

Energy Environment

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If we want to create a more secure and sustainable world, we need some pretty fundamental rethinking of traditional policy divisions. So is it happening?

Caspar Henderson scans Whitehall for signs of some strategic joinery, and comes out sceptical. But, over the page, Foreign Office Minister is more optimistic

Energy - where we get it and how much pollution it causes - lies at a crossroads of many concerns about security and the environment. Wars are fought over oil, and climate change threatens the security of millions. How, then, to deliver durable and affordable supplies of energy to British industry and consumers, while reducing the risks of conflict over resources and the impacts of climate change?

This is a bigger challenge than, say, making the trains run on time or organising a system to recycle refrigerators. Some call it the ultimate test of joined-up government, requiring reform in everything from transport to toasters. Making links between energy solutions and security strategy has been a popular pastime since at least the late 1980s. In the green hats, environmentalists call for a new 'Manhattan Project' (bringing the same scale of commitment and urgency to building a renewable economy as was applied to making the atomic bomb in the early 1940s). In the tin hats, military analysts point to the dangers of relying on energy supplies from far flung sources, and acknowledge in forward strategy documents that climate change may lead to serious destabilisation of nations and whole regions.

So who's pulling these together into a coherent policy framework?

Britain, with roughly 1% of the world's population, consuming 2% of its energy and producing 3% of GDP, is a small to middle-sized player, which nevertheless likes to see itself at the forefront of finding solutions. We have a climate strategy intended to deliver a 20 cut in greenhouse gas emissions on

1990 levels by 2010 - one of the most ambitious targets of any industrialised country. We have a cautious, yet solid and growing commitment to renewables. The Foreign Office has a team dedicated to finding solutions to energy challenges with both an environment and a security aspect.

Looks like a pretty coherent agenda. So are we on target for a more peaceful, renewable world?

After 11 September, almost nobody thinks that. Speaking to military analysts a few weeks after the event, Peter Hain painted a telling image: *"A significant proportion of the funding for the Taliban came from consumer choices made in our midst, the sale of heroin in our backyard funded Bin Laden."*

But there is another consumer choice made by millions every day that links us even more strongly than drugs to the Middle East and Central Asia: the oil habit. For all our carping about American gas-guzzlers, Europeans are actually more dependent on this supply than the New World. Britain has its own, rapidly dwindling stash, and is teetering on the edge of becoming a hungry importer. In the two months after 11 September, British purchases of large, fuel-hungry vehicles grew by a massive 15% - a growth rate exceeded only in the US itself.

Oil, and to a lesser extent gas, is at the heart of the matter, because the hyper mobile economies of the West are ineluctably dependent on these fuels, and are set to remain so. Even the most optimistic forecasts for technological innovation don't see a phase out of oil within 30 years. And the serious money in capital

investment - from Airbus's new generation of super-planes designed to cater to the anticipated annual 5% growth in demand for long haul flights, to the next generation of motor cars (including those that will run on fuel cells) - is predicated on a virtually endless supply of affordable petroleum.

What to do? Price rises may be an option, but they're hardly seen as politically feasible. In Britain, the government notoriously ran for cover when one of its most progressive environmental taxes, fuel price escalator, started to hurt. Even in Germany, with its comparatively excellent public transport alternatives, environmentalists got clobbered at the polls when they tried to raise fuel prices to a degree that would affect demand.

In the light of this, some suggest that only a price rise somehow imposed from outside could do the trick. Islamic fundamentalist activists in the Gulf have, course, been touting this for years. Osama Bin Laden, no less, proposed \$144 as a 'fair price - at which rate the hydrogen economy so beloved of environmentalists would become the cheap, and much more cheerful, alternative. Such a scenario is, of course, unlikely - to say the least. Even if the Saudi oil fields fell under the control of a fundamentalist regime, OPEC is notoriously fickle, and the global market would doubtless deliver a price well within the realms of affordability, whoever held the reins in Riyadh. There is also the small matter of a hefty western military presence in the region.

Britain's self-appointed role as leading peacekeeper in Afghanistan may indeed be a noble thing. But it is not the whole story: companies such as BP have major interests in this area and the French have not positioned a nuclear-powered battle group in the Arabian Sea for humanitarian purposes. Whatever our differences with the US over, say, the Kyoto Protocol, or the wisdom of gung-ho interventionism, British defence policy still looks to be fused at the hip to that of America.

OK, you might say, the situation is far from ideal, but we have to start from where we are. The answer is clear strategic goals for the longer term, and incremental steps in the meanwhile.

The government's review of energy supply, which aims to set a framework for the next 50 years, looks like a good place to start. This recommends 20% of electricity should come from renewables by 2020 - a less ambitious target than most of the EU, but a big change for Britain. Absent from the review, however, is transport - the fastest growing source of greenhouse gas emissions. National programmes to increase fuel efficiency in the vehicle fleet will at best marginally reduce the rate of growth in the consumption of fuel that will increasingly be imported from further away. The 10-year transport plan is predicted to knock one minute off journey times, but will not reduce petrol consumption. The energy review also skates around some knotty concerns to do with nuclear power. The House of Commons Defence Committee hears that a terrorist attack on Sellafield could take out a large part of northern England. The government tells us that the, er . . . Territorial Army will help prevent such an eventuality, keeps fighters on standby at northern airfields to shoot down any rogue airliners - and clears the decks for a large programme of nuclear new build.

Meanwhile, the Ministry of Defence gives a good impression of a left hand not knowing what the right is up to. Its performance in countryside management on its ranges wins plaudits from wildlife groups; its willingness to engage in peacekeeping and conflict prevention is a welcome contrast to some of the more bellicose rhetoric from its Ministers. But where is the link for example, the visionary concern expressed in its strategy documents about insecurity and climate change, and its opposition to the construction of offshore wind farms?

Nor is our record overseas anything to shout about. Since the Rio Summit in 1992, the Export Credit Guarantee Department has supported £15 billion or more in fossil fuel and nuclear projects in developing countries, effectively accounting for additional greenhouse gas emissions around one third the size of the UK's own. Over the same period, it has supported virtually no renewable energy schemes. Only in the last year has the ECGD, together with other leading export credit agencies, begun to take steps to monitor emissions from the projects it supports. The Department for

International Development is estimated to spend less than 0.7% of its assistance on renewables. But there are 2 billion people living off grid whose lives could be greatly improved by the deployment of technologies such as solar panels to schools and hospitals. So the recent signs of a priority shift in Foreign Office policy in this direction is both welcome, and overdue.

Indeed, it is perhaps ironic that some of the most promising signs of joined-up thinking in government come from the diplomatic, rather than domestic, quarters of Whitehall.

But if government efforts to turn round the super tanker are only beginning, could investors, chastened by deteriorating security and hardened by market discipline, stimulate more rapid change? Tough commercial interests have fostered fast growth in renewables. Generation from wind power, the premier renewable, jumped a stunning 58% worldwide last year. So has the changed atmosphere of the last six months made any difference?

"No," says James Stetler, head of renewables at Dresdner Kleinwort Wasserstiens London office. *"September 11th and security issues more generally have had no discernible effect."* Such matters are beyond the horizon of most investors, he thinks. And in any case, for all their fast growth rate, almost no one believes renewables are near to a scale where they could make a meaningful difference to the energy demands of industrialised economies as a whole. (Stetler suggests wind power growth will slip to a 'mere' 17% this year.)

So what would help? *"A production tax credit for renewables - especially in the US, the market with far the biggest potential,"* says Stetler, placing the ball firmly back in a government court.

Nick Robins, head of research at the Socially Responsible Investment team at Henderson Global Investors, points to other problems. *"Most fund management operates on a very short term view, which simply does not take account of this sort of thing. Tracking and index funds make it hard to pick out renewable energy even if you want to, and there are very few 'pure plays' in renewables that are not tied up in energy*

companies with other operations". Add to that "the performance of renewable energy stocks over the last year has been abysmal - worse even than other speciality stocks like high technology. It's been a sobering year."

Like Stetler, Robins says a clear lead from government is crucial. *"Ultimately, it is only government that can change market conditions - integrating long-term security questions into the City's time horizons. The challenge for socially responsible investors is to move beyond micro-questions of which is the best renewable stock, and get our voice heard there."*

And there are indeed rumblings that some major investors are beginning to speak with a coherent voice to government. Signs, for example, that some big insurers and pension funds may endorse ideas as radical as 'contraction and convergence' - the quiet revolutionary in the ranks of climate change; strategies, which requires equal greenhouse gas emissions for all, and big cuts for the rich countries.

Meanwhile, notions of rapid and radical; change look set to remain peripheral to the 'real' economy and the awareness of most voters, many of whom will be climbing on those extra long haul flights. While some hope that a rising wave of popular awareness, coupled with technical advances in areas such as renewables and energy efficiency, might indeed be enough to affect a smooth about turn of this rogue super tanker, others are not so sanguine. In the words of Paul Hirst, author of *War and Power in the 21st Century*, a dispassionate, and rather scary view of the future, *"it will take something that frightens the pants off people"* to change things.

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