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What type of green economy is needed to respond to global competition and the financial crisis?

Jim Watson

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The Green Race to Durban and Beyond
European Parliament, Brussels, 9th November 2011

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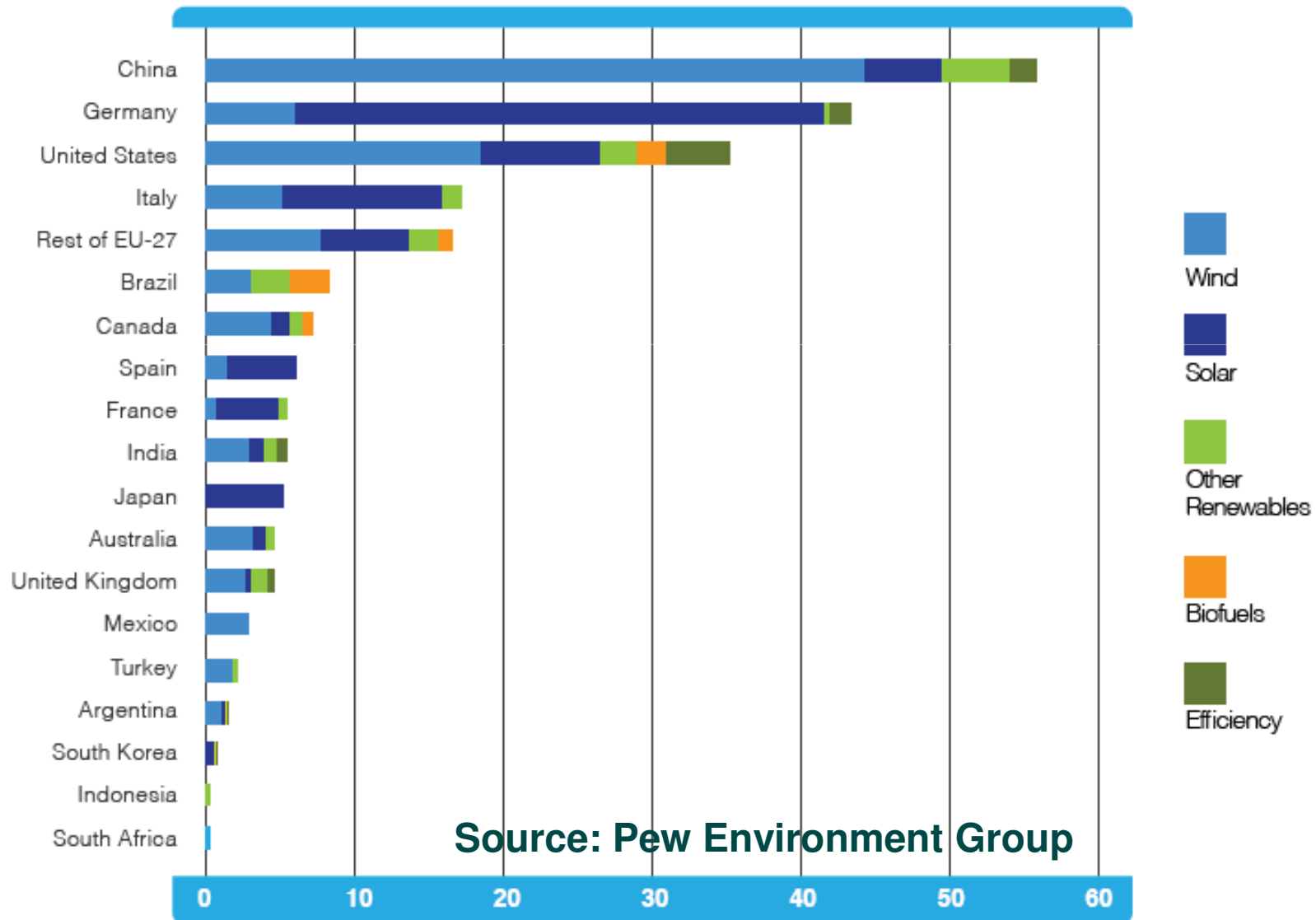
Overview

- 1 How is the EU doing?
- 2 China: competitor or partner?
- 3 Some ways forward for the EU



How is the EU doing?

Clean Energy Investment in 2010 (\$bn)



Source: Pew Environment Group

Some challenges



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- **Financial crisis and austerity: impacts on both public and private budgets; increasing financing costs**
- **Retrenchment by investors, e.g. pan-European utilities. Who will deliver the €1000bn required in next 20 years?**
- **Carbon lock-in: need to do more than correcting 'market failures' through R&D spending and carbon pricing**
- **Shifts in the global balance of power: from Europe and the USA towards Asia?**

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Some challenges

Carbon lock-in



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‘Industrial economies have become locked in to fossil fuel-based technological systems through path a dependent process driven by technological and institutional increasing returns to scale.

This condition, termed carbon lock-in, arises through a combination of systematic forces that perpetuate fossil fuel-based infrastructures in spite of their known environmental externalities and the apparent existence of cost-neutral or cost effective remedies’

Greg Unruh (2000) ‘Understanding carbon lock-in’

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Some challenges

China: competition or co-operation?

US

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- Lots of domestic investment, though not problem-free
- Some evidence of ‘catching up’, e.g. in onshore wind, more efficient coal technology
- But clear limitations and gaps in capabilities for innovation
- Most patents still held by firms in OECD countries
- Still scope for EU-China collaboration for economic and environmental benefit?



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Ways forward for the EU

1. Every Euro counts



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- **Low carbon economy means deep cuts in emissions, but also producing cleaner goods and services**
 - **Investment doesn't stop during a recession: need to resist pressure to relax constraints until recovery underway**
 - **Active government intervention can help to ensure future growth is cleaner / lower carbon. For example:**
 - Environmental tax reform: change incentives in favour of job creation, and against environmental damage
 - Investment in infrastructure can have positive economic impacts, and is necessary to overcome 'lock-in'
 - Keep supporting low carbon innovation: deploying proven technologies, and creating future options

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Ways forward for the EU

2. What kinds of investment?

- **Centralised technologies are important for big emissions reductions**
- **In principle, they don't require lifestyle changes. But costs becoming increasingly controversial**
- **Need to encourage more decentralised investments too – to directly benefit people and communities**
- **Networks need to change to unlock new possibilities: essential for a 21st century energy system to work effectively**



Ways forward for the EU

3. Policy learning and experimentation



Many agree that innovation is essential: but governments need to innovate too:

- **National governments can't do it all due to limited budgets: but which technologies and industries to support?**
- **Helping technologies across the 'valley of death' is expensive and risky – but it is also necessary**
- **Can the EU learn from China: experimentation with policies as well as technologies?**
- **Need to set priorities, evaluate progress and be prepared to stop funding options that fail to progress**

Thanks

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