

# CLIMATE POLICY IN CRISIS? A PERSPECTIVE FROM THE 2013 BIEE SEMINARS.

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# CLIMATE POLICIES AND ISSUES. “THE PERFECT STORM”.

## *RECURRING THEMES*

- Global character: implies collective action and agreement.
- Irreversibility: cumulative CO<sub>2</sub> defines both the problem and the urgency of action.
- Time lags: measured in decades even for “first round” effects.
- Uncertainty: reinforces controversy over any remedies.
- Economic importance of energy: vested interests and stranded assets in production and consumption of energy.
- Scale: potentially extreme, but hard to compute, either in “damage” or in cost of mitigation.



# THE SCIENCE. SUFFICIENCY OF EVIDENCE.

“... pretty close to universal agreement in the serious science community. In the political community there's a lot of controversy.... An immense challenge.” (Robert Rubin, former US Treasury Secretary, very recently)

So is the problem:

- Human inability to cope with ideas of risk and uncertainty?
- Poor presentation of the science?
- that, in spite of the above quote, we are still in a learning process on several fronts
- Power and influence of vested interests?
- Inertia, and the diversion of attention to other serious issues?



# THE ECONOMIC CALCULUS FOR CLIMATE POLICIES

- Cost benefit analysis has serious shortcomings, both conceptual and technical/ practical.
- If we thought the “cost” of CO<sub>2</sub> were really “only” 1.6 % of GDP, then should we be unduly worried?
- The real debate around the economic case should be based on the nature of any catastrophic risks, plus irreversibility.
- Defining a hypothetical 4° C as “risk of ruin”, plus an insurance or actuarial approach, may give very different answers?
- Keeping options open critically important wrt decision making.
- Is there a need to demonstrate the economics more publicly in these terms?



# PROSPECTS FOR GLOBAL AGREEMENT

- Qualified optimism ...
- ... counters arguments that unilateral actions are unjustified
- Significance of China
- EU ambitions contrast with policy weakness ..
- ... but workable EU policy must be a major objective
- Importance of Paris climate summit



# COSTS AND INVESTMENT ISSUES

- Centrality of power sector implies heavy investment.
- Stranded assets in coal and oil ?
- Mitigation costs *comparatively* modest, ....
- Macro challenge not significant; cf oil price shocks?
- Finance only a problem if investors lack confidence in the policy regime.
- Competitiveness issues matter but exaggerated.



# POLICY INSTRUMENTS AND ISSUES

- Prices, taxes and markets, **or** regulation, central direction and intervention? A false dichotomy?
- Avoiding policy traps and unintended consequences.
- EU has provided some prime examples in combining flawed markets with ill considered interventions.
- Primacy of policy on climate issues to deal with policy conflicts – eg WTO, competition ... ?
- Gas for coal substitution the most obvious short term measure missing under current policies?



# SOME GENERAL COMMENTS

- Fuel poverty is first and foremost a problem of poverty?
- Energy prices likely to rise; otherwise unsustainable financially, and loss of market and economic incentives .....
- Demand side and energy efficiency matter; but supply side still dominates?
- Competitiveness is a current obsession of governments, UK + EU. Energy prices are a minor part of the issue, and climate policies the lesser part of that.
- Governments will inevitably get drawn into decision making.



# CONCLUSIONS AND PRIORITIES

- How to impart a sense of urgency?
  - Better communication of the science and economic case?
  - Evidence of climate disturbance?
  - Adaptation an insecure alternative and unavoidable second best?
- A clear road map to impart consistency as a secure base for investment.
- Better definition of respective roles and limitations of regulation and markets.

