Why is the Green Economy so promising, and yet not happening?

The EU: Can it take the next step? And can it take others with it?

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Introduction

- It is clearly too simplistic to say that the Green Economy is not yet happening
  - e.g. look at the cleanliness of air and the environment now seen in many developing countries
- Must distinguish between global and local problems
- But progress often too slow…
- …gains unable to keep up with growth
- Concrete example: EU CC Policy

Overview

- EU has committed to 20:20:20 by 2020
  - Represents a significant challenge
- Going towards 2050 targets more challenging, e.g.
  - Need to significantly reduce demand for carbon-intensive products
  - Breaking the link to oil for transport
  - ➢ Looming electricity capacity, generation gap
- World needs the EU to show leadership

Climate Change is an Investment Challenge

- There is no shortage of investment capital
  - Challenge is rather to direct its flow

IISD Green Economy priorities

1. Subsidy Reform
2. Sustainable Public Procurement
3. Environmentally-Related Taxation
4. Making Trade Serve Sustainable Development
5. Favouring Green over Brown

➢ Government Vision & Transitional Arrangements

Can't we just extend the EU ETS?

- Difficult to imagine scope increasing far beyond 50% of EU GHG emissions
- Even in carbon-intensive sectors, ETS may not sufficiently incentivise change on its own
- Needs to be combined with other measures
  - Integrated with social and industrial policy

How should positive support be given?

- *Example*: use of renewables feed-in tariffs
- Renewables are not an end in themselves
  - Most cost-effective way to deliver abatement, jobs, etc?
- Resentment from some countries who cannot afford to set up feed-in tariff schemes themselves
  - Classic "infant industry" argument…
  - …in a potentially huge market
- *But*: no positive support implies no winners or deep cuts
- Correct market distortions first - big financial savings

Can we ignore links to Trade?

- Liberalising Environmental Goods & Services (EGS) through tariff reduction - slim pickings only
  - "List of 153" implementation: 0.1-0.9% world GHG reductions
- Subsidy reform vital
  - EU can give strong message on fossil fuels, other EHS
- Intellectual Property issue poisons the debate
- Competitiveness & Leakage concerns must be dealt with by governments in the near future

Will Competitiveness and Leakage Concerns block progress?

- Very little empirical evidence
  - Wide range of model outcomes
- Growing understanding that remedies are imperfect
  - Free allowances a cash transfer – to be used for what?
  - Border measures transfer costs, (some) gains are offset
- Protectionism or Prerogative?
  - Obvious links to the industrial policy debate
  - Waxman-Markey Bill has led to strong protests
- Great example of difficulty of implementing change

Could EU (partially) offshore the problem, while also transferring finance?

- Nationally Appropriate Mitigation Actions
- Form remains undecided post-Copenhagen
  - Could cover a limited set of actions with full external support…
  - …or a wide range of policies and measures dealing with subsidy reform, building standards, etc.
- Could deliver large numbers of credits ("offsets")
  - Developed country markets would need to show some generosity in buying them in large quantities

Political Economy Considerations Critical

- Stumbling block often political economy
  - poor communication with population
  - failure to get 'losers' of transition on-side
  - failure to address environmental and social concerns in important political terms: growth, jobs and well-being
- Need to speak to leaders in their language
  - Stimulating investment
  - Green growth is a strategic direction for competitiveness
  - Creates jobs - ILO: '*Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World*'

Final Thoughts - Taking the Next Step

- Markets for green investment will continue to be driven by regulation for foreseeable future
  - Government challenge: trade-off cost vs. certainty
- Policy must reward SD, punish others
  - With political accountability beyond short-term
- Requires major redistributions across economy
  - Nationally and internationally
    - ➢ Political economy challenges (structural adjustment)
    - ➢ International agreements helpful, e.g. BCAs, WTO re-focus
- If the EU doesn't show leadership, who will?

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Thank you for your attention

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