Book Review: Climate Policy after Copenhagen

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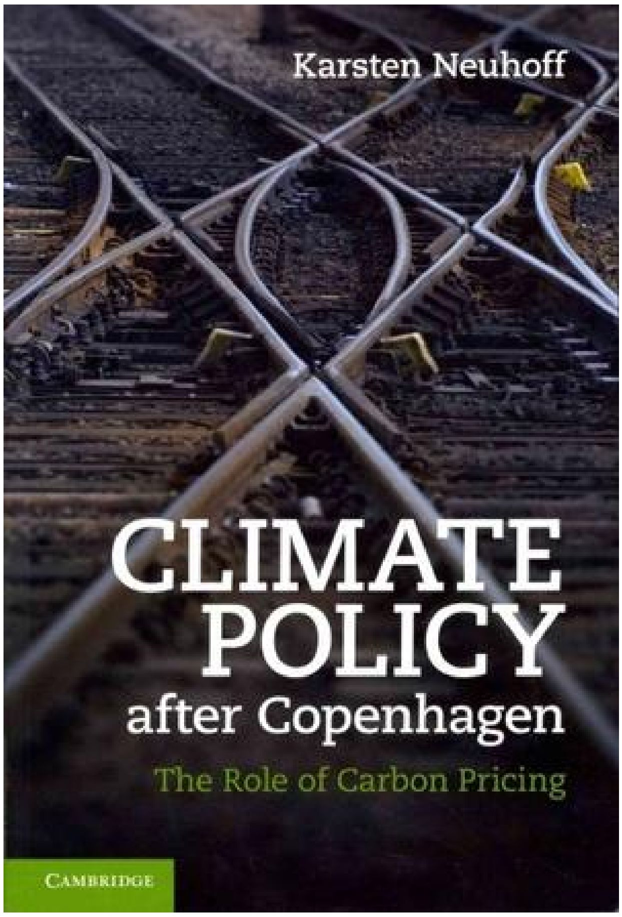
Karsten Neuhoff's compact contribution aims to scope the role of and recent experience with carbon pricing, and provides all the reasons why a global carbon pricing scheme is a truly formidable undertaking, finds Dominic Moran.

Climate Policy after Copenhagen. Karsten Neuhoff. Cambridge University Press. July 2011.

Even before the recent climate negotiations started in Durban we were told to expect little in terms of progressive outcomes. Of course, this could be a cunning ruse to disguise some eventual announcement of progress on greenhouse gas emissions control, but it's difficult to see what this could be, and a hard lesson from Copenhagen then Cancun was that little meaningful progress can be agreed at noisy global jamborees.



Two years on, and the increased inertia has more or less guaranteed failure in terms of meeting the targets for limiting increasing global temperature. With the world economy in disarray, conditions for a meaningful step forward in terms of concerted emissions reductions look more remote than ever. Ahead of Durban, we have also been treated to the now customary histrionics of Climategate emails, claims about crippling renewable energy costs, and the remergence of cranky contrainans, all of which are distractions from the main issues.

So what is to be done? Well alarmism does not seem to work. Extreme events notwithstanding, neither public nor political opinion appear sufficiently influenced by the longer term warming scenarios implicit in exceeding the 2 degree 'guard rail'. Instead our best hope is that there is sufficient private sector vision and clout to achieve the nearer term objective of shifting to low carbon economic development. This objective is much more proximate to individual and national self -interest. Indeed, this recent 'green growth' rhetoric is substantiated by examples of the economic potential of low emissions technology. Some countries including South Korea, Brazil and China see this as a niche opportunity for a significant overhaul of domestic industrial policy. The quickest moving countries stand to gain much in terms of a global competitive advantage. The only thing missing in many countries is a real incentive to act.

A carbon pricing mechanism is crucial catalyst for widespread market transformation, and this is the crux of Karsten Neuhoff's compact contribution that aims to scope the role of and recent experience with carbon pricing, mainly in relation to emissions trading. More importantly, the book provides all the reasons why a global carbon pricing scheme is a truly formidable undertaking.

The mechanics of carbon pricing is recognisable in the theory of market failure and externality common to any undergraduate micro economics text. An initial critique of the book is that its somewhat *post hoc* introduction could have done a better job at introducing non economists to this background. In essence, the theory tells us that polluters and providers of other public goods (for example rural amenity) will not behave in society's best interests if they do not face the right incentives. Most directly in terms of some price signal. Markets cannot help us price what does not pass through them, and hence their failure and the case for government intervention to redress the balance of external costs and benefits. This is either by direct regulation, or , more efficienctly, by promoting the emergence of market-based instruments including pollution trading.

This theory works well when one government has the jurisdictional authority over a group of polluters, or in other words, where the property right can be changed. It works less well when the scenario is a global commons being polluted by numerous countries at different stages of development and with varying historical responsibilities and grievances for its current degraded state. All of which describe global climate change. In these conditions the absence of any supranational authority to implement a global carbon price means that the second or third best options lay in regional and national initiatives to implement carbon pricing and trading schemes. In six clearly written chapters Neuhoff outlines how technology policy can be driven by a carbon price, how cap and trade schemes can be set up, the distributional impacts of alternative permit allocations, and the consequences of different carbon prices in different parts of the world. The book draws heavily though not exclusively on the experience of the European Union Emissions Trading Scheme, an experience that has been well-documented though often misunderstood.

Perhaps the most interesting element of the book is the treatment of the role of developing countries in this agenda, and the potential options for promoting mitigation in developing countries under the rubique of Nationally Appropriate Mitigation Actions (NAMAs). This NAMA agenda provides an interesting opportunity for development assistance and double or triple wins in terms of low carbon tehcnologiy transfer and poverty alleviation.

As noted, without a more detailed introduction to the theory of externality, the treatment may be somewhat abrupt for readers unfamiliar with the the history of market based instruments for the environment. Aside the focus on emissions trading schemes, there is also a notable omission of any discussion on the notional shadow price of carbon and its use in government decision making. The book is also somewhat normative in its hopes for international cooperation and, for a slightly more challenging conclusion, could have usefully added some speculation on the counterfactual outcomes.

But there is a burgeoning market of carbon degrees in the UK and internationally, and this book would fit well on any syllabus covering policy and economic elements. It could also find a home in more general environmental degrees to balance a tendancy to demonise market-based solutions to the environment. Given the current international impasse, we cannot afford to ignore the power of self interest and the role of the market in delivering environmental change. But given the current pace of change, we may have to wait till things get a lot worse before they get better.

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