term (bonuses for 'green' cars, tax deductions for photovoltaic installations, etc.) and, above all, make it sustainable over the long term (investment in R&D and new market potential). Emerging economies, like the industrialised countries, have a strategic interest in investing more in the green economy. However, this would require faster transfer of technology between the different regions of the world, which is a delicate issue, particularly in very competitive markets such as the automobile market.

"There are green growth opportunities for companies providing they invest in their long-term profitability by tightening their margins in order to reduce future production costs and gain market share in promising sectors," adds **Ludovic Subran.** "*Targeted and steady incentives are useful, such as those in favour of 'green' cars or energy efficient buildings. They would strengthen international competitiveness. However they can only provide support if there is already a sector momentum seeking to reduce costs and capture new market segments. Adding a 'green' dimension to the already difficult task of achieving the right balance between stimulating growth and reducing deficits would seem overly complicated. However, in view of the sector opportunities that exist, it might be a good idea for further structuring and enhancing public support for the private sector."*

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