

Climate change has not gone away - COP26, net zero and the coronavirus

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The coronavirus virus has now taken centre stage, and climate change policy developments are being postponed. There will be inevitable delays for the EU's package and for the 6th carbon budget in the UK, and COP26 too. In the circumstances, this is to be expected. Looking on the bright side, it provides an opportunity for a rethink on all three. In the clamour of net zero territorial carbon production targets, sight is being lost of the real target - the concentration of carbon in the atmosphere and hence global warming. The concentration of carbon in the atmosphere has been going remorselessly upwards for the past 30 years. If the coronavirus leads to both a short-term reduction in emissions and a realignment of policies so that they actually make a difference to global warming, this will be some consolation.

Hitting the pause button could (and should) be very temporary, but the obvious risk is that it could lead to a retreat from bold ambitions, and it could mean that political leaders (and the voters) continue to focus on the immediate recession that is already upon us. It could mean that for all practical purposes the world's leaders give up on climate change mitigation into the medium term, even if they continue to talk-the-talk. The best way to avoid this disastrous outcome is to make sure that the policies that are adopted and the agreements negotiated are efficient: that they achieve the objective of heading off further climate change in the most efficient ways possible. The good news is that the scope for improvement on the current approaches is immense.

Why the pause button is inevitable

The UK and Italy, as the hosts for COP26, were already struggling pre-coronavirus. Since COP26 needs sustained preparations, and since these have so far been largely absent because of the General Election in the UK and the BREXIT priorities, and because of the political instability in Italy, it is hard to see how COP26 was going to live up the expectations that surround this crucial post-Paris meeting. In any event, when COP26

finally takes place in 2021 we will know whether Trump is going to be re-elected or not. COP26 with Trump is a very different proposition to Biden, though it is far from clear that the outcome will be the sort of US commitments that many climate activists would hope for. By the end of the year the extent to which the coronavirus has caused temporary or permanent damage to the EU economies will also be apparent.

The EU Regulation *establishing the framework for achieving climate neutrality* faces considerable opposition within the EU, and notably from Poland and eastern members. Faced with recession and the fallout from coronavirus, it is hard to see the richer members compensating for the inevitable further loss of competitiveness that the Regulation will cause, whatever the Commission argues. Given the complexity of what is a very large package, given the challenges the Commission has in coming up with an intermediary 2030 target, and given the wide powers that a Regulation transfers to the Commission, it is unlikely that in the context of the pandemic, these issues can be properly debated and negotiated.

In the UK, there is no legal need for the 6th Carbon Budget to be produced and published by the Climate Change Committee (CCC) in the autumn this year. This was brought forward to come ahead of the COP26, and to effectively neuter possible opposition. It is neither necessary nor now desirable to publish it so soon and indeed there are good reasons for absorbing the lessons from the pandemic first. The Carbon Budget for 2027-2032 requires serious public debate, not the rush to get agreement ahead of COP26.

Learning the climate change lessons from coronavirus

As has been widely noted, the global economic slowdown has been the one thing that has arrested the global rise of emissions. Nothing else has made much difference since 1990, and what has been the great fossil fuel boom. The coronavirus has.

What do we learn from this? That the claim that GDP and emissions are decoupled is simply wrong. They are in fact strongly correlated. But how then do we explain that the UK and the EU have reduced emissions and at the same time increased economic growth? The answer is simple, once climate change is seen as global and it is recognised

that the location of emissions does not matter. Overall *global* economic growth has risen, as has emissions, but Europe has been deindustrialising. Europe's carbon production tells a flattering story, and its consumption and its carbon emissions tell a very different one. And unfortunately, it is carbon consumption that matters, not territorial emissions. Carbon is not territorial.

The key flaw in the EU and UK net zero ambitions - which the pause should be used to address - is the focus on unilateral territorial production targets. The flaw results in raising the incentive to switch from home production to imports of high carbon intensive goods and services. The correct target if the aim is to cease being a cause of global warming, is consumption, not production. It is simply not true, as the UK Climate Change Committee claims in its 2019 *Net Zero Report*, that: "*By reducing emissions produced in the UK to zero, we also end our contribution to rising global temperatures*".

We will never get to zero (not should we – *net* is what matters not *gross* emissions) and we will still be causing climate change. If the UK and the EU want to stop causing climate change, then they have to achieve net zero carbon consumption – or implausibly every country the EU and the UK trade with has to adopt the same net zero territorial emissions target. Rest assured, the EU and the UK will still be causing climate change in the unlikely event they meet their target of territorial carbon production in 2050. (And this would also require a proper measure of territorial emissions, including the losses from the soils and peats – both big and largely excluded numbers in current reported emissions).

A focus on consumption necessarily forces any unilateral carbon target to include imports, so as not to discriminate between the location of the carbon emissions. There has to be a carbon border adjustment, otherwise the target could even be perverse. The great economic transformation of China has been export-orientated with an emphasis on energy and carbon-intensive goods, aimed at US and European markets. Europe has raised the costs of these industries, and therefore encouraged the substitution from home production to imports. No wonder that since 1990, the concentration of carbon in the atmosphere has remorselessly risen, despite all the efforts in Europe to unilaterally reduce its domestic production emissions.

No credible climate policy can allow this to continue, and it is simply naïve to expect all the other countries to introduce credible unilateral net zero carbon production targets alongside Europe. Before the coronavirus struck, China's emissions were still rising and it was building about 148 GWs of new coal powered electricity generation, around the same as the total installed capacity in Europe.

Nor can a credible climate policy rest on the assumption that Europe has demonstrated that economic growth and carbon emissions are decoupled. They have been for European carbon production, but not for consumption. All that matters for climate change is the global concentration of carbon in the atmosphere.

The coronavirus economic slowdown has been caused by a collapse of consumption, which has led to a collapse in production. There is a lesson here. In the short run, a reduction of consumption is a reduction in carbon consumption, since the vast bulk of what we buy is carbon-intensive. In my new book, *Net Zero*, this is illustrated at a personal level by asking the readers to write their own daily carbon diaries, in order to appreciate that almost everything we do from the moment we wake up to going to bed is carbon-intensive, from the toilet paper to the palm oil and fertilisers and packaging that goes into our breakfasts to the travel and the videos on line. Getting to net zero, in the sense of no longer causing climate change, means most of that carbon consumption has to go, to be replaced by with non-carbon products and services, with the residual sequestered.

This will be extremely painful for consumers. The virus-induced collapse of air travel is an example. All sort of things are going to have to change, and the obvious step is to make *us* consumers pay for the pollution *our* consumption is causing. It is an inescapable conclusion if climate change is going to be cracked. Avoiding it for the obviously political reason that we the voters would rather continue with our carbon-intensive lives does not change the underlying realities. Technical progress is vital too, but the idea that we will simply find an easy and – this is the important point – painless way to switch our carbon diaries to non-carbon ones is a dangerous one. The fact is that we are all on an unsustainable consumption path. We are living beyond our environmental means, and climate change cannot be cracked unless we get back on a

sustainable consumption path. Technical progress will underpin sustainable economic growth and will help to decarbonise our consumption, but only slowly. In the meantime, the scale of the challenge on the consumption side has to be recognised for what it is.

The virus has revealed just how painful cutting out even some of the carbon is going to be. But at least a uniform carbon price applied to all sectors in the EU and the UK, and at the border at the same rate, ensures that there is no loss of competitiveness from a unilateral net zero consumption target. Otherwise it is not going to be an EU “success story”, and it is not going to stop the EU and UK citizens causing climate change. Wishful thinking and political rhetoric (and even the CCC’s erroneous claims) do not reduce climate change. Climate change will not go away just because it is claimed it will.

Learning the wrong lessons

There is an understandable assumption that post-virus much will return to normal, and in particular that the current policy approaches, as in the UK net zero plans and the EU’s new climate Regulation, are the ways to go. More of the same, one more heave, and COP26 plus the EU regulation plus the UK net zero target and carbon budgets will get us over the line.

This is a mistake for two additional reasons, as well as the fundamental one about consumption above. First, as set out in my ***Burn Out - the endgame for fossil fuels***, this transition to low carbon energy is likely to be characterised by abundant oil and other fossil fuels and *falling* prices. It is probably going to get ever cheaper to free ride in climate change – to continue with fossil fuels whilst others decarbonise. The oil price may not stay below \$30 for long (though it could), but it is unlikely to go back to \$60-70 any time soon, and the old myth of peak oil have been shown to be just that – a myth, and a dangerous one.

A falling oil price, and cheap gas and cheaper coal will encourage China and India, as well as other big developing countries to hold onto their existing capacity, and indeed like China build more. Whilst the US has been switching from coal to gas, based upon very cheap shale gas, others may not follow. Furthermore oil-fuelled transport has just

got a big boost from the falls in oil prices. It is getting ever cheaper in this and other respects to free ride on the decarbonising efforts of EU and the UK.

The main way to offset this lower oil price effect is to raise the carbon price inversely to the falls in oil prices, and to deal with these perverse incentives with carbon border prices.

The second additional reason to worry is that the solution to the economic damage is already to resort to even looser monetary policy and to open the fiscal taps. Whilst the very short term demands these sorts of stabilising measures, this is now the third time they have been used since the crash of 2000. It was back then that the world's central banks responded by underpinning the markets with zero and then negative real interest rates, rather than allow a painful recession to rebalance consumption. In 2007/08, when the bubbles these policies created burst, even more stimuli were applied. A further crash was probably due by the end of 2019, and one of the reasons it is currently so severe is the legacy of all these overvalued assets.

If we do the same again, except for the short run, consumption will be underpinned, and so will the excess emissions that go with it. As noted, the virus has reminded us that GDP and emissions are correlated at the global level. The short-term crisis should not be used to avoid the painful adjustment to a longer-term sustainable consumption and sustainable economic growth paths, over and above the reasons for doing this to address climate change.

Step forward the green deals

As in 2007/08 crash, there will be a clamour to do more green investment to help revive and sustain economies post-virus. There are many reasons why investment measures are preferable to consumption, provided the investment is well spent and not driven to inefficient projects by intensive lobbying.

This is good reason for an investment stimulus, and one based upon the broader economic infrastructures underpinning the economy. It is for example obvious that

fibre is a key priority. In the UK's case, £30 billion on fibre looks altogether a better bet than £108 billion on HS2. This last point is one that tends to be neglected: there is only a limited amount of money available, and there are choices to be made between options. In the case of green deals, what matters is which investments the scarce money is spent on, and which it is not.

Once the easy and lazy assumption that all this is going to pay for itself, and worse that it is all already cost competitive with fossil fuels, is discarded, the question of who pays for the green deals rises to the fore.

It is already apparent in Europe that the ability to pay, let alone the willingness to pay, has been stretched to its limits. If the new investment is not all cost competitive, and therefore not going to drive down energy bills, then the options narrow. Either the money has to be borrowed from the next generation, or there has to be a redistribution from richer customers to poorer ones.

Debt bequeathed to the next generation has been a hallmark of the last 30 years, and especially the responses to the 2000, 2007/08 and now the 2020 economic crises. The intergenerational impacts are not however limited to the debt. The next generation is also being forced to pay the inflated asset prices (notably for houses) because of the negative real interest rates, and they are going to inherit the pollution and the climate change too.

Recall the point made above: this generation is living beyond its environmental and indeed general means, if the next generation is to inherit a set of assets as least as good as this one got from the previous generation. It all comes back to consumption, and in the climate change case, over-consumption of carbon.

Making the most of the pause button

Unilateralism, whether in the EU or the UK, is a hard choice to make in a context of a global problem, where the location of emissions does not matter. It only makes sense if either it is based upon carbon consumption, with equal treatment of products produced

at home or imported, or if everyone else adopts compatible net zero carbon production targets. As was already apparent in the pre-coronavirus run up to COP26, the latter is not going to happen any time soon in a credible fashion. And if it does not, there is a real risk that net zero unilateral carbon production targets will make little difference to global warming, and could even make it worse.

That would be a bad outcome in itself. But now consider the impact on the economies and citizens of the net zero unilateral production target countries. Unless it is believed, as with the early *Energiewende* in Germany, that the net zero production target would produce new European globally competitive businesses, and hence make the EU a new economic growth centre, the unilateral production approach is going to manage to achieve three simultaneous consequences: reduced industrial competitiveness; high consumer bills; and not much impact on global warming.

This might sound stark, but it is in fact what has been going on for the last 30 years. Europe's industrial competitiveness, and its industrial base, has faced an uphill struggle to remain competitive, consumers have higher bills than the rest of the world, and global concentrations of carbon have been going up at 2ppm per annum every year since 1990 - until the coronavirus came along. It is true that EU GDP has risen much more than EU emissions, but as noted above this is a decoupling of carbon production, not the all-important carbon consumption.

What should we do?

In my *Net Zero* book, I set out a very different strategy, which aims to achieve the emissions reductions at the minimum cost, and to make the maximum impact on global warming. The starting point is to focus on consumption, not production, recognising that it is *us* and *our* spending that is causing companies to produce the goods and services for *us*, that is causing the emissions which in turn are causing higher concentrations of carbon in the atmosphere and as a result global warming.

Once consumption is given the centre stage, the starting point is to make *us* consumers, the ultimate polluters, pay. There needs to be a carbon price to reflect the damage *our*

lifestyles are causing, all that stuff in *our* carbon diaries. Obviously, this has to apply to all *our* consumption, and hence the price should apply to imports on the same basis as domestic products. The price needs to be applied uniformly across the economy – to agriculture, transport, energy and all the rest.

The EU rightly has proposed a carbon border adjustment. It has however resulted in a huge kickback across Europe, and the Commission has in response watered it down. The proposed EU Regulation effectively leaves it out. For this, the Commission can hardly be blamed: confronting consumers with the costs of their pollution is hardly good politics.

A radical conclusion arises. Our carbon consumption is unsustainable, and hence it will not be sustained. If we are unwilling to address our carbon consumption, then we will go on, post-virus, causing climate change, and the absence of a proper carbon tax on oil, gas and coal globally will exacerbate that climate change.

In the absence of a quick technical fix coming along, consumption has to adjust down to a sustainable carbon consumption path. If it does not, then we should stop pretending that we are going to crack the problem. If the path is not sustainable, it will not be sustained, and we will have lots of global warming to deal with.

What should we do? The answer is to use the pause button to redefine what unilateral carbon targets mean, and in particular to recognise that the only way to be sure that we will no longer cause further climate change is to have unilateral carbon border prices. This has several further merits, in addition to being ethically correct, given the developed economies are responsible for most of the carbon in the atmosphere (plus now China). A border carbon price will only be paid by a country that does not have its own comparative carbon price at home. If it does, it will be exempt at the border. This creates a very powerful incentive to generalise carbon taxation globally, since it means keeping the revenues domestically rather than paying the tax to the importing country. It is not hard to see that this bottom up incentive could be much more powerful than the COP 26 top down attempt at a global treaty. Encouraging carbon pricing at the border would really make COP26 a game-changing meeting.

The pause should also be used to set carbon taxes in the new world of low oil prices, and to do so inversely to the oil price. This not only makes it easier to “sell” the tax to the consumers, but also turns the oil price into a consistent long run carbon price signal. It would also raise a lot of money for governments in the post-coronavirus context.

Redefining the COP26 outcome to include a commitment to carbon pricing would have the additional merit of addressing some of the related trade issues. The WTO allows for environmental considerations, but it should actively recognise that not to price carbon is to distort trade. If the UN process at COP26 endorses carbon border pricing, the WTO would find it harder not to fall into line.

These steps then allow more room for the other carbon policies in the post-coronavirus world. The emphasis should be on no-regret measures. It is possible that mortality for the coronavirus turns out to be higher for people living with higher air pollution. This adds to the case for tackling urban air quality, and with it transport emissions. The emphasis should also shift much more to natural carbon sequestration with all the benefits enhanced natural capital brings very and above the extra carbon that will be sequestered. The envelope of no regret policies is very considerable. Digitalisation and electrification (because everything digital *is* electric) are coming anyway, to the economy as a whole, and to transport and agriculture.

Research, development and innovation form part of an industrial policy and the pause can be used to increase them through COP 26, the EU Regulation and UK carbon policies. The global nature of the coronavirus has taught us the value of global research into viruses, and global corporation in developing vaccines and in innovative protective products. It is a lesson which applies to the global problem of climate change too.

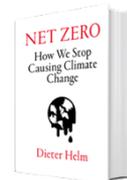
Do all the above, and the coronavirus-induced pauses will turn out to be a blessing, and we may finally get to a position where we do not face another 30 wasted years. Push on as we are, and the concentration of carbon in the atmosphere will continue to march up, as it has for the past 30 years, and 3 degrees will then seem a demanding limit to achieve. Current policies are not working, and more of the same will not. To rephrase the Climate Change Committee’s statement quoted above, it should read: “*when we get*

to net zero carbon consumption, we will no longer be causing climate change” and not the wholly erroneous and seriously misleading: “By reducing emissions produced in the UK to zero, we also end our contribution to rising global temperatures”. The same applies to the EU.

More Information:

[Net Zero: How We Stop Causing Climate Change](#)

Now available to pre-order



[Burn Out: The endgame for fossil fuels](#)

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