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The challenges posed by climate change

Committee Opinion[1]
Committee on Economic Affairs and Development
Rapporteur: Mr Luuk BLOM, Netherlands

A. The committee's conclusions

The Committee on Economic Affairs and Development congratulates the rapporteur, Mr Prescott, and the Committee on the Environment, Agriculture, and Local and Regional Affairs for this excellent report, which it fully supports. The committee is convinced that climate change is a major challenge for our economies and requires them to make far-reaching adjustments and changes to preserve the quality of life of future generations. The current global economic crisis affords us a unique opportunity to carry these changes through.

B. Explanatory memorandum by Mr Luuk Blom, rapporteur

1. Introduction

1. The breakthrough by ecology parties and movements in the recent European elections highlighted the overriding need to address the major challenges posed by climate change for the future of our societies and subsequent generations.

2. Among the great issues that public- and private-sector decision makers must tackle today are the economic challenges closely tied up with environmental considerations. Very often, investment in sustainable development and in reducing greenhouse gas emissions makes possible substantial medium- and long-term savings. Failure to invest in renewable energies contributes to increased global warming and hence, in the very near future, to higher public spending linked to the consequences of climate change. The Intergovernmental Panel on Climate Change (IPCC) believes that the world's GDP could shrink substantially if the temperature rises by two to three degrees.

3. Today, the economic crisis which is affecting most of the world's economies, and more specifically the Council of Europe member states, means that they are obliged to anticipate future problems and above all to propose and adopt measures and projects which meet the desire to preserve the environment from global warming. These measures will lay the foundations for a less carbon-rich economy.

2. The economic consequences of climate change

4. Many areas of the economy in both the commercial and non-commercial sectors may be affected by climate change. Agriculture is probably the most exposed economic sector. Access to water and the increasing scarcity of this resource will have a major economic impact in regions where farming is still very important as a source of both food and jobs. Water shortages will force the authorities to invest in water

1. See Doc. 12002 presented by the Committee on the Environment, Agriculture and Local and Regional Affairs.

supply facilities on a massive scale (including new water and sewerage networks and more rainwater collection systems), not to mention the new investment connected with the need to shift to new energy sources.

5. The tourist industry will also be affected by climate change. Increasing temperatures will alter the tourist map, and many European regions for which this economic activity is a major source of income are likely to be severely penalised. In the Alps, for example, which stretch across many Council of Europe member states, lack of snow will lead to major reductions in turnover.

6. The effects of climate change on the non-commercial sector will also have economic repercussions. Coastal erosion and migration will result in a drift to the towns and cities and the problems of housing, unemployment and insecurity that this provokes. Health facilities will have to face up to new illnesses which will necessitate change.

3. The economic proposals of the Stern report (2006)

7. The report on the economics of climate change (2006) by Sir Nicholas (now Lord) Stern, former chief economist at the European Bank for Reconstruction and Development (EBRD) and then at the World Bank, marked a turning point in public awareness about the threat that global warming poses to the world economy.

8. The main thrust of the report is that, while investing today would most certainly be costly, economic losses would be very much greater if nothing were done. In economic terms, failure to invest in action to combat climate change would cause GDP to fall by around 5% per year. This shrinkage could even be up to 20% if deterioration in the climate and the ensuing problems and risks were particularly severe. Such a change would cause the same kind of upheaval in our economies and activities as were brought about by the two world wars.

9. On the other hand, economic investment to adjust to global warming would only reduce GDP by 2%. The report puts forward a number of ideas about how to achieve this. Reducing greenhouse gases, which are the main causes of global warming, continues to be the priority, and industrial policies must be devised with this in mind. To create the new tools required to meet future needs, innovation and research budgets will have to be increased so that new carbon-free technologies can be introduced, particularly in the energy field. Agriculture is also affected and should be included in wide-ranging economic development policies, so as to enable people affected by global warming to survive economically.

10. The Stern report steers away from scaremongering and apocalyptic views of the future, focusing on the economic opportunities that will be created by this reorientation of our economic policies. The work will revitalise economic growth, which will be galvanised by new job opportunities and the opening up of new markets. Fresh economic opportunities in areas such as new energy sources (solar and wind power) and carbon-free goods and services will be opened up by these investments. The financial world will have ample opportunity to devise new financial and exchange instruments in the carbon-free, clean energy and, of course, insurance markets. According to the Stern report, the potential economic scope of the carbon-free energy market may be in the region of US$500 billion (€350 billion) by 2050, and possibly even more. These opportunities will bring substantial economic advantages for businesses which are currently losing out in terms of both profits and jobs. According to a study by the Boston Consulting Group, the measures taken in France in the context of the government's environmental initiative, the *Grenelle de l'environnement*, will lead to the preservation and creation of some 600 000 jobs over the next twelve years. And these policies will provide secure energy markets, which will benefit all our member states.

4. The demands imposed by the current economic crisis

11. The financial and subsequently economic crisis has drawn attention to the need to implement long-term measures taking appropriate account of climate change. As Mr Prescott's report points out, since the election of Barack Obama, the United States has started work on such new policies. Despite the inertia of the Bush administration on the issue, however, it was back in September 2006 that the State of California adopted a Global Warming Solutions Act, which set out a timetable of measures to be taken up to 2012 and planned for reductions in CO_2 emissions of 25% by 2020 and 80% by 2050. In economic terms, this law will bring an estimated US$48 billion benefit for the people of California. President Obama has also committed the United States to the fight against global warming and to taking new measures as part of his economic recovery plan and under the various laws adopted or in the course of adoption to promote a clean economy (clean energy, jobs in the green economy, etc.).

12. However, in European countries the idea of incorporating sections on climate change into economic recovery plans has met with a mixed response. Admittedly, in January 2008, the European Commission adopted several measures moving in this direction, in particular a reform of the European Emissions Trading Scheme (EU-ETS) intended to limit emissions throughout the EU, which could create revenue of some €50 billion a year by 2020. This revenue will be returned to the member states for investment in renewable energies and carbon storage. In January 2009 the European Commission also decided to reallocate €5 billion originally included in the recovery plan to clean energy (€3.5 billion) and to other measures designed to combat climate change. Although France has not centred its economic recovery plan on the new economic prospects linked to the major challenges posed by climate change, the French Government has invited tenders for the construction of at least one solar power plant per region by 2011. This measure would require an investment of some €1.5 billion spread over three years. However, only €1 billion out of the €19 billion programmed will be spent on renewable energies and the introduction of a carbon tax, which should come into force in 2010. It would be good for such an important and still much debated initiative to be a subject of discussion and concerted policies at European level, so as to avoid competition problems.

13. In recent years, countries such as Germany and Spain have made major financial efforts in the renewable energy field (solar, photovoltaic and wind power) thanks to investments by large industrial and banking groups such as E.ON and EWE in Germany, which is Europe's undisputed leader in wind power. However, the economic crisis is currently holding back the development of these renewable energies, whereas they should in fact be providing an opportunity to move a little further down this road.

14. In order to make these economic efforts, the Council of Europe member states will have to adopt efficient economic tools such as climate-change-adapted insurance systems, market-pricing signals (reductions by the state in taxes on certain goods and services), finance through public-private partnerships (to alleviate the pressure on the public purse), regulatory incentives and measures to promote development. The OECD has also called for discussion "on the role that the market could play and regulatory mechanisms which might facilitate adaptation".[2]

5. Preparing for the United Nations Conference (COP 15) in Copenhagen (7-18 December 2009)

15. As Nicholas Stern points out in his report, the problem is a worldwide one, which must be dealt with at international level. This is the whole purpose of the Major Economies Forum on Energy and Climate (MEF), which has now met several times (including in Paris on 25 and 26 May 2009), bringing together the major developed countries and developing countries. The economic and financial aspects of climate change are also regularly discussed by numerous international forums on which Council of Europe member states are represented, including the Gleneagles Dialogue on Climate Change, Clean Energy and Sustainable Development (involving the G8 countries, Spain and Poland), which has been assigned the task of establishing the link between the activities of the energy industry and climate change.

16. The OECD has also taken a position along these lines. At the OECD's Ministerial Council of 24 and 25 June 2009, a declaration on green growth was adopted, in which an undertaking was made to strengthen: "our efforts to pursue green growth strategies as part of our response to the current crisis and beyond, acknowledging that 'green' and 'growth' can go hand-in-hand". The OECD was also invited to develop a green growth strategy which would "achieve economic recovery and environmentally and socially sustainable economic growth". It now seems absolutely crucial for our economies to turn round and embrace wholeheartedly the green economy.

17. Denmark's capital city, Copenhagen, where the United Nations Climate Change Conference will be held from 7 to 18 December 2009, is the site of a permanent forum hosting major international meetings and conferences on climate change. For instance, from 24 to 26 May 2009 it hosted the World Business Summit on Climate Change. On this occasion Connie Hedegaard, the Danish Minister for Climate and Energy, said that businesses could provide the means to live in a modern, sustainable society. Acknowledging that reducing greenhouse gas emissions is vital for the social, economic and environmental future of businesses, the participants adopted the "Copenhagen Call", appealing to businesses to reduce greenhouse gas emissions, invest strongly in existing low-emission technologies and develop new technologies. With this goal in mind, on 4 and 5 November 2009 the OECD is holding a Global Forum on Environment focusing on the theme of eco-innovation.

2. Economic Aspects of Adaptation to Climate Change, OECD, 2008.

18. The Local Government Climate Change Leadership Summit, also held in Copenhagen from 2 to 4 June 2009, was another forum where discussion took place on the role of municipalities in the climate change agreement which will come into force in 2012. Among the many subjects discussed were the variety of local government finance mechanisms, transport, technology transfers and private sector involvement. Lastly, Sweden, which has held the Presidency of the European Union since 1 July 2009, also wishes to take things forward in this field by establishing a European Union carbon tax. According to Emma Lindberg, a climate change expert from the Swedish Society for Nature Conservation, a carbon tax is a good idea, and Sweden wants to show that climate change offers Europe a good economic opportunity and a means of creating jobs and new markets.[3] The rapporteur points to the need for consultation at European level on this issue.

6. Conclusion

19. Climate change presents our societies with numerous challenges, some of them economic. As the Stern report points out, it is now becoming urgent for us to invest in the green economy and measures to combat global warming, so as not to jeopardise the future of our economies and of the societies in which our children and grandchildren will live. This requires investment today in long-term viable solutions which respect an environment which has been, and still is, deteriorating.

20. A comprehensive process of multilateral consultations has been set in motion to reach an agreement at the conference in Copenhagen in December 2009. This event should mark a significant milestone in the fight against global warming, as a financial agreement is possible which will introduce new financial instruments and, above all, formalise a major economic commitment by the parties concerned. As the Secretary-General of the United Nations, Ban Ki-moon, pointed out on 3 September 2009, “scientists have been accused for years of scaremongering. But the real scaremongers are those who say we cannot afford climate action – that it will hold back economic growth”.

C. Proposed amendments

On the committee’s behalf, the rapporteur proposes the following amendments to the draft resolution contained in the report of the Committee on the Environment, Agriculture, and Local and Regional Affairs (Doc. 12002):

Amendment A (to the draft resolution)

Add the following sentence at the end of paragraph 12: “It is therefore important to invest among other things in a new green economy which will set in train a lasting process of world economic growth and meet the economic challenges ahead.”

Amendment B (to the draft resolution)

Add the following at the end of paragraph 17: “and is convinced that investment in new clean technologies cannot fail to be of economic benefit to the industrial fabric of the countries concerned and to corporate development.”

Amendment C (to the draft resolution)

After paragraph 22.12, add a new paragraph worded as follows: “The Parliamentary Assembly encourages the Council of Europe member states to find economic solutions based on clean forms of energy supply which are less dependent on fossil fuels. Solutions of this kind should make it possible to foster economic growth that can be shared by all, and to avoid future conflict.”

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Committee seized for opinion: Committee on Economic Affairs and Development

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3. *La Croix*, 24 May 2009.

Draft opinion adopted unanimously by the Committee on Economic Affairs and Development on 28 September 2008

Secretariat of the committee: Mr Newman, Ms Ramanauskaite, Mr de Buyer and Mr Pfaadt