

Climate Change Policy: Cost Effective Global Strategies

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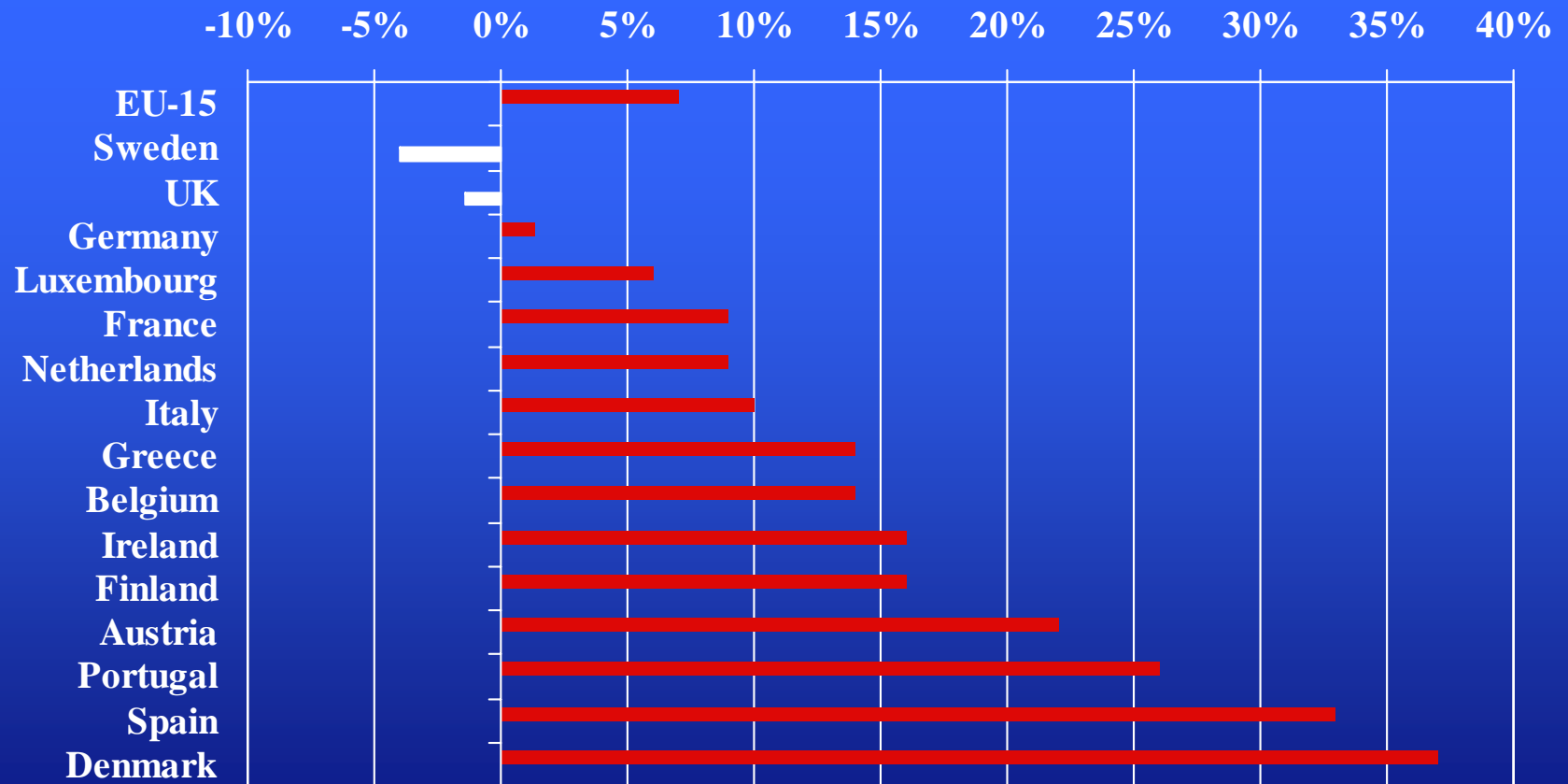
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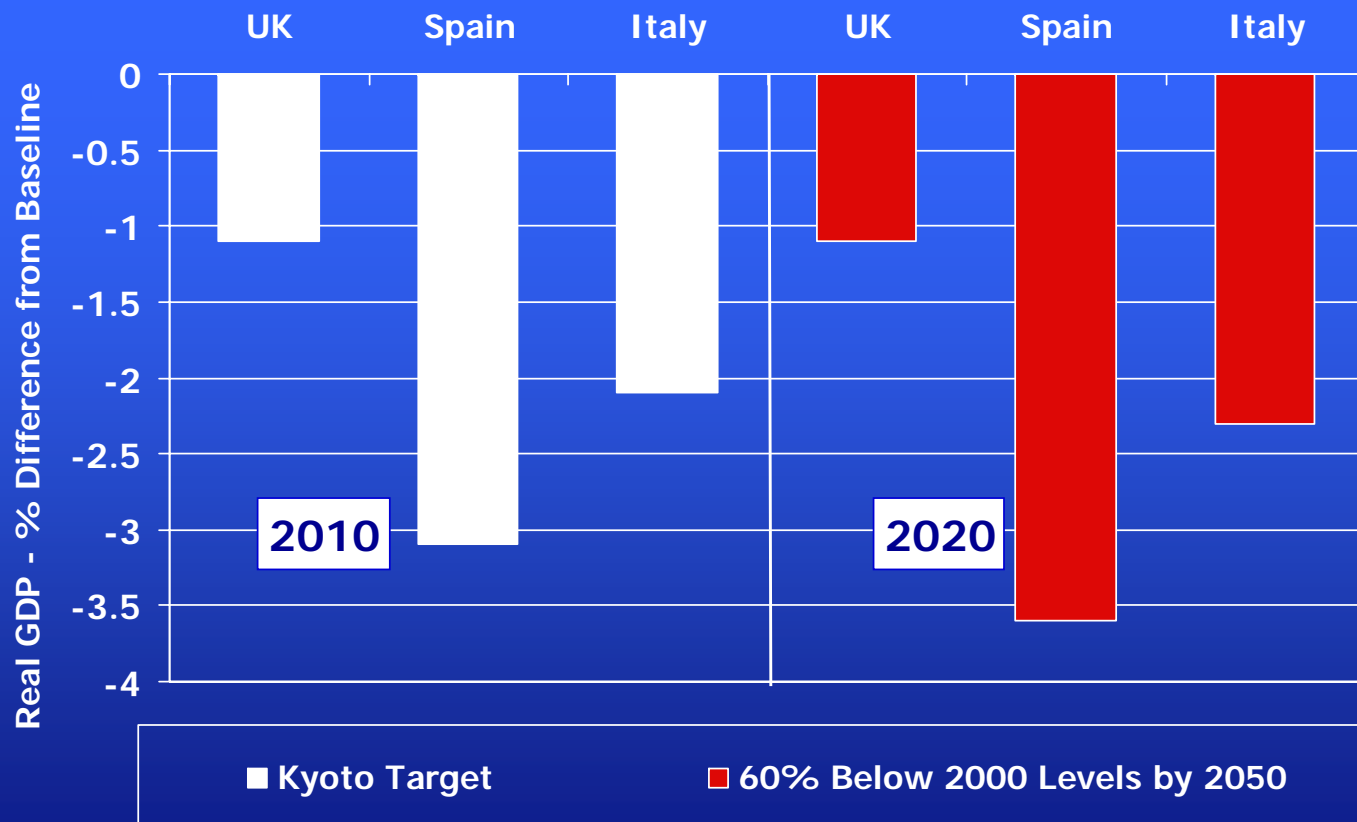
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Greenhouse Gas Emissions in the European Union Projected to Exceed Kyoto Targets in 2010

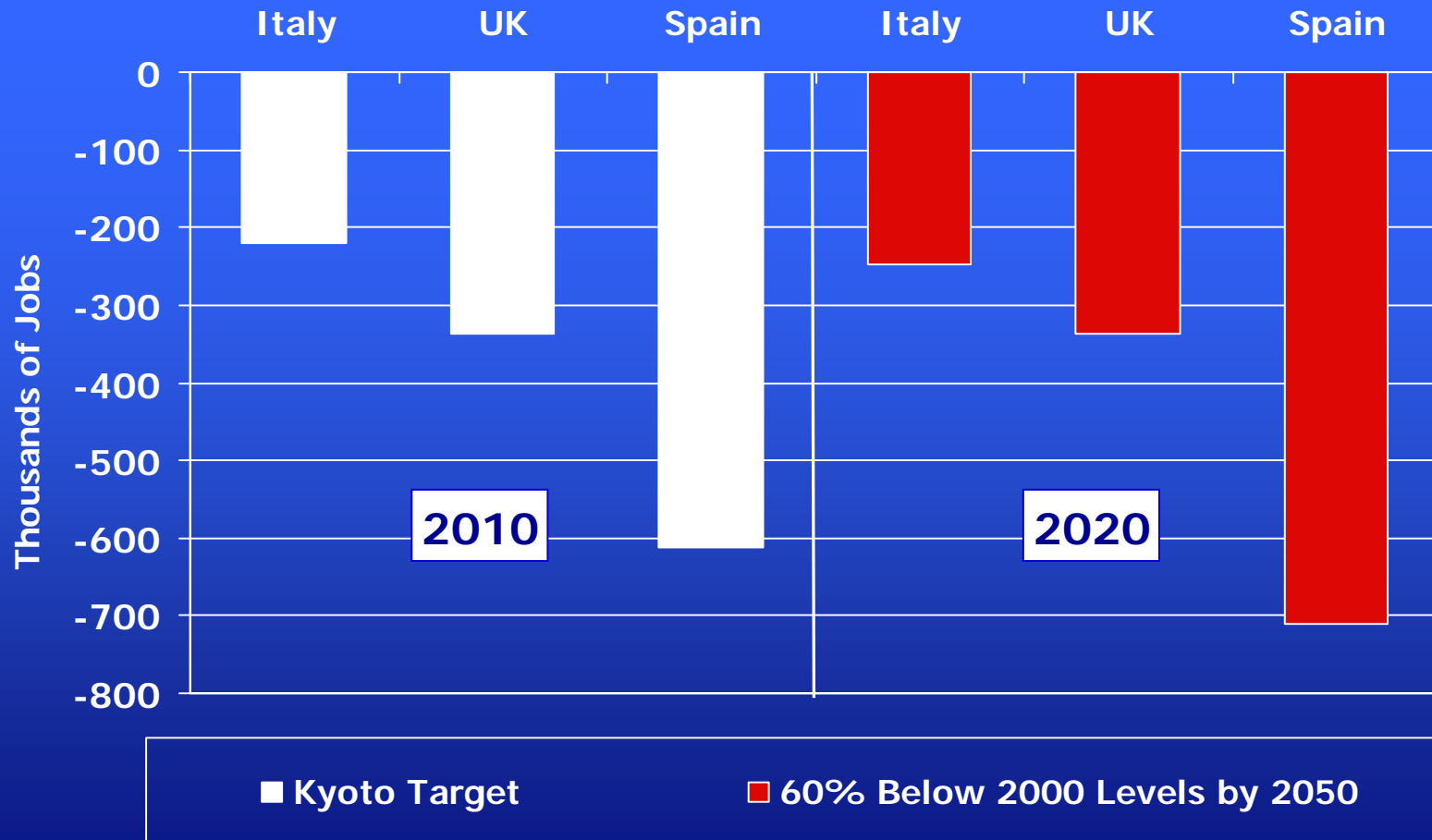


Source: European Environmental Agency, November 30, 2004

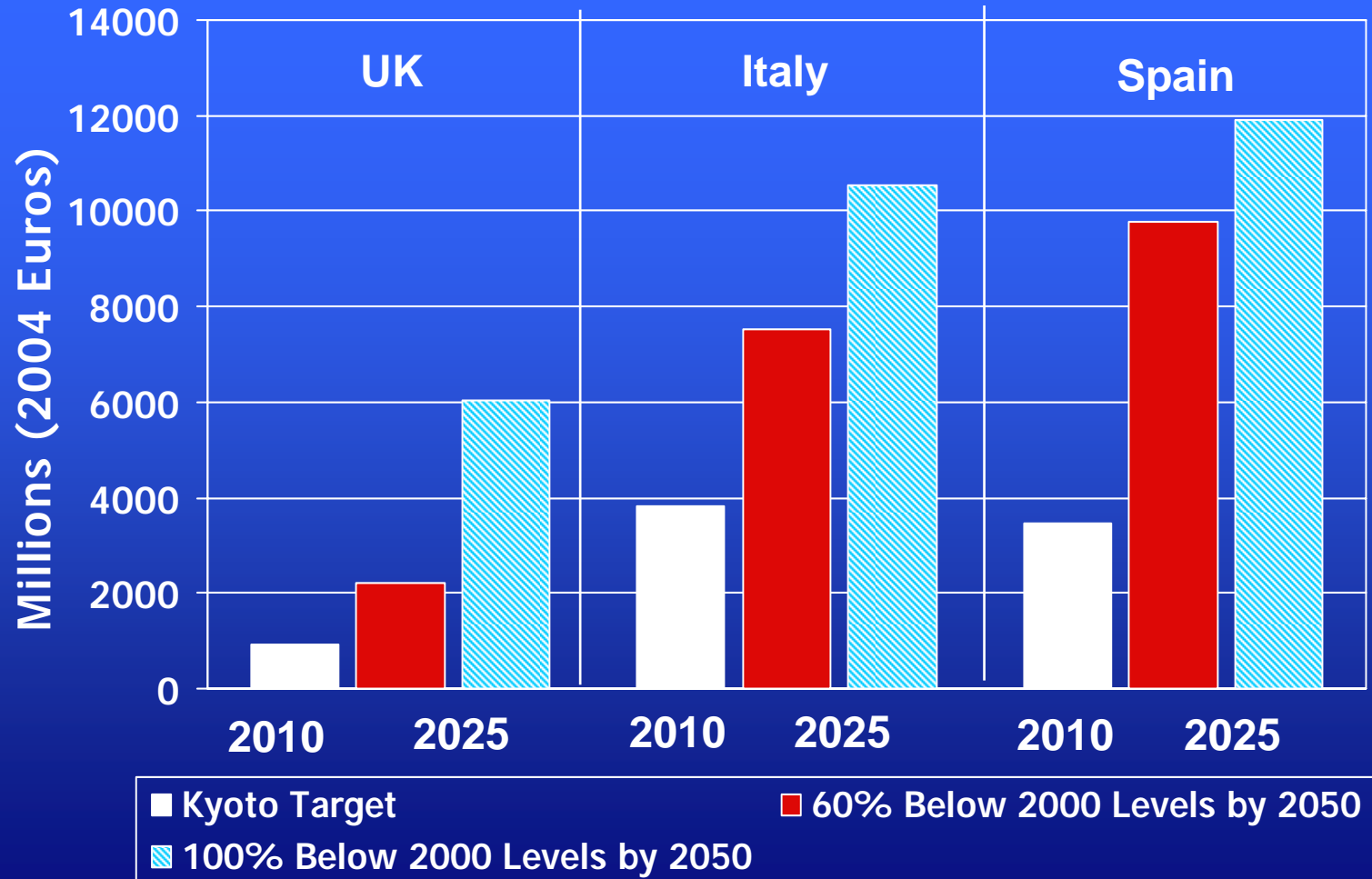
Impact of Kyoto Protocol and Additional Targets on GDP in the EU in 2010 and 2020: Macroeconomic Model Results



Impact of Kyoto Protocol and Additional Targets on Employment in the EU in 2010 and 2020: Macroeconomic Model Results



Wealth Transfer If Countries Purchase International CO₂ Credits



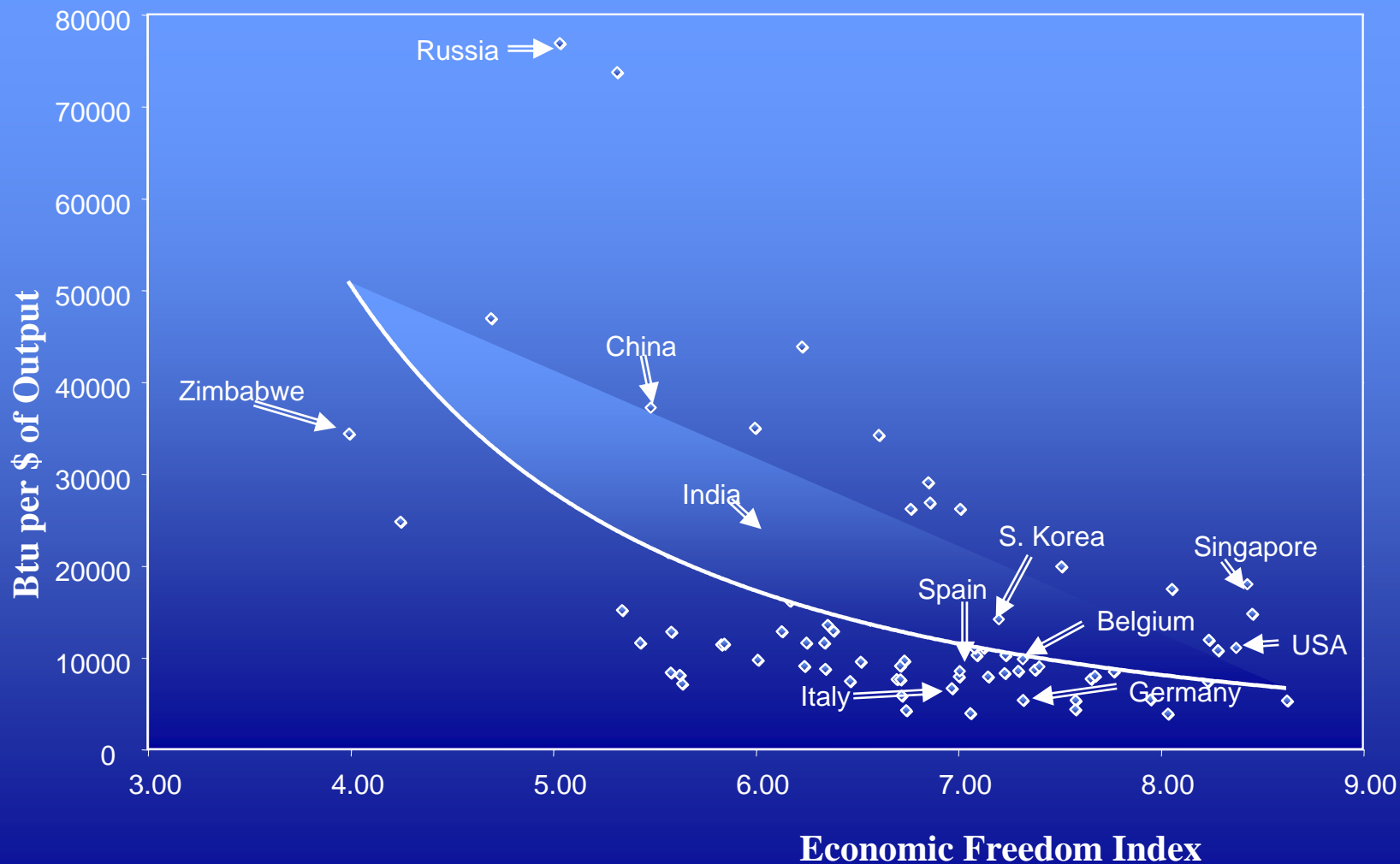
Caps on Carbon Emissions Do Not Provide Incentives for Radical New Energy Technologies

- ❑ Tight carbon caps will not force the R&D needed to develop the radical new technologies needed to dramatically reduce carbon emissions according to U.S. DOE/EIA reports
- ❑ Private investors will not be willing to develop new technologies unless they think returns will be high enough to enable them to cover both fixed costs (R&D) as well as operating costs.
- ❑ Future governments are not likely to keep carbon prices high once the new technologies are developed because low carbon taxes are better for economic growth
- ❑ Anticipating that governments will not keep carbon prices high, investors have no incentive to commit funds to radical new energy technologies

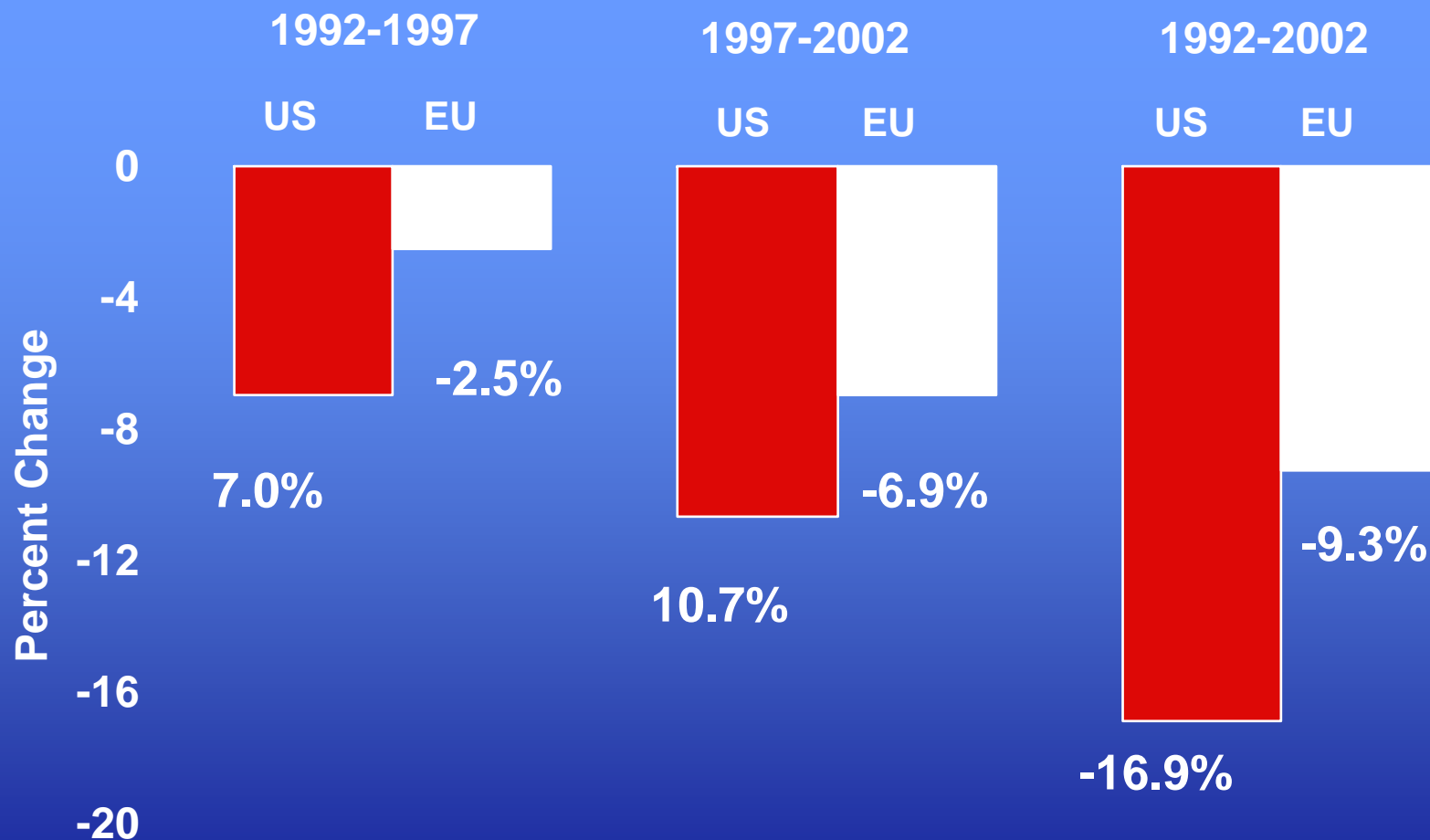
Economic Freedom and the Adoption of New Energy Technologies

- ❑ **Economic Freedom Promotes Improved Living Standards:** protection of investment, openness of internal markets, overall share of output absorbed by government, political freedom
- ❑ **Faster Economic Growth:** associated with adoption of new energy technologies which reduces energy intensity of emissions as living standards rise
- ❑ **Barriers to new technology:**
 - Pricing distortions
 - Lack of markets
 - Subsidies through State-run enterprises
 - Lack of protection for property rights including intellectual property
 - Restrictions on foreign direct investment
 - Lack of infrastructure, education, skills to handle new technology
 - Import restrictions

Economic Freedom Compared to Energy Intensity in 2001



Comparison of EU and US Energy Intensity Reduction 1992-2002



Data: EIA *International Energy Annual 2002*.

Practical Strategies to Address Economic Growth and Climate Change Policy

- ❑ Avoid policies which do not meet cost-benefit tests including mandated caps on carbon emissions from mobile and stationary sources
- ❑ Remove barriers to developing world's access to more energy and cleaner technology by promoting economic freedom and market reforms
- ❑ Increase R&D for new technologies to reduce energy intensity
- ❑ Develop sequestration through both natural and man-made technologies
- ❑ Promote nuclear power for electricity
- ❑ Expand bilateral cooperation with developing countries
- ❑ Promote a truly global solution such as the new Asia Pacific Partnership on Development