

Markets and environmental goals

A preliminary assessment framework

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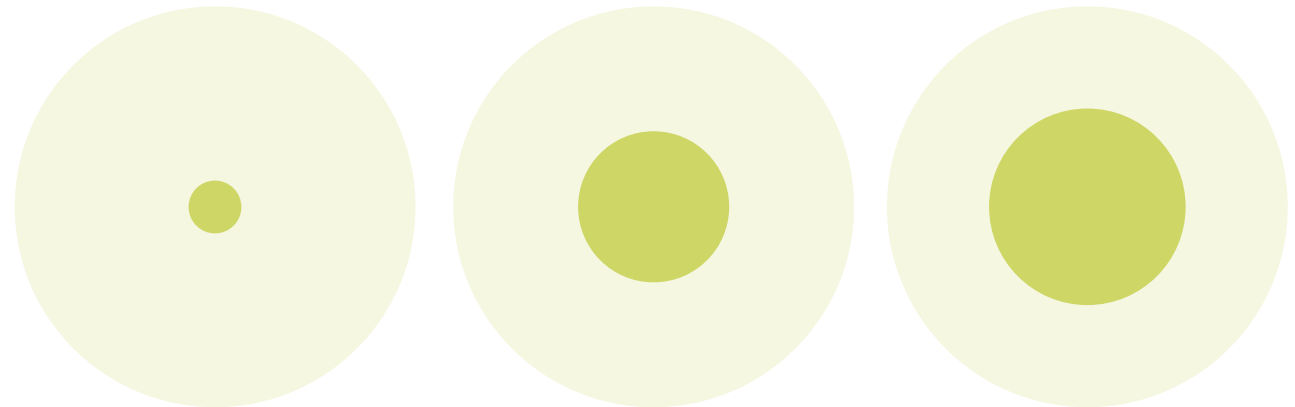
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** The views expressed here are personal views, rather than those of colleagues at RBB or RBB as a whole. Any errors are my own.*

This presentation covers **five areas** relevant to understanding whether markets are likely to deliver on **climate change goals set by governments and community aspirations**, and **analysis required** to test whether they are likely to do so in practice:

1. Demand
2. Supply
3. Regulation
4. Competition law
5. Adaptation

1. Demand



- The cost of carbon emissions is not typically borne by the consumer that purchases goods or services that generate those emissions
- Externalities are likely to lead to **severe market failure**

Consumers likely to care about direct impact on them

- Direct effect of my behaviour to reduce my own carbon emissions on **me likely to be very limited**

Consumers may care about social impact

- Direct effect of my behaviour **on society greater but still very limited**

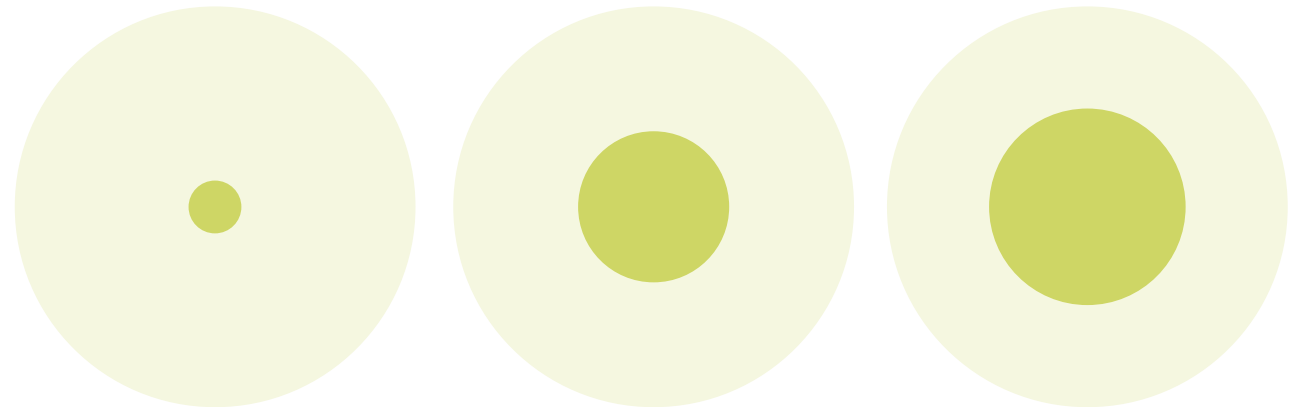
People still vote in elections based on impact of policies on them or society even though chance of single vote influencing an election very limited

Techniques

- Surveys
 - Ask customers how they value the carbon emissions associated with a good or service
- Demand estimation
 - Develop to estimate customer switching in response to changes in carbon emissions (akin to a quality parameter) rather than changes in price

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- Unclear whether consumers have **information** on carbon emissions of different products and services
 - Difficult to obtain **data on carbon emissions** to check how consumers respond to differences and changes in carbon emissions levels

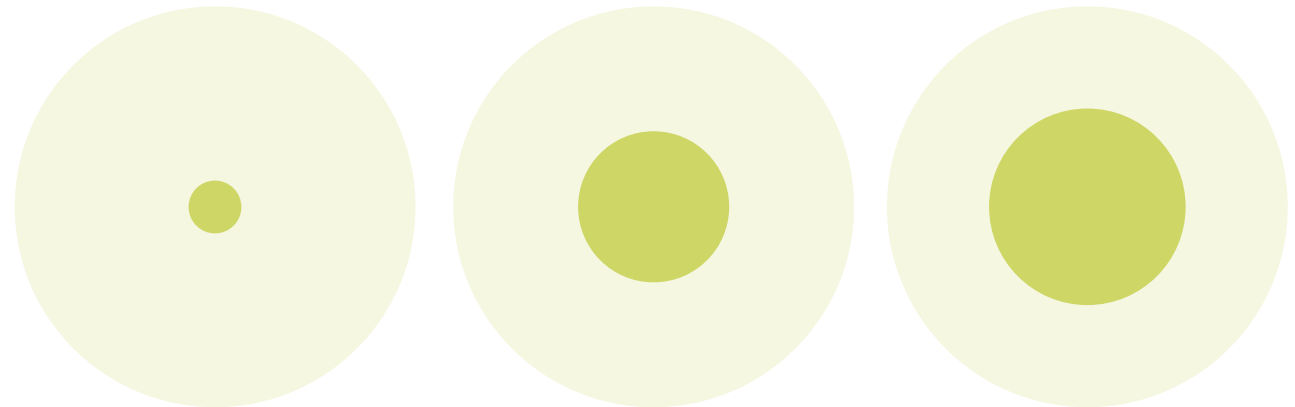
2. Supply



- Similar to the demand side, the cost of emitting carbon does not typically fall on the emitter (absent an explicit carbon tax regime)
- Firms respond to **consumer demands**
- Some firms, or at least employees within those firms, may respond to **environmental concerns**, including climate change
- **Investors may influence firm behaviour** to respond to environmental concerns, including climate change

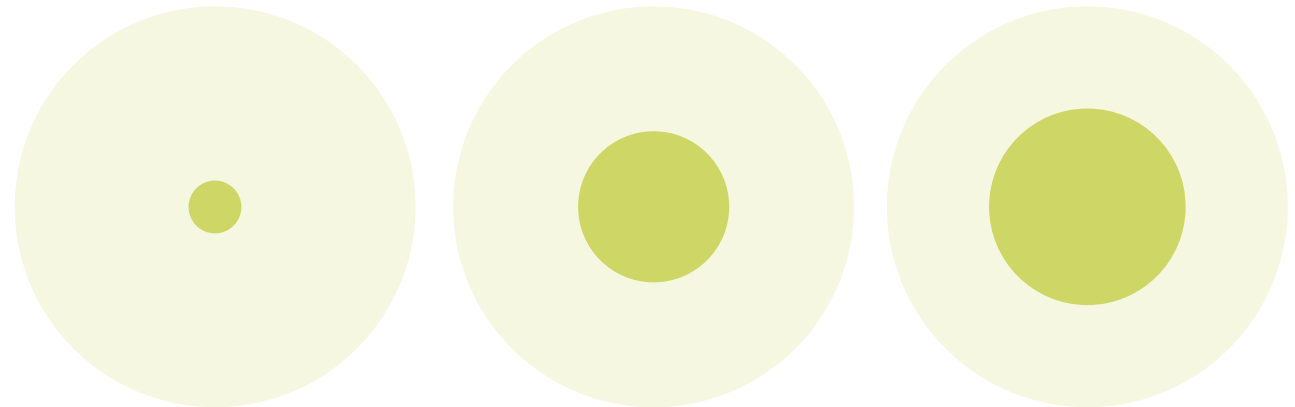
- **Entry and expansion** of firms with low carbon emission technologies
- Will do this in **response to consumer, internal or investor demands** or because it is **lower cost**

3. Regulation



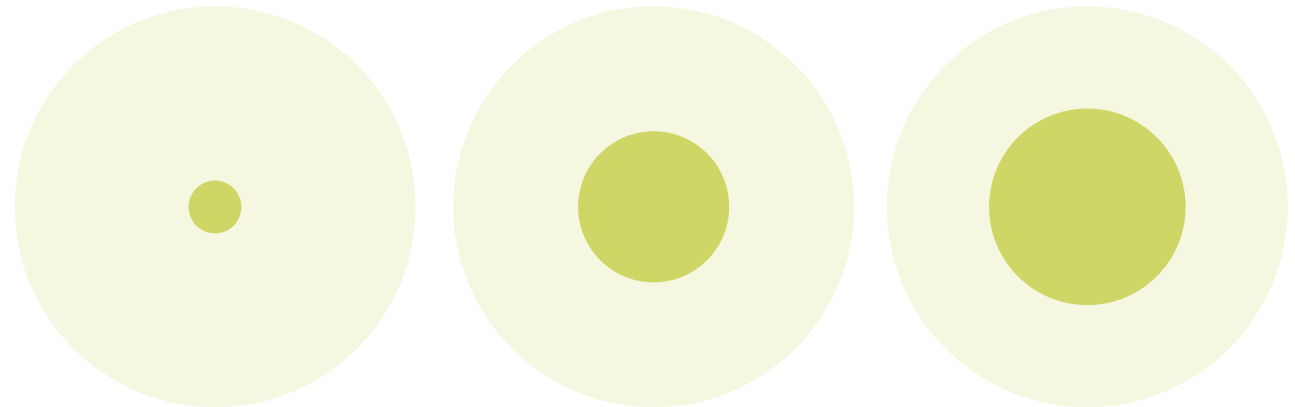
- Firms respond to **current and expected future regulation**
- Mandating technologies and standards can **increase their uptake** and thereby **lower costs** due to economies of scale

4. Competition law



- Initial concern about competition law impeding **green agreements**
 - Scope for Article 101(3) exemption in Europe to avoid breach of cartel laws
- New concern about **lack of competition and cartels** impeding progress on environmental goals

5. Adaptation



Adaptation could mitigate some climate change costs

- Consumers may only adapt to **protect themselves from direct threats**
- Some consumers **may not be able to afford to adapt or have the means to do so**

