



# Energy Policy and Economic Growth

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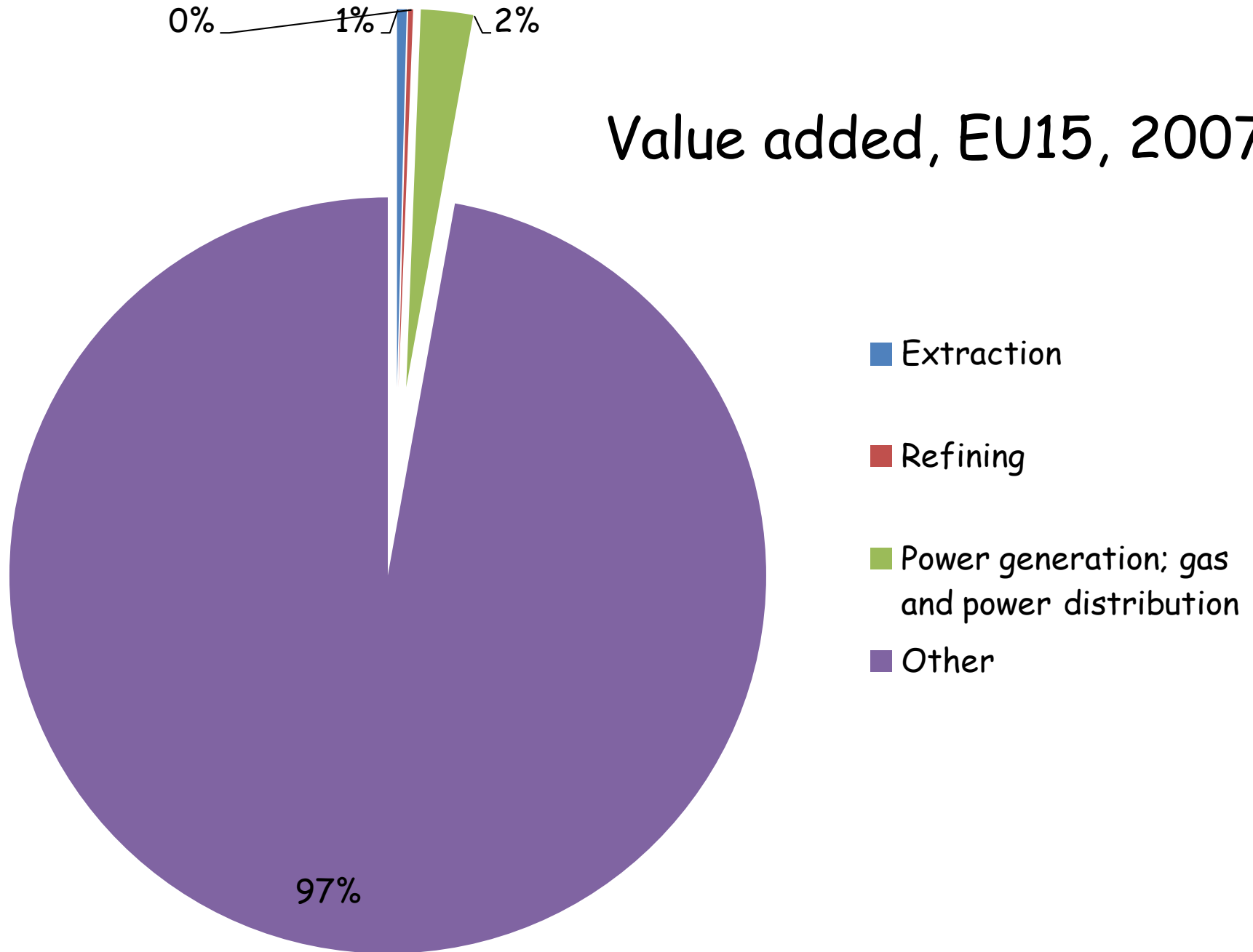
Economic and Social Research Institute, Dublin

# The Need for Action

- Great Recession
  - High unemployment
  - Climate change
  - High energy prices
  - Finite sources of conventional energy
- 
- Let's use the energy revolution to create new opportunities for growth and jobs



# Value added, EU15, 2007



# Green Growth

- In Europe, as in other mature economies, energy is a small sector
- Small sectors can grow fast, but they cannot drive economy-wide growth
- Energy is either a necessary good (heating) or an input (transport fuel, electricity), so you want to keep volume and price down
- No growth from dearer energy
- The energy revolution is within the sector, replacing one source for another - growth and shrink at the same time and same scale



# Green Growth -2

- But what about Denmark?
- Rapid growth in a small subsector can mean rapid growth of the overall economy in a small region
- Denmark benefitted greatly from price supports elsewhere in Europe
- This was wealth transfer, not creation
- Competition in alternative energy is fierce, success rates small and margins thin
- Denmark built on old strengths

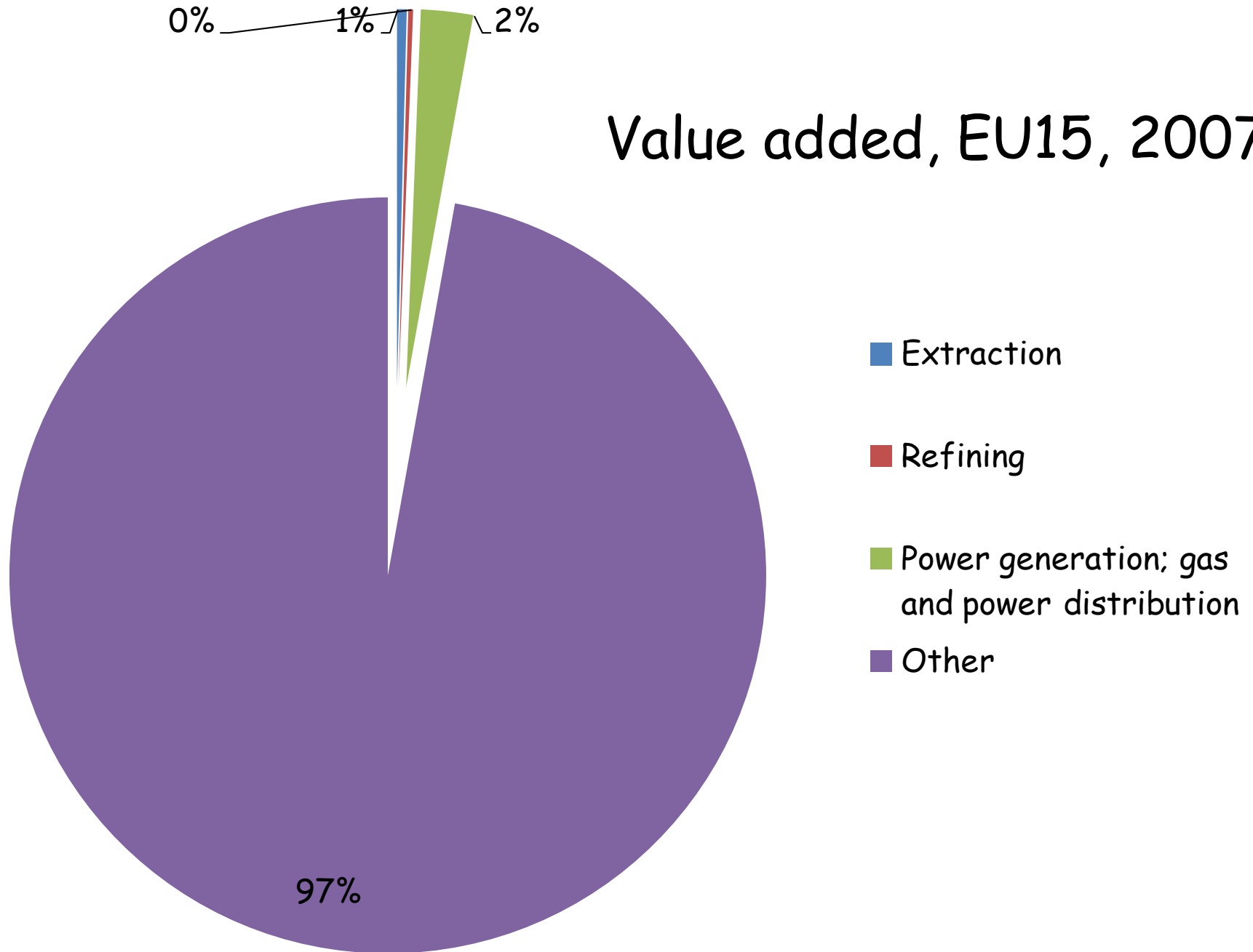


# Green Growth -3

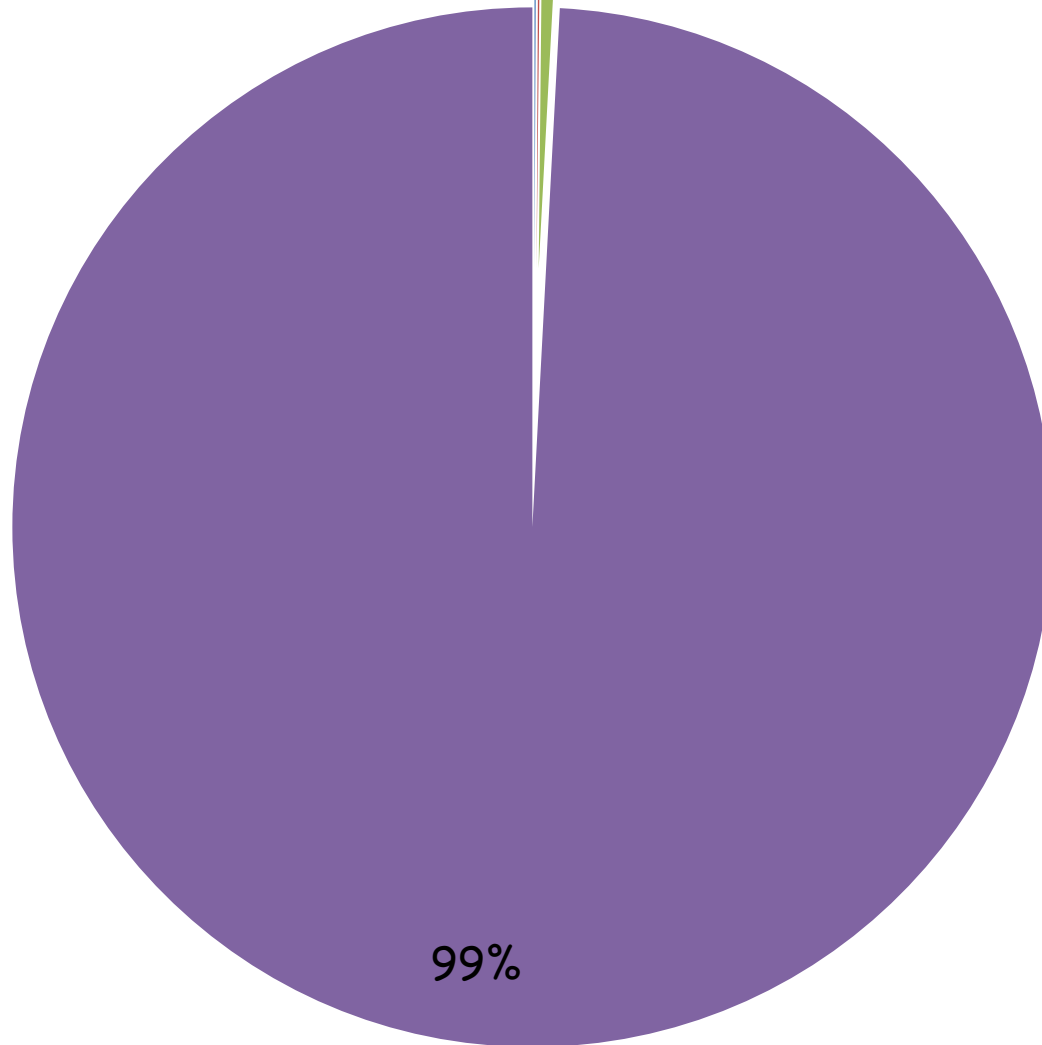
- There is substantial government support for alternative energy
- Infant industry experience shows that this is likely to create companies that excel at lobbying for more support
- Government support is fickle, unlikely to be effective in energy with its long lead times
- Government support is often about picking winners / rewarding supporters - governments have a long tradition in backing the wrong horse



# Value added, EU15, 2007



# Employment, EU15, 2007

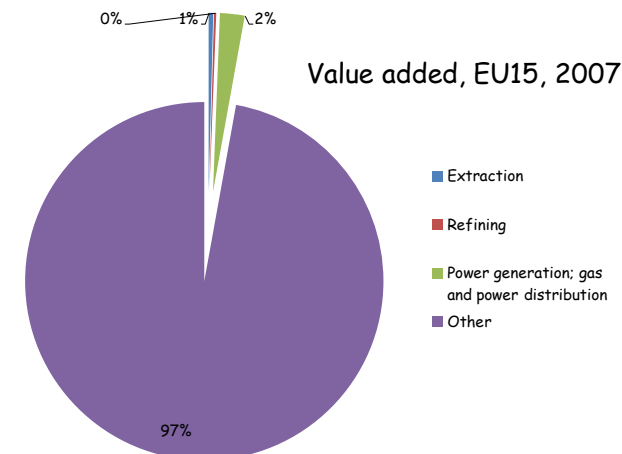


■ Extraction

■ Refining

■ Power generation; gas and power distribution

■ Other



■ Extraction

■ Refining

■ Power generation; gas and power distribution

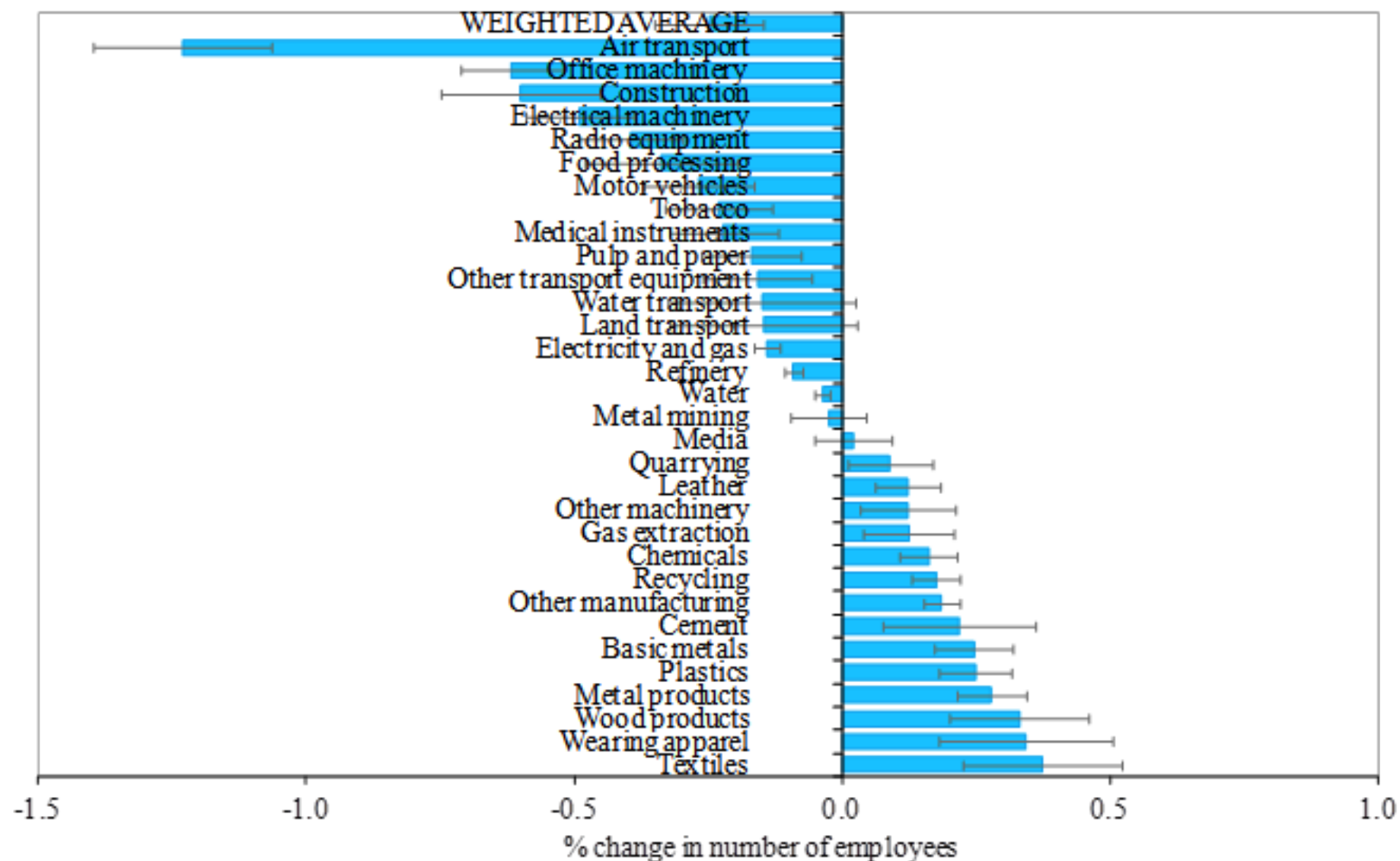
■ Other



# Green Jobs

- Much the same is true for employment, but more so as the energy sector is labour-extensive
- The debate is distorted by accounting errors
  - Jobs are created in alternative energy
  - Jobs are destroyed in conventional energy
  - Dearer energy destroys jobs





# Irish energy policy

- The best thing Ireland can do, therefore, is to keep its energy prices low
- Competition is key, but poor in Ireland
- Wholesale gas is a recent example
- The gas interconnector is state-owned and price-regulated
- Its regulations stipulate that it must recover its annual costs
- Price is annual cost over annual flow



# Irish energy policy

- Price is annual cost over annual flow
- This is a perfectly sensible rule for (part of) a monopolist
- It is perfect for competitors too: You price just below the interconnector, gain market share, the interconnector raises its price, you raise your price too, gain more market share ...
- Price regulation for gas interconnector solved the problem of that day



# Irish energy policy

- Price regulation will need to be changed by Pat Rabbitte, who
  - is a member of the dominant coalition in the legislative
  - is the pre-dominant actor in the executive
  - appoints and control the budget of the regulator
  - is the trustee for the Irish citizens in their ownership of
    - the dominant player in the gas market
    - the gas interconnector

