Climate Policy: An opportunity to improve competitiveness and create jobs

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Climate change is a global challenge we cannot ignore. The scientific, political and business communities, as well as society at large, are now unanimously in agreement about the urgency of creating mechanisms to keep the increase in global temperature below 2ºC compared to pre-industrial levels.

The pressing nature of this task, along with the need to strengthen global economic recovery, must lead us to prioritise policies that enable effective and efficient decarbonisation while boosting economic competitiveness and generating wealth and jobs.

Efforts should be focused on those sectors that have the greatest potential for advancing towards these two goals on a simultaneous basis. In this regard, despite being responsible for just a quarter of global greenhouse gas emissions, electricity has the ability to make a bigger contribution than any other industry to bringing these emissions down, thanks to renewable technologies - hydroelectric, wind and solar photovoltaic - that are capable of sustainable and efficient emission abatement. The International Energy Agency estimates that electricity will need to contribute 40% of the total emission reductions by 2050 if we are to meet the global climate change targets.

This will, in turn, require an expansion of the existing trend towards increased electrification in various areas of the economy, such as transport or heating and cooling.

IMPACT OF CLIMATE CHANGE POLICIES

As long as the policies needed to achieve all this are designed and implemented carefully, this scenario will also accelerate the trend towards sustainable economic growth.

First of all, it will mean a boost to the efficiency and productivity of the economy. Adequate internalisation of environmental costs in prices promotes the adoption of more efficient technologies and a more rational use of energy, which in turn leads to sustained gains in competitiveness. For example, in the European context, extending CO2 price signals to all sectors of the economy would generate technologically neutral incentives for decarbonisation and would foster the development of the most efficient energy sources. In fact, research conducted by the OECD shows that implementing more demanding environmental policies has boosted productivity in advanced economies, both in the short and medium term.

Setting ambitious climate change targets also implies opportunities for investment in low-carbon technologies, which will promote industrial development and access to new markets. Various sources claim that a scenario in which climate change targets are met (as opposed to business as usual), would require additional investments worth US$40 trillion globally by 2050, of which US$9 trillion would correspond to the electricity sector. Total investment volume would exceed US$350 trillion, about 1% of the global GDP accumulated over the period.

It is also important to note that climate change policies help reinforce energy security, given that low carbon energy sources (such as renewables) are beneficial in reducing dependency and vulnerability of the economy to disruptive situations in the global energy markets. Governments increasingly see the need to attain the 2ºC target as an instrument for enhancing energy security and reducing exposure to price shocks.

From a social perspective, there is an obvious link between policies that promote green growth (if properly designed) and improvements in quality of life, particularly as regards reducing environmental degradation, improving the conservation of natural resources, or limiting exposure to extreme weather and climate events.

West of Duddon Sands offshore windfarm (UK)

Finally, in designing climate change policies, it is important to remember that there are still over 1.1 billion people worldwide without access to electricity. It is perfectly possible to meet both challenges, that is fight climate change and provide access to electricity, simultaneously, as demonstrated by the 2030 Sustainable Development Goals drawn up by the United Nations and the results achieved by the sustainable Energy for All (SE4ALL) initiative.

PARIS CLIMATE SUMMIT

The outcome of the Paris Climate Summit may constitute a true driving force for competitiveness and economic prosperity if an ambitious agreement is reached, covering the following issues:

- A commitment that is sufficient to achieve the 2ºC target; a stable and transparent framework to enable the development of the necessary investments; and a governance framework that favours the monitoring and review of the level of ambition every 5 years.
- Progress towards a global carbon price signal covering all sectors of the economy, providing technology-neutral incentives for decarbonisation in order to foster the development of the most efficient energy sources. This signal should be strong enough to drive technological change, and could be extended to all sectors that are not subject to emissions trading schemes via other mechanisms, such as environmental taxation.
- The cost of decarbonisation should be fairly allocated to all energy consumers, on the basis of the "polluter pays" principle.
- R&D incentives should be reinforced so as to progress towards efficient emissions reduction.
- Information and awareness policies should be developed to promote sustainable consumption
- Elimination of subsidies to carbon intensive energy sources, as well as of taxes and charges to emission-free technologies.

Additionally, in order to leverage all the environmental, economic and social opportunities related to fighting climate change, all public policies based on the above principles (on energy, climate and even taxation) must be designed on an orthodox basis and then implemented efficiently. This will lead to the elimination of distortions and inefficiencies such as those that occur in the European context, where electricity consumers often bear almost the full cost of mitigation policies via their final tariffs, including subsidies for the roll-out of renewable energies and most energy efficiency measures. Together with the inclusion in tariffs of non-energy costs linked to fiscal or social policies, these have been the key reasons behind the rise in the final prices of electricity in Europe, with two negative consequences:

- A loss of competitiveness of European industry compared to other geographical areas, as well as increasing concerns about prices and affordability for residential consumers.
- Negative discrimination against electricity compared to other less efficient energy sources that do not contribute to the financing of environmental and climate change policies.

CONTRIBUTION FROM IBERDROLA

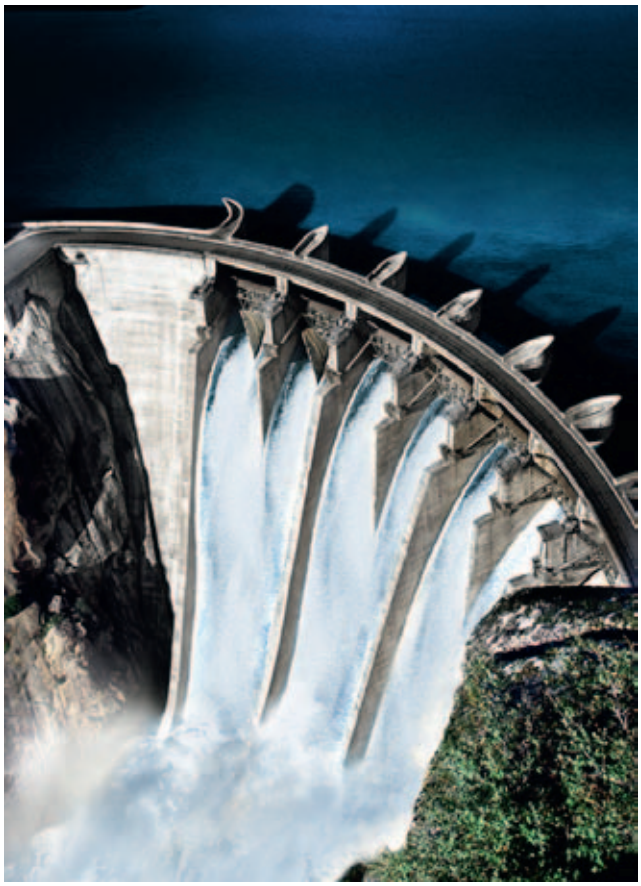
Given the characteristics of its generation portfolio, its investment profile and the commitments undertaken, IBERDROLA provides a global benchmark for fighting climate change.

In this respect, the company's emissions intensity is currently 30% lower than the European electricity sector average. IBERDROLA is also world leader in renewable energies, smart grid development and electric vehicles, as demonstrated by its position at the forefront of the industry in major sustainability indices.

At IBERDROLA we are determined to contribute to the success of the Paris climate summit. For this reason, we have presented our target of reducing CO_2 emissions intensity by 50% by 2030 compared to 2007 levels, thereby progressing to our goal of achieving a carbon-neutral electricity supply by the year 2050.

This will require a significant investment effort, which will further boost IBERDROLA's contribution to the global economy and job creation, increasing the 350,000 jobs already generated worldwide.

Climate change constitutes a major global concern, but there are different options already available to address it, which will also safeguard security of supply and efficiency. All stakeholders both in the public and private sectors are requested to take the initiative and implement the necessary measures to transform this risk into an opportunity, and enhance competitiveness and economic growth, with the ultimate goal of creating prosperity for the citizens we serve.



Aldeadávila hydro-electric dam (Spain)