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Does the climate and energy policy need a ‘shock therapy’?

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Does the climate and energy policy need a ‘shock therapy’?

Overview

- Why do we need ‘shocks’?
- An interpretation from political theory
- Lessons learnt from history
- The evidence today (or, an interpretation from ‘reality’)
- An architecture for climate and energy policy for the future

Does the climate and energy policy need a 'shock therapy'?

Why do we need shock(s)?

- A combination of 'shock(s)' – credit, climate, oil, food, biodiversity etc. – combines into a 'mega-shock'

- 'Green New Deal'
  - EC, A European Recovery Plan, COM(2008) 800 final
  - B. Obama & J. Biden, New Energy for America, 03/08/2008
  - B. Ki-Moon, Opening statement to the high-level segment of UN climate change conference, Poznan, Dec. 2008

- From 'capitalism 1.0' over 'capitalism 2.0' to 'capitalism 3.0'?
  - What exactly qualifies as a 'shock'?
  - How do various shocks interact?
  - Does this interaction automatically lead to the 'right' policy response?
  - Do we need shock(s) to get our climate and energy policy on the right track?

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An interpretation from political theory

» Issue attention cycles (A. Downs, 1972)

1. Pre-problem stage
2. Alarmed discovery + euphoric enthusiasm
3. Realising the cost of significant progress
4. Gradual decline of intense public interest
5. Post-problem stage

» J. Derrida's analysis

1. Shock(s) are 'unprecedented'
2. Marking a date in history
3. Creating a 'universal truth for all'
4. Repetition in the future in a 'much worse' way
5. Shock(s) are warded off by 'mantra's'

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Lessons learnt from history

- Tight connection between use of fossil fuels and industrial 'way of life'
- Threatened by oil crises (1973, 1979)
  - **1973**: limited availability of energy efficiency; energy planners & policy makers seek refuge in symbolic measures (car-free sundays), diversification of energy supply and more 'secure' electricity supply options (nuclear, coal)
  - **1979**: fourfold increase in oil price; combination of lower economic activity and penetration of energy efficient solutions leads to lower energy demand (cf. fig) and overcapacity
  - **> 1985:** energy prices lower again; governments no longer preoccupied with energy policy, efficiency gains are not lost but 'drowned' in more demand for energy services (luxury cars, travel, etc.)

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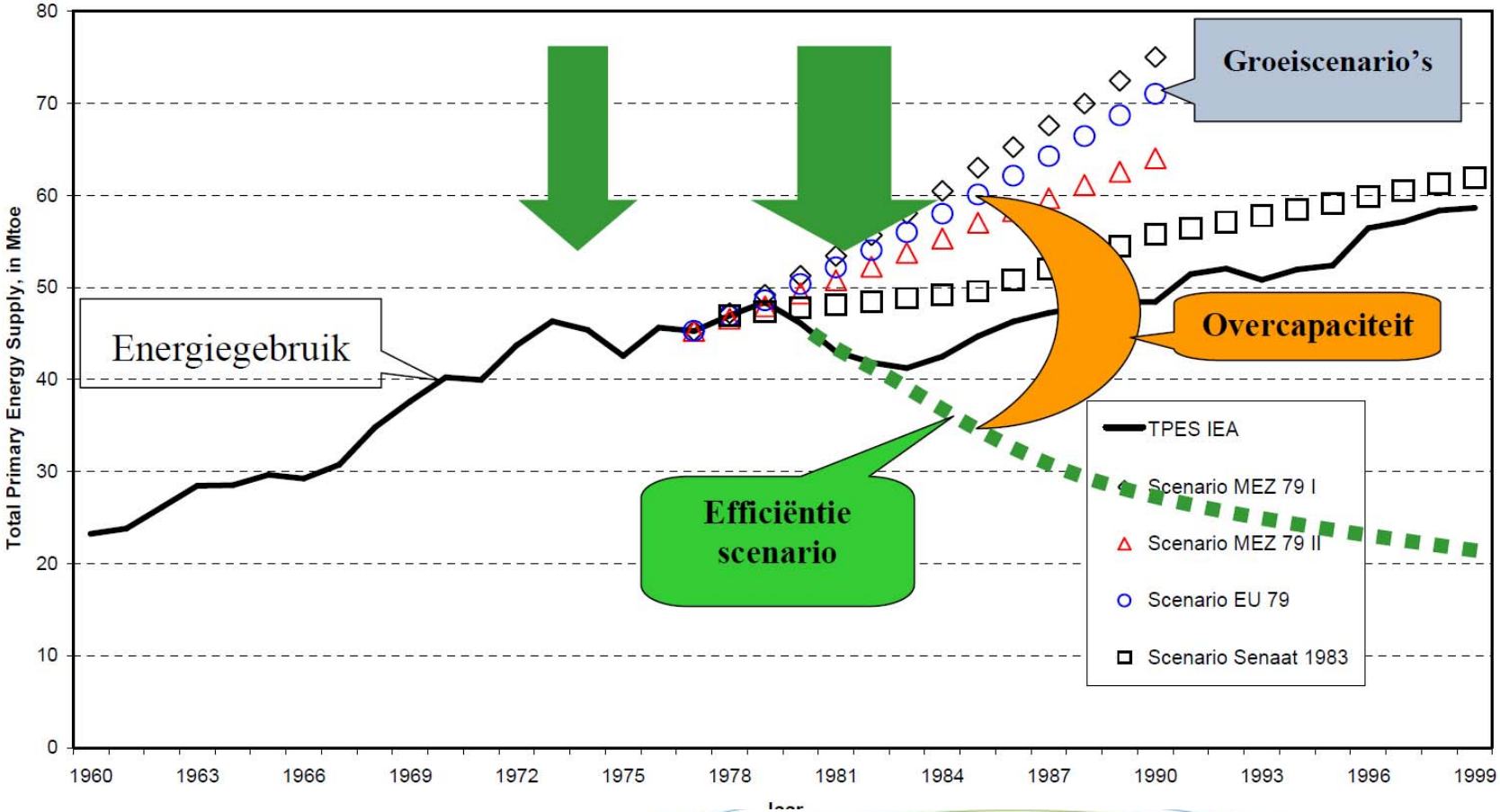
Lessons learnt from history



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Lessons learnt from history

- Oil (price) shocks mostly due to political decisions but based upon the tension of increasing demand for energy commodities and retarded extension of energy commodity supply capacities;
- Immediate government response in consumer countries acts through anti-inflationary measures and monetary policy;
- Link between high energy prices and economic downturn is installed in the heads of policy makers;
- Energy policy targets supply options with 'spectacular' announcements (big investments in supply infrastructure, coal and/or nuclear power plants, etc.);
- End-users reduce energy consumption through improved energy efficiency when they expect price increases to persist in the future. Energy suppliers are attracted by profit opportunities promised by high prices and extend the supply infrastructures. Because both reactions occur simultaneously and because they contravene each other prices and bills fall;
- A deliberate policy of energy efficiency has to work on the transformation of the energy bills, which requires an energy tax strategy, because commodity energy prices fluctuate in the short term and can be depressed for longer periods (because there exists a built- in tendency towards infrastructural over-capacities in the commercial energy supply industry).

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Evidence today

- Immediate effect of credit crisis:
  - short-term negative effect on economic output and private spending; potential long-term effect on economic growth;
  - stronger negative impact on levels of investment;
  - decreasing resource & energy prices on international markets
- Effects on climate and energy policy ('baseline'):
  - decreasing GHG emission due to lower economic growth;
  - no effect on industries covered by ETS (lower permit prices);
  - less investment in energy saving;
  - investment in renewables (?): resource prices ↓ (lower investment costs), oil prices ↑ (lower competitive advantage over fossil-fueled power plants)
- Additional climate and energy policy measures?
  - policy measures must be timely, targeted and temporary;
  - who decides on investment: market or government?
  - limited set of climate and energy policy measures qualify: e.g. short-term impulse for energy saving in built environment

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An architecture for long-term climate & energy policy

- Effects of credit crisis on attainment of EU 20/20/20 goals uncertain
- Anyway, attainment of LT climate goals needs specific climate policy
  - From a sources/sinks perspective, atmospheric sinks constitute the tight constraints on oil use, not the scarcity in resources;
  - Carbon stocks in fossil fuel resources are large enough to multiply present carbon dioxide concentrations in the atmosphere (IPCC);
  - Peak-oil belief stimulates a passive attitude in climate policies when suggesting emissions reduction may piggyback on the dwindling oil stocks;
  - Avoiding further increase of GHG concentration requires limited use of fossil fuels, but how?;
  - When oil companies can charge the higher prices they can afford bringing new oil to the market for many decades, maybe centuries, extending the carbon lock-in by fossil fuel technologies;
  - Higher end-use prices therefore must result from tax reforms, charging for the public good atmosphere and recycling the revenues for efficiency and renewable energy options.

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Conclusions

- Sustainable development on the agenda since Brundtland (1987) – 'mantra effect' is undeniable;
- Effects of 'credit shock' on climate uncertain; 'peak oil' is a 'receding ghost';
- Only relevant 'shock' driver for climate and energy policy is the 'climate shock';
- Only 'remedy' is the design of rational, long-term transition paths towards low-carbon economies

For propositions on a climate policy master plan:

www.avielverbruggen.be

"Beyond Kyoto, plan B: A climate policy master plan based on transparent metrics" –

to appear in *Ecological Economics*