

***“What are the Economic and Political Costs of  
Tougher Climate Change Policies?”***

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Ladies and Gentlemen,

This panel has been asked to consider four key questions:

- How can government revolutionise our uses of energy without putting the brakes on economic development?
- What are the consequences of soaring oil prices?
- How can major climate change policy advances avoid upsetting the global economy?
- And, more particularly, what are the economic and political consequences of tougher climate change policies?

I want to start with oil prices and then deal with the credit crunch. I'll finish with economic development and the consequences of climate change policies.

### **Cheap Oil**

Let me start with a blog I wrote recently in which I asked who benefited from cheap oil.

I answered by saying that thirty years ago the answer might have been simple – everyone.

Today, the answer is still simple – no one.

I gave six reasons for that belief.

Cheap oil encourages people to use more of it. If people in the US drove cars of the same size and efficiency as Europe the US could meet the same commitments as we are doing under Kyoto.

If their oil taxation regime was the same as ours, they would long ago have moved to our car size.

Now think of this. As a direct consequence of that switch the revenues which have flowed out of America to the Saudis would, instead, have flowed into the US IRS.

And, furthermore, there would have been no need to borrow an equivalent amount of money each year from the Chinese in order to pay the Saudis.

The more oil we use, the more we pollute the atmosphere.

Cheap oil discourages investments in alternatives.

I heard Rick Wagener, Chairman/CEO of GM ask the question, "*Why should GM celebrate a fall in oil prices when it only makes our jobs of building a hybrid more difficult?*"

Cheap oil fools us into believing it is a semi-finite resource.

It is not. And we are currently using oil at six times the rate of discovery of new usable reserves. It is a finite resource.

In the Shell most likely scenario there will be no more fossil fired plant built after 2040. Cheap oil accelerates this run down scenario. . This is the peak oil phenomenon first advanced by my friend Colin Campbell.

Cheap oil postpones tough decisions about energy conservation. It's a cop out for the politicians.

Cheap oil leads to bad foreign policy, like military incursions in the Gulf.

Cheap oil has pushed us Europeans into an unhealthy dependency on the Middle East. Jean Monnet identified this threat forty years ago, at a time when we were only 25% dependent on imported oil.

That is why he encouraged the creation of Euratom.

Cheap oil prevents us from planning long term, not just in terms of alternative energy but in terms of sustainability as a whole.

For all these reasons, Ladies and Gentlemen, we should not lament the demise of cheap oil. We should welcome it.

We already know we can survive an oil price of \$125/barrel without damaging our economies. On the contrary, oil at \$100 or more has stimulated technological innovation.

It has forced us to think, to be creative, and to be ambitious.

So the more oil prices soar, the better for everyone. That's my answer to the first question.

## **Credit Crunch**

The second one was, how can we avoid upsetting the global economy with advances in climate change policy?

The first thing to say is that the world economy is being upset at the moment – but not by climate change policies but by something quite different.

The polite way of describing what has happened is irrational human behaviour. The impolite, and maybe more truthful, way is to call it uncontrolled greed.

Even Alan Greenspan has learned that people can behave completely irrationally when left unregulated or unsupervised, and pull everyone and everything down as a result of their greed.

We are now headed into the biggest economic recession since the Great Depression. One contributory cause is financial derivatives, which Warren Buffet described six years ago as “weapons of mass destruction”.

How right he was.

Sub prime lending in the general context of lack of regulation, and a stealthy revolution which saw returns to capital grow exponentially at the expense of returns to labour, is what is causing the current upheavals in our economies.

In President Reagan’s time the top 1% in the USA owned 8% of the wealth, whereas today they now own 20%.

## **An Energy Revolution**

This leads me to the third question about how can we revolutionize our use of energy without causing economic damage?

The challenge now is not to avoid economic damage- that’s been done- but to repair it.

One way out of an economic recession is investment in infrastructure.

There’s nothing novel in that proposition. But what I propose is investment in the creation of the post-oil economy. Let’s make a virtue out of necessity by eliminating our dependence on oil - and gas and coal as well.

Let me offer one example of the sort of investment I have in mind, and on which I’ve been working for over six years now.

I have to acknowledge great support from Commissioner Piebalgs for this idea. It concerns the harnessing of the wind around the coasts of Europe.

Unlike oil, wind is an infinite resource, and we Europeans have the best wind resources in the world.

We may be running out of space for developing onshore wind but the wind blowing offshore in our seas is an almost limitless resource.

It is also a European resource, which we should capture together as part of the relaunch of Europe. In defining a new energy strategy for Europe this is the way to go.

My plan is to create an Offshore supergrid stretching from the Baltic, through the North Sea, into the Atlantic and around into the Mediterranean.

The wind is always blowing somewhere along this line. It can be captured by a whole series of wind power stations 500 MW in size and all interconnected by the new HVDC technology created by ABB.

The supergrid not only connects these offshore power stations, as I call them, it also connects national markets. In effect, the supergrid will create a single market for electricity.

It will transport power from one jurisdiction to another. It will facilitate trade in electricity across time zones, and so smooth out peaks in demand and variability in wind energy supply.

It will give us Europeans energy independence, as Monnet wanted, and simultaneously give us cheaper electricity.

Wind is a free fuel, Ladies and Gentlemen.

The marginal cost is zero. There's a revolutionary thought.

I have proposed we launch the supergrid by creating a Supernode, linking Britain, Germany and Norway.

It will consist of some 500 MW wind fired power stations in both German and UK waters. These will be linked with Norway via 700km of HVDC cables and transformation stations

The wind turbines would be manufactured in Europe.

If the total installed capacity was 2000 MW, that is, four 500 MW modular power stations, the building cost would be approximately €6billion.

The cost of building the first leg of the grid could be as high as €2billion. These figures give you an idea of the scale of the investment to be undertaken.

The supergrid's capability could be expanded to include hundreds of thousands of megawatts. In principle, it is possible to create energy self sufficiency in Europe from sustainable sources.

If this were to be done, and let's say 600,000 MW were built in the seas around Europe, then the cost of such a venture would be some €1.8trillion

And remember, all the technology involved is leading-edge, and it is all European.

Europe is going to have to spend this type of money anyway, as it replaces the current kit of generating stations. Why don't we plan on doing it right? Instead of putting ourselves in hock to Russia, and the Middle East, why don't we learn to run a sustainable economy, and be the first on the globe to do it?

Far from upsetting the global economy, such investment will be a component in getting growth going again. And it would save the planet's biosphere, too.

We need new policies and new institutions to get there.

We need an offshore TSO, for example, ideally answerable to the Commission. Plus a Common Grid Code, devised by the new TSO, acting in concert with the European Transmission System Operators, with whom it would rank parri passu

I further believe that the building of offshore grids should be incentivized. Whereas a regulated return of 7% is appropriate on land, giving a 10% return to the builders of offshore grids would have several beneficial effects including

- Getting entrepreneurs involved in the grid building programme
- Bringing much needed innovation to the sector
- Created the commercial incentive within the current service providers to emphasise the building of offshore grids.

A supergrid based on wind in the North of Europe can be matched by a solar supergrid based in the south.

When we interconnect them both will have a perfect fit between free, clean, renewable energy from the wind and the sun.

This vast European supergrid will revolutionise our use of energy. Rather than putting the brakes on economic development it will revive economic growth - and lead Europe into the next industrial revolution, as the Commission rightly calls the post- oil economy.

## **Economic and Political Consequences**

Let me finish by answering the question about the economic and political consequences of a more robust climate change policies.

The political consequences are straightforward:

- ending our reliance on Russian and Algerian gas;
- freeing ourselves from dependence on Gulf oil;
- insulating Europe from political instability in Russia, the Gulf States and the Middle East, North Africa and the Caucasus;
- insuring Europe against regional or global conflicts and from their impact on energy prices;

The economic consequences are just as dramatic:

- freedom from the sort of price variability we have seen this past year for oil and gas.

As a commentary on price variability let me say there is nothing more injurious to the health of every business on the planet than the removal of that firm's ability to plan.

That is what a wildly fluctuating primary energy price does.

Ask any airline or small business, ask any manufacturer. Oil has gone from \$65 to \$147/barrell and back down again.

To me that is the most corrosive aspect of relying on oil and gas and coal for our primary energy.

That is why I regard carbon capture and storage as irrelevant. It reinforces our dependence on fossils and deflects us from the main theme.

But let me revert to the beneficial economic consequences of stronger climate change policies.

The economic consequences also include:

- future proofing against the unavoidable and incessant increase in the price of oil, gas and coal – which are all inter-linked;
- reductions in the domestic price of electricity as the penetration of renewables increases; and
- consequential improvements in Europe's underlying competitiveness, especially in energy intensive industries.

All these benefits comply with the energy policy objectives we Europeans have already set ourselves, under the leadership of Commissioner Piebalgs.

These benefits are there to be realized if we Europeans have the courage, vision and entrepreneurship that has made this continent a global leader in renewable business and the economics of sustainability.

## **Conclusion**

We in the Wind Energy Association are playing our part in providing leadership. We have the vision. We have the courage to push back the frontiers.

Our industry is among the most entrepreneurial in developing resources and creating new technologies.

We are honoured to join with other Friends of Europe in defining the new Energy Policy that Europe so badly needs.

## **Post Script**

But before I finish I would like to say a few words about the failure of the Lisbon Treaty in the Irish referendum.

It failed for two reasons. Firstly, there was a very successful "NO" campaign, funded by pro NATO forces in the US.

Secondly, there was a complete absence of vision by the political establishment in Ireland.

They never explained how the treaty would, for the first time since the Coal and Steel Treaty, allow all 27 nations in Europe to act in concert to solve the two major issues facing the planet -global warming and security of energy supply.

The bible puts it right when it says that “without a vision the people perish”.

That warning applies to energy policy as well, Ladies and Gentlemen.

Let’s match vision with courage and the right policy choices will be made.

I thank the Friends of Europe for the opportunity to put these thoughts before you.