

THE CORNER HOUSE

Station Road
Sturminster Newton
Dorset DT10 1YJ
UK
Tel: +44 (0)1258 473795
Fax: +44 (0)1258 473748
Email cornerhouse@qn.apc.org
Website: www.thecornerhouse.org.uk

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Dear Sir Nicholas,

I am responding on behalf of several UK organizations working on climate change to the Stern Review's call for comments on the Oxonia talk you delivered outlining some of your preliminary thinking on the economics of climate change.

The organizations include Carbon Trade Watch, FERN and The Corner House, all of whom are active members of the worldwide Durban Group on Climate Justice.

1. I would like to say first of all that we share your view that the science should shape the economics. One of the major difficulties with the current predominantly trading-oriented approach to addressing climate change is that it has led to a situation in which the "tail" of the institutions responding to the economic needs of an allowance and credit market now wags the "dog" of the science of emissions quantification and emissions reductions. My colleagues and I have gone into this problem in some depth in the attached peer-reviewed article and many other publications.
2. We also share your conclusion that Coasean property rights and Pigouvian tax approaches cannot provide by themselves an answer to the question of emissions reductions, and that climate change does not present a standard

externality problem. As you suggest, uncertainties, lack of single world jurisdiction and deeply-entrenched institutional inefficiencies are notable difficulties standing in the way of even conceptualizing the problem in terms of these standard economic approaches.

3. More generally, we agree that previous climate change economics has been too limited in its scope. We would add that attempts to calculate a “social cost of carbon” and to perform cost-benefit calculations for climate change mitigation are singularly ill-judged, given the uncertainty, scope and nature of the subject matter, and should be abandoned in favour of a more rational approach to decision-making regarding climate action. The limited applicability of orthodox game theory to the current situation must also be noted.

4. In addition, we agree that the task of constructing appropriate technological incentives cannot be conducted independently of knowledge of what technologies exist and are likely to be necessary. This principle, together with a review of the US pollution market experience, has led us to the conclusion that cap-and-trade systems cannot spur the innovation needed to address global warming that better-designed regulatory systems could do. Such systems select for the easiest, cheapest incremental technological change while reducing incentives to undertake the deeper, more creative shifts necessary for a long-term shift away from fossil fuels. Price incentives have other structural inadequacies as well. Carbon trading systems are not going to be able to deliver or encourage the “loud, long and legal” signals and structures that the more thoughtful actors in the private sector are themselves calling for. We attach several peer-reviewed articles from our US and UK colleagues bearing on these issues. Global cap and trade systems for greenhouse gases also can’t work without much better measurement techniques and enforcement regimes than those possible today.

5. The CDM, as well, even if we baste the scientific impossibilities of addressing climate change through project-based crediting, is not promoting the social and technological shifts necessary; quite the contrary. A number of publications from international colleagues are attached which may contribute to a more nuanced understanding of the crippling difficulties

facing this type of mechanism.

6. We believe that the contribution of conventional ODA to adaptation is also likely to face more institutional limitations than is usually appreciated.

7. We share your view of the need for action across many areas simultaneously, and include several papers on this subject.

8. Finally, we share your view of the centrality of understanding, discussion and negotiation. There is an old distinction between the market (where one goes to buy, sell and bargain) and the forum (where one goes to talk things over). The currently dominant trading approach to climate change economics is worrisome in so far as it tends to encourage undue encroachment on the space accorded to the forum by the market, rather than encouraging a balance between the two. Our view is that this is dangerous for planning, innovation and democracy alike. Again, some papers are attached which may help clarify this point in light of the US precedents with pollution trading

We hope the attached materials are of some use in the deliberations of the Stern Review.

Sincerely,

Larry Lohmann
Director

Attachments:

1. Larry Lohmann, "Marketing and Making Carbon Dumps"
2. David Driesen, "Does Emissions Trading Encourage Innovation?"
3. Margaret R. Taylor et al., "Regulation as the Mother of Invention: The Case of SO₂ Control"
4. Roger Levett, "Infrastructure is Better than Palliation"
5. Gar Lipow, extract from *No Hair Shirts*
6. David Driesen, "Trading and Its Limits"
7. David Driesen, "Markets are not Magic"

8. Larry Lohmann, Jutta Kill, Graham Erion, Michael K. Dorsey
“Is the US Experience with Pollution Markets Really an Argument for Global Carbon Trading? Innovation, Measurement and Sustainability”
9. Curtis A Moore, “Marketing Failure: The Experience with Air Pollution Trading in the US”
10. Lisa Heinzerling, “Selling Pollution, Forcing Democracy”.
11. Ben Pearson, “Market Failure: Why the Clean Development Mechanism Won’t Promote Clean Development”
12. David Driesen, “Links between European Emissions Trading and CDM Credits for Renewable Energy and Energy Efficiency Projects”
13. Patricia Granda, “From the Netherlands to the Andes”
14. Cynthia Caron, “A Clean Energy Project that Was Not So Clean”
15. Graham Erion and Trusha Reddy, “Carbon Credits from the Cities”
16. David Driesen, “Is Cost-Benefit Analysis Neutral?”