The case for a European low-carbon economy

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In order to protect its future prosperity from the effects of climate change, Europe must move away from its current high-carbon path, to one built on sustainable growth and clean sources of energy. **Lord Nicholas Stern** *makes the case for European governments to lay out a clear vision for a low-carbon economy. He argues for measures that include decarbonising the EU's power sector by 2030, a true European 'super-grid', and the introduction of strong carbon prices across Europe that take into account greenhouse gas pollution. Until the economic crisis, the EU was a great example to the world of what cooperation can achieve. By promoting a sound vision for a low-carbon economy, it could be again.*

Europe has a golden opportunity to re-ignite growth by investing in the transition to a low-carbon economy. With interest rates at low levels, relatively high unemployment and liquidity in the private sector, governments can unleash economic activity through sound and credible policies that encourage investment in its energy infrastructure.

Over the next four decades, Europe, like all parts of the world, must, if future prosperity is to be protected from the threats of a hostile physical environment, turn off a high-carbon economic path that is heavily dependent on oil, coal and gas. It must instead create a new sustainable growth story built on clean sources of energy.

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The volatility in the price of fossil fuels that have to be imported from outside Europe have provided serious obstacles to growth, creating uncertainty and added costs for households, governments and businesses. And a medium-term strategy based on energy with high-carbon emissions cannot be a plausible assumption for European firms and households given the risks involved and the trajectory, albeit slow, of national and international policy. Low-carbon growth is the only credible medium-term growth strategy. And a time of depressed economies is exactly the time to invest in the growth story of the future.

But the private sector will invest only if it has confidence in the stability and consistency of public policy. Dither and delay by governments create policy risk that deters investment. Now is the time for European governments to lay out a clear vision for a low-carbon economy, with clear policies to realise it.

They should start by setting a goal of decarbonising the European power sector by the 2030s. We already have most of the technologies to achieve this. Fossil fuels can still play a role if there is rapid development and deployment of carbon capture and storage and gas, in place of coal, may be a useful transition strategy. Europe can make itself more energy-secure by drawing on a much more diverse set of power sources. A decarbonised power sector in Europe would open up the possibility of accelerating the expansion of low-carbon transport, with cars and trains powered by clean electricity.

And all European countries can enjoy the benefits of, say, solar power generated in southern Europe or wind energy from the North Sea, if there are better connections between national power grids. A truly European super-grid would allow a much more efficient system of energy generation, transmission and use. It could, for instance, provide a more secure source of power for those countries worried about the supply of gas from outside Europe and enhance both the management of intermittency and the promotion of energy efficiency.

All this is possible if European governments use public policy to tackle the multiple market failures that hold back the development of low-carbon technologies and promote private sector investment. It is that investment which will be the central driver of growth and change.

The European Union Emissions Trading System is helping to create a price on carbon but has been weakened by policy indecisiveness associated in part with the recession and flawed economic analysis of growth opportunities. All countries should introduce policies that create a strong carbon price across their economies to ensure that the price of fossil fuels properly takes into account the greenhouse gas pollution that they create.

But change on the scale required will not come from a carbon price alone. Other measures are also needed to overcome the market failures that, for instance, limit access to networks, or hold back research and development, or deter long-term investment finance. To achieve this will require high quality analysis and skilful policy-making. It will also require political will.

There was a time when the European Union was recognised across the world as an example of what could be achieved through greater co-operation and collective leadership. However, the economic crisis appears to have robbed the European Union of its confidence and ability to deal with problems. It once was a leader on international climate policy, but that risks being lost to division and muddle, while others, such as China, are now showing the way forward. With President Obama's strong speech at the end of June and action in its cities and states, the USA is also starting to move.

European leaders must recognise that they can chart a path out of the current malaise by acting strongly to boost sustainable growth. The low-carbon energy and industrial revolution offers real prospects for the creativity and entrepreneurship that can drive growth, energy security and a cleaner environment. The history of past waves of technological change points to two or three decades of strong investment, innovation and growth.

As the world prepares to agree a new international climate change treaty in Paris in 2015, Europe can once again seize the initiative and by embracing the transition to low-carbon growth, can both set an example to its partners and competitors among both rich and developing countries and capture the low-carbon markets of the future. And it will usher in a new era of economic prosperity for the people of Europe while exercising the environmental responsibility necessary to offer future generations a real opportunity for a brighter, more dynamic, cleaner and more attractive future.

This article was first published in French by 'Les Echos'.

Readers may also be interested in the 2013 Dahrendorf Symposium: Focus on Climate Change. More information about the Symposium can be found here.

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