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Climate Change Policy after the Financial Crisis:

The latest excuse for a new round of state aid?

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The financial crisis has called into question the basic assumptions on the future course of many policies. This is no different for climate change. Increasingly people ask how the financial crisis will impact future climate change policy. While intuitively many assume that a recession will reduce the ambition of EU and other countries to press ahead with climate change policies, the opposite may well be the case.

Climate change has always meant financial outlays, big outlays to be precise.[1] Until the recent financial meltdown, the mantra has been that this money will need to come from private investors and carbon markets such as the EU Emissions Trading Scheme (ETS), but politicians very rapidly have discovered climate change as the way to "spend themselves" out of recession. We should expect climate change to progressively become the area to which government spending will be directed. Former US President Bill Clinton has gone so far as to proclaim that creating the low-carbon, clean-energy economy presents the greatest economic opportunity for the United States since it mobilised for World War II. After the US has committed to provide subsidies to the car industry to help them to develop green cars, EU member states under the leadership of Nicolas Sarkozy and Angela Merkel want to do the same.

The German government wants to offer tax incentives to encourage consumption, such as the purchase of new, cleaner cars or the installation of energy-efficient heating systems for homes to support domestic consumption. Other governments have similar ideas. The list of new spending areas is long: green cars, green appliances, better insulation, more efficient lighting equipment, better public transport and so-called 'clean energy', including biofuels, renewables and nuclear. Hand-outs to consumers are also a move to make the highly unpopular rescue package for the banks more palatable to voters. And what is more, hand-outs will also make climate change policy acceptable. Soon DG Competition may have its hands full fending off subsidy requests from member states. It is only a question of time as to when the first member states will openly challenge the Stability and Growth Pact by demanding that climate change expenditure should be exempted from its restrictions.

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[1] See the most recent ECP (European Climate Platform) Reports (Nos 6, 7 and 8): Financial Impacts of Climate Change: What scale of resources is required?, Arno Behrens, October 2008; Securing Additional Finance for Mitigation or Adaptation: Where should it come from and how should it be delivered?, Noriko Fujiwara, Anton Georgiev and Christian Egenhofer, October 2008; and Financing Adaptation to Climate Change: Issues and Priorities, Richard J.T. Klein and Åsa Persson, October 2008 (available for free downloading on the CEPS online bookshop at http://shope.ceps.eu).

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But where will all the money come from? Ironically, climate change may also become a primary source of revenue to solve the EU's and other governments' fiscal problems. By instituting GHG emissions rights, the EU ETS and similar schemes elsewhere, governments have created significant value. If emissions rights are auctioned – as is foreseen under the EU ETS – governments will be able to collect at least €30 billion annually from 2012 onwards.[2] This figure is likely to rise each year until 2020 and could reach up to €90 billion annually, by which time it is expected that all major OECD countries will be operating such schemes. Moreover, a growing number of individual states in the United States are going down this route. Studies estimate that the auctioning revenues from cap-and-trade bills currently under discussion within the US Congress amount to between 7 and 15% of total US states' budgets. Thus, even if they may be for the wrong reasons, such calculations in themselves may be an important incentive for pressing on with climate change.

[2] See *Financial Impacts of Climate Change: Implications for the EU Budget*, Arno Behrens, Jorge Núñez Ferrer and Christian Egenhofer, CEPS Working Document No. 300, August 2008.