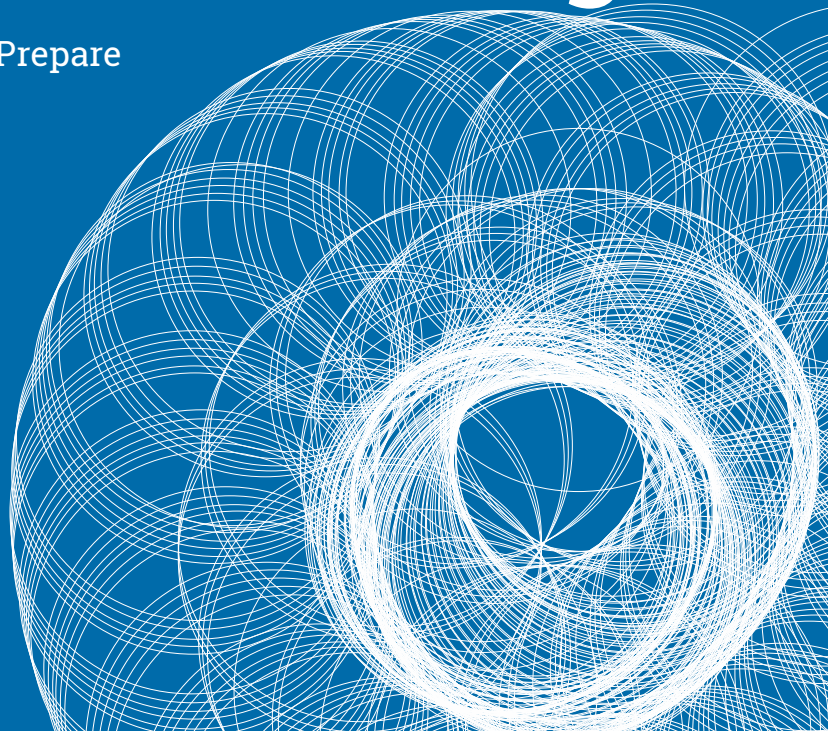


Briefing Paper

# The Economics of Climate Change:

How Scotland Should Prepare



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## About Scotianomics

In the 21st century data is everywhere but it is the analysis that transforms data into valuable, actionable knowledge that is key to success.

Organisations, both in Scotland's private and public sectors, lack access to useful, reliable data and value-added analysis of the kind that most advanced countries take for granted. This creates a hidden but real disadvantage for Scottish business, limits public policy and disrupts the pursuit of shared prosperity.

Scotianomics aims to spark a knowledge revolution and inform the decision-makers on Scotland's economy. We provide cutting-edge intelligence and strategic planning resources so that stakeholders can gain a wide view of the threats and opportunities in the world through our geopolitical, economic and policy analysis, unique historical datasets, risk and opportunity forecasts, Geographic Information System mapping solutions and strategic planning services.

Gordon MacIntyre-Kemp

Director

## Executive Summary

- For the first time polling has shown concerns about the environment are cited as more important than those of the economy or immigration.
- The government regularly makes choices about how public money is spent, while investment in sustainable energy and infrastructure can provide a net benefit to the economy in the long-term.
- Last year the WHO said that tackling climate change would save at least one million lives per year worldwide.
- The Scottish Government has committed to net-zero (where the volume of emissions is absorbed by offsetting techniques such as forestry) greenhouse gas emissions by 2045
- More needs to be done in order to achieve this target in Scotland. Holyrood's environment committee has said that clearer plans are needed on how to tackle climate change.

## Introduction

For the first time polling has shown concerns about the environment are cited as more important than those of the economy or immigration. The environment is now the third most pressing issue among the general population and the second most important among young people.

Phillip Hammond, the Chancellor, has framed tackling climate change as a zero-sum game – it's either spending for hospitals, schools and public services or for climate mitigation policies. This is misleading about how government spending functions. The government regularly makes choices about how public money is spent, while investment in sustainable energy and infrastructure can provide a net benefit to the economy in the long-term.

## The UK Government's Climate Change Stance

The Chancellor's has claimed that spending on climate mitigation policies would cause industries to become economically uncompetitive due to a lack of government subsidies. This ignores the fact that many industries benefit from investment in green technologies – from research and development to renewables. Furthermore, the current government has overseen cuts in funding for new onshore wind turbines. This ignores the fact that future-proofing the economy requires a move towards these sustainable growth industries.

The question of whether or not we can afford to avert harmful climate change is the wrong approach. The widely credible Stern review estimated the effect of dealing effectively with climate change would be 1-2% of GDP per year compared with the cost of 5% of GDP a year from leaving global heating unchecked.

Whilst the costs of reducing our emissions will decline year-on-year as technologies become more accessible, the costs of inaction will only increase as climate change becomes more prevalent. These costs include those arising from climatic events and those from the proven health consequences of environmental damage. Last year the WHO said that tackling climate change would save at least one million lives per year worldwide.

## The Scottish Government's Climate Change Stance

Scotland is showing an ambitious policy response to climate change, being the first country to declare a climate emergency. The Scottish Government has also committed to net-zero (where the volume of emissions is absorbed by offsetting techniques such as forestry) greenhouse gas emissions by 2045, five years ahead of the UK as a whole. This makes Scotland one of the most ambitious in the world in terms of statutory targets.

Whilst the UK has followed Scotland by declaring a climate emergency, it has faced criticism for expanding fracking initiatives and granting planning permission for a new coal mine. This in combination with the Chancellor's suggests resistance to environmental policy reform within the UK Government.

That being said, more needs to be done in order to achieve this target in Scotland as well. Holyrood's environment committee has said that clearer plans are needed on how to tackle climate change.

There is also appetite among Scottish businesses for more comprehensive environmental policies. Scottish Power has said the net-zero emissions target should be made legally binding; a proposal that is being considered by the Scottish Government. This shows that rather than being a zero-sum-game, environmental policies can be integrated with a business-friendly economic approach.

The renewable sector offers huge potential to Scotland's economy, particularly as we look to making growth more sustainable. Whitelee onshore windfarm, the largest in the UK, has generated 90% of the annual household electricity consumption of Scotland.

## Offshore Wind Potential in the UK

SSE's Beatrice offshore farm in the Moray Firth recently generated enough power for 450,000 homes, the most electricity of any single renewable source in Scotland. With 25% of the EU's wind potential, it is vital that this sector is utilised to full effect.

The integration of environmentally conscious thinking in economic policymaking reflects an approach called the Green New Deal (GND). Its proponents say it will create highly skilled, well-paid jobs and improve welfare whilst addressing the climate emergency. Specific proposals include a huge national home insulation program, which will cut down on the catastrophic levels of fuel poverty whilst making the sector more efficient and requiring skilled jobs to do it.

The New Economics Foundation suggests several GND policies, including things that would not automatically be associated with green politics, such as breaking up discredited financial institutions and reforming the financial sector.

Elements of the GND mirror arguments that we have been making for some time. For instance, establishing an Oil Legacy Fund, paid for by taxing oil and gas companies, which would be used to invest in the renewable sector. Furthermore, our proposal for benefit corporation tax credits would charge a lower rate for businesses who adopt sustainable working practices, minimising the incentive for tax evasion.

## Conclusions

- There is now a huge opportunity for the Scottish Government to provide leadership to the sustainable growth agenda.
- There are doubts about whether the UK Government will follow through with their commitments on the environment and it appears that they will continue to prioritise all-costs growth.
- With that in mind, the Scottish Government should demand additional powers over areas such as corporation tax and management of Scotland's oil and gas revenues.