

**From:** [REDACTED]@cisl.cam.ac.uk>  
**Sent:** vendredi 21 mai 2021 10:24  
**To:** VANDENBERGHE Kurt (CAB-VON DER LEYEN)  
**Cc:** [REDACTED] (CAB-VON DER LEYEN); [REDACTED]  
**Subject:** CLG Europe modelling report

Dear Kurt

Great to have the opportunity to exchange views yesterday. I wanted to very quickly follow up from the CLG WG meeting on Wednesday with the details of the modelling report we referred to. I know that [REDACTED] and [REDACTED] are keen to also send a full thank you for the very rich discussion we had.

Regarding the report, I think our main point is that we are keen to support the Commission's view that the transition is cost efficient and fair but we feel that the current figures being used for interest rates and discount rates in the impact assessment will make the transition look more expensive than it is – based on real economic conditions. To note we have shared this with your colleagues the Commission, although our feedback is so far that they are not keen to change the figures.

The report is '[Delivering the climate transition: Exploring the assumed costs of capital in EU energy and economic modelling](#)' today. With analysis conducted by Cambridge Econometrics, the report analyses the assumptions within the EU's economic and energy modelling that is informing the revisions to its climate legislation. Modelling of policy packages required to mobilise investment in low carbon technology is based on assumptions of a blanket 10% interest rate on borrowing and high discount rates.

The report states the 10% interest rate used by the EU in its macroeconomic modelling is 'too high in the current context' and biases the results in favour of a high carbon future. It also obscures the fact the lifetime cost of low-carbon technologies may be lower. Higher discount rates in the energy system modelling mean that stronger policies are required to reach a given reduction target. A lower discount rate assumption could show that a more ambitious emissions reduction could be achieved with the same policy mix.

It also provides recommendations on how the EU could improve its modelling assumptions taking into consideration real world known conditions. Although the EU has world-leading modelling, it is critical to address whether the modelling that forms the backbone of the new ambition is in line with current macroeconomic conditions, including how different technologies are financed, and whether it is taking into account how effective policy can be in de-risking investments.

Very happy to discuss in more detail if this would be helpful,

Kind regards

[REDACTED]

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