

## ENERGY POLICIES IN THE DARK



Forget the tussle between the BBC and Downing Street over who was responsible for hounding David Kelly to his death. Forget the manoeuvring between Blair and Brown over who will lead Labour after the next general election. Consider, for one moment, a power struggle of a different order – the one that left 50 million people without electricity across the American north east and southern Canada.

Technically, the causal explanation for this was relatively simple. A Canadian power plant was knocked 'off line' by a lightening strike. Electricity was automatically switched in to cover this as part of America's National Grid. What happened then was that transmission lines overloaded and the entire network collapsed. So much for the technicalities.

The real story behind America's (temporary) return to the Dark Ages is the botched history of privatisation and deregulation in the 1990's. Since then, there has been a competitive shake-out of spare capacity in the industry in pursuit of lower consumer prices. The obsession with 'price only' competition also led to a massive disincentive to invest in the infrastructure of new transformers, powerlines, pylons etc. As one US commentator put it, America is now a global superpower with a Third World electricity grid. This is the magic of the free market – a short-term dash for cash, with the long-term certainty of disaster.

Many in Britain may have chuckled at America's misfortune but our own energy privatisation has taken us close to the same precipice. Before privatisation Britain had 28% excess capacity built into the National Grid – enough to cushion almost any level of technical failure. Today, surplus capacity is down to 16%. Much of the UK generating industry is also struggling to survive.

In the past 2 years about 5% of UK generating capacity has been mothballed. British Energy would be bankrupt without the huge public subsidy to nuclear power, and the country's biggest coal-fired power station is in administration. Last December we came within 3 minutes of a major power cut. Just to rub salt into the wound, the Chancellor has now released a Treasury document on energy policy that effectively rejects measures to promote domestic energy efficiency savings.

Tackling the demand side of the energy equation is at least as important to addressing a looming environmental crisis as to a more short-term energy one. What is clear, however, is that Labour's Treasury advisors have no grasp of the economics of sustainability. We make token gestures towards the taxation of 'green' fuels, but nothing that makes for a radical shift in motor technology.

I have just come back from looking at Brazil's investment in bio-fuels. It was a humbling experience, especially in a country with so much poverty of its own to address. Brazil has run vehicles on bio-ethanol since the 1930's. You can mix this with petrol or use it 100% (as they do in the country's bus network). I toured around Volkswagen's biggest car production plant in the world, where the latest

range of vari-fuel cars are coming off the production line. You can simply choose whatever mix of bio-ethanol and petrol you like and the engine technology adjusts itself to the mix. It is the tax regime, however, that makes it financially (as well as ethically) sensible to favour bio-ethanol.

The environmental gain in this is another simple story. Bio-ethanol still emits carbon gases (about 25% of conventional petrol ones) but the emissions are less than the carbon absorbed by growing the sugar cane, to produce the fuel. Overall, there is a carbon gain from the process rather than an environmental loss.

In Britain we could not hope to create such an industry based on sugar cane; but we could do so using wheat or sugar beet. The question is whether we have the political will (and wisdom) to shift some of the billions being thrown at the nuclear industry and put it into more sustainable energy systems.

The intellectual challenge of this simply seems to escape the Chancellor's grasp. The Treasury discussion paper rules out the use of tax incentives to promote energy efficiency in the home. In France, employees are rewarded with an increase in their tax allowance if they make home energy efficiency improvements in their homes. We could also lower the VAT rate on 'clean' boilers, provide incentives for the use of solar energy as well as solar power, lower the Council Tax banding for energy efficient homes or (conversely) place a carbon tax on landlords renting out energy inefficient properties.

There isn't a shortage of possible ideas about fiscal incentives (and discentives) that could drive us towards a more balanced environment and energy future. We just lack the will to make the change.

Instead we are caught within the same mindset that plunged America into darkness – an obsession with market deregulation that drives spare capacity out of the energy supply industry; a belief that ever rising consumption can be supported by ever falling prices; market disincentives to invest in long term, sustainable energy infrastructures; and political disinterest in intervention strategies that will deliver the 60% reduction in carbon emissions by 2050 that the Energy White Paper has promised.

Politically, the Chancellor is as much in the dark as most of New York was. It is the Party and the broader environmental movement that has to lead Labour out of this darkness.