# Be Unreasonable About the New Climate Economy, Op-ed, Huffington Post, Dec 2014

*This article, titled "Be Unreasonable About the New Climate Economy", and co-authored with Loukia Papadopoulos, originally appeared [here](#).*

**A Global Energy Landscape in Turmoil**

Two important energy developments mark 2014: the precipitous, near 50% fall in oil prices since June 2014 accompanied by energy market turmoil and uncertainty. The other is the China-US agreement (together accounting for over one-third of global greenhouse gas emissions) which would cut US net greenhouse gas emissions 26-28% below 2005 levels by 2025, while China – the global leader in renewable energy investment – announced targets to peak CO2 emissions and increase the non-fossil fuel share of all energy to around 20% by 2030. December saw the Lima Accord, the first time that both rich and poor countries agreed to submit blueprints outlining how they intend to cut carbon emissions. While this is a breakthrough in a nearly two-decade effort to implement a global agreement to combat climate change, it is a voluntary accord, not legally binding and there is no enforcement mechanism. In conjunction, the Intergovernmental Panel on Climate Change released an urgent warning last month demanding action including a global switch to renewables by 2050 and the elimination of fossil fuels by 2100.

On a sustained basis, lower conventional fossil fuel prices in the \$60-\$70 range undermine the economics of substitute, competing energy sources including tight oil and renewables. On the other hand, the China-US agreement and Lima Accord could herald a global agreement and impetus to the United Nations Framework Convention on Climate Change. In turn, consensus could lead to an upward, sustained shift in global investments into clean technology (CT) and renewable energy (RE), transforming the economics of energy.

**Financing Renewable Energy**

On the finance side, this year proved promising for green financing. "Green Bond" issuances surged with some $32.6bn raised by October 2014, while Bloomberg New Energy Finance projected the total volume of green bonds issued to reach $40b in 2014 (triple the US$14b issued in 2013). This year also saw the largest offshore wind financing to date come to fruition: the US$3.8b financial close of the 600MW Gemini wind project off the coast of the Netherlands. This and other projects proved that banks are willing to take construction risks for well-structured projects and that new investors are exhibiting increased interest in the renewable energy sector. Militating against this is lower fossil fuel prices and growing regulatory pressure, including Basel III, which penalises bank-finance of renewable energy projects and investments due to their long-tenor and untested risk. We will need to develop new climate economy finance frameworks.

**Long-Term Drivers of Change**

While the revival of RE investment and finance in the aftermath of the onset of the Great Financial Crisis is encouraging, much needs to be done. This is well demonstrated by the Global Commission on the Economy and Climate in its flagship report, The New Climate Economy , which highlighted three drivers of change:

*Raising energy resource efficiency*. Fossil fuel subsidies run at $600bn -of which nearly half are in the Middle East and North Africa (MENA) region- generate energy inefficiency and waste, while clean energy subsidies are at $100bn globally, and have been declining.

*Investment in Low-carbon forms of infrastructure* is essential to reduce current emissions trajectories. We need to substantially reduce capital costs for low-carbon infrastructure investments. This also means removing regulatory and other barriers to RE finance.

*Stimulating innovation in new technologies*, business models and social practices that can drive both economic growth and emissions reduction.

**No Trade-off between Low-carbon Economy Investments & Economic Growth**

The main point of recent expert research is that there is no trade-off between investments required for a low-carbon economy and economic growth. Indeed, investments required for the new climate economy could stimulate economic growth, innovation, technological change, productivity growth and entrepreneurship. But this will not happen unless 'climate' is integrated into economic decision making processes at the levels of government and businesses. The New Climate Economy requires systematic changes to policy and project assessment tools, performance indicators and risk models. This requires a major shift by policy makers and business leaders in their strategy outlook, in their Weltanschauung. Nowhere is this strategic shift in outlook more urgently required than in the region whose oil producers are at the crux of energy market developments.

**MENA Policy Reforms & Initiatives: a Transformation is required**

The MENA region which is the world's main source of hydrocarbon energy, needs to focus on three policy reforms and initiatives to drive change:

• *Gradual removal and targeting of carbon subsidies*, while providing incentives for renewable energy and clean technology. Fossil fuel and electricity subsidies are consuming some 22% of MENA government budgets at the expense of much needed investment in education, health, environment and development projects. More damning, the main beneficiaries of the subsidies are the wealthy and upper quintile of the income distribution, not the intended poor. Governments should provide transition financing to enable a gradual phasing out of subsidies; this would have a greater chance of success and face less opposition from entrenched interests.

• *Provide incentives and implement programmes for energy efficiency*. Energy usage (amount of energy used per unit of

GDP) in the Gulf Cooperation Council (GCC) and the wider MENA region is twice as high as in the OECD countries. MENA is an energy inefficient and profligate region. The GCC countries consume as much primary energy as the African continent, with one-twentieth of the population! Saudi Arabia alone uses as much oil as Germany though it has a quarter of the population and produces one-tenths of the output. Cheap subsidised energy is distorting consumption and production towards high energy intensity technology choices and activities, such as aluminum production. Cheap energy encourages wasteful use.

• *Develop renewable and clean energy financing*. This is starting in major GCC countries that are strategically engaged on the RE path. Dubai recently shattered global solar price records when ACWA Power bid an unsubsidised US 5.98 cents fixed tariff, over a 25-year period under a Build-Own-Operate (BOO) model for a 1,000 MW solar plant. Saudi Arabia was listed 35th in the EY RE attractiveness index, while Qatar has unveiled a solar factory in Doha with 300MW capacity, with the potential to be expanded to 2.5GW. More generally, Green financing is increasingly attracting new investors as part of sustainable finance. The UAE which is hosting IRENA, and also has an open and developed international financial sector proficient at financing hydrocarbons, can become the first global hub for RE and CE finance, tapping the Gulf region's enormous financial resources.

**MENA Transformations: We need to become unreasonable about the new climate economy**

The current energy landscape is dynamic, subject to both short term market forces and structural changes driven by new technology and new discoveries. Radically increasing energy efficiency, phasing out generalised fuel subsidies and the distortions they create for consumption and production decisions, and re-orienting the budgetary savings to increased spending on education, health, productivity, investing in low-carbon infrastructure, social capital and climate-resilient knowledge and capacity building would be nothing less than transformational to the societies and economies of the MENA region. The GCC should take the lead. The time to act is now: building the New Climate Economy must be done proactively, in partnership with the private sector, opening new sectors for economic diversification and innovation.

The MENA region has timidly begun on a path to making its societies climate-ready and its energy policies climate-friendly. Given its resources, it can play a central role in moving to the new climate economy. And yet despite progress, there is still a long way to go. Completing this journey may seem daunting, overwhelming, and unreasonable even. But as George Bernard Shaw once said: “The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.” The GCC countries need to show that they can be unreasonable enough to help build the climate-resilient low carbon societies that are now so desperately needed.