



THE HELM REVIEW

and the climate-industrial complex

Peter Lilley



The Global Warming Policy Foundation

GWPF Note 13

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About the author

Peter Lilley was formerly the Secretary of State for Trade and Industry in the governments of Margaret Thatcher and John Major and also Secretary of State for Social Security. He was one of only three MPs to vote against the passage of the Climate Change Act and is the author of several previous GWPF publications.

THE HELM REVIEW OF ENERGY COSTS

Lessons to be Learned

The dogs that didn't bark

Sherlock Holmes was right. The most important clue is often 'the dog that did not bark in the night'.¹

So, when the government published a report showing that its own policy has wasted the best part of £100 billion and rising, yet the guard dogs of Parliament, the hounds of the Opposition and the mongrels of the media let it pass without so much as a whimper, we have to ask: 'why didn't the dogs bark?'

Debate rages about whether it is worth spending £40 billion to leave the EU, or £50 billion on HS2 to shorten journeys to Birmingham by 20 minutes. Yet when Professor Dieter Helm, one of our most respected energy economists, revealed that the government could achieve its target to reduce carbon emissions for a fraction of the £100 billion it has already committed,² there was a deafening silence.

It is not as if Dieter Helm is a climate sceptic. Far from it. He shares the concerns about global warming enshrined in the Climate Change Act, which requires British governments to reduce emissions of carbon dioxide by 80% by 2050. His review was commissioned by the government itself to examine how this target 'can be met in the power sector at minimum cost and without imposing further costs on the exchequer'.

By any standards it is an exemplary study – lucid, logically coherent, original and devastating in its conclusions. One does not have to accept all its analysis or recommendations to recognise that it is an outstanding contribution to policymaking.

Helm sums up why the policy of successive governments has been so unnecessarily costly in a single pithy phrase, which may also explain why his report has met such a comprehensive 'ignoral'. Governments, Helm reminds us, are not good at picking winners – 'unfortunately, losers are good at picking governments'. Rather than leaving the market to find the most cost-efficient way of reducing emissions, successive Labour, coalition and Conservative ministers have all taken it upon themselves to select and subsidise specific technologies. So, his phrase indicts as either losers or gullible, the whole subsidised renewables industry along with the politicians of all parties and their officials who picked or 'were picked by' them. No wonder they all combined to consign his review to oblivion and almost no-one had an interest in sounding the alarm.

Moreover, governments have not only subsidised research and development (something which Helm supports) or a pilot plant in each technology. Instead, they have financed large-scale deployment of immature technologies. And they did so by awarding each technology a price for the electricity it generates high enough to make it profitable, then guaranteeing that price, indexed to inflation, usually for 15 years. Needless to say, the only people who could advise civil servants on the price required to make each technology profitable were the businesses backing that technology!

So, the strategy provided a field day for uncompetitive businesses. In Helm's words: 'inevitably – as in most such picking-winners strategies – the results end up being vulnerable to lobbying, to the general detriment of household and industrial customers'.

It also created a playing field for amateur political and civil service enthusiasts for each technology. Amateurism and lobbying combined so that: 'Government started out with

some of the most expensive technologies first, and it could be argued that since then it has at times been exploring even more expensive options’.

Helm’s central proposal is to return decision-making to the discipline of the market, wherever possible. He recommends setting a carbon price (a tax on carbon dioxide emissions reflecting the environmental damage they are expected to cause) and then letting the best technologies prevail. He believes that, had we done so, there would initially have been a further shift from coal to gas, which emits only half as much carbon dioxide, while more efficient versions of wind, solar, other renewables and storage were being developed.

The universal excuse for going straight to full-scale deployment of immature wind and solar technologies is that this was necessary to bring down costs. Yet most new technologies – computers, mobile phones, gas turbines and, perhaps most telling, fracking – have rapidly reduced their costs without governments subsidising large-scale deployment. Making it profitable to deploy immature forms of wind and solar may have slowed, rather than accelerated, cost reductions.

We are simultaneously assured that wind and solar are, or soon will be, competitive with fossil fuels but that ending their subsidies would be disastrous. Recently, the renewables industry has claimed that the winning bids by two planned offshore wind farms prove costs have fallen dramatically. In fact, this drop in prices follows the switch from the government setting the price for energy from each renewable source to using auctions to set the price. It reveals the extraordinary scale of rents and/or inefficiency under the old bureaucratic system. Nobody has identified a sudden breakthrough in windmill technology that has halved costs since 2015.³ Helm recommends more widespread use of auctions, to the dismay of the vested interests.

Because Britain has installed so much high-cost capacity, we are not only committed to pay high prices for up to fifteen years, we have also reduced the scope for installing additional intermittent renewable capacity once costs do become genuinely competitive with fossil fuel generation.

Moreover, the more intermittent capacity we install, the greater the cost of the back-up ‘firm’ capacity needed for when wind does not blow or the sun shine. The renewables lobby likes to ignore that additional cost when they claim that renewables have reached ‘grid parity’. Helm proposes to deal with that by requiring renewables to bid on an ‘equivalent firm power basis’ – in other words, they must contract with a generator or storage company able to provide electricity when there is no wind or sun.

In short, Helm takes on all the vested interests – not just commercial, but bureaucratic, political and academic – who are implicated in the existing system of subsidies and intervention. His proposals would erode their rents, undermine their roles and destroy their credibility. No wonder they damned his review with faint praise before consigning it to oblivion.

The climate-industrial complex

In his farewell address to the nation in 1961, President Eisenhower famously warned of a military-industrial complex that might gain unwarranted influence. But in the same speech he also pointed to a wider danger: that ‘public policy could itself become the captive of a scientific-technological elite’.

Half a century on, it seems clear that our public policy has been captured by a ‘climate-industrial complex’. In the field of economics, it distorts the truth, closing ranks and ignoring or distort dissent when its failures are brought to light. It justifies the squandering of

astronomical sums of money – waste that has already added 20% to the energy costs of households and industry.

If it can be so reckless about the economics of global warming, is it not just possible that it may be exaggerating the dangers of global warming on which the whole case depends? As Eisenhower spelt out:

...a government contract becomes virtually a substitute for intellectual curiosity...The prospect of domination of the nation's scholars by Federal employment, project allocations, and the power of money is ever present and is gravely to be regarded.

Having studied physics at Cambridge, I entirely accept the science of global warming: double the amount of carbon dioxide in the atmosphere and the direct effect will raise the average temperature by about 1°C. But how much that will be amplified or dampened by clouds, water vapour, ice loss and other factors is far less certain. Indeed, the most recent IPCC report was for the first time unable to agree a most likely estimate of the overall effect, but did reduce the lower end of the likely range. Significantly, neither of those points were included in the Summary for Policymakers – presumably because the authors felt it their duty to report only facts that would stiffen policymakers' resolve to tackle global warming. Most scientists remain scrupulously objective in their own work. But they know it is more than their career is worth to question exaggerated claims others may make of the scale, speed or impact of global warming. To adapt Upton Sinclair: 'It is difficult to get someone to be critical of something if his salary depends on taking it for granted'. So, alarmist claims go unchallenged while evidence that we could adapt to global warming rather than try to prevent it is played down.

Dieter Helm exposed the fact that billions of pounds of public money have been wasted on renewables schemes, yet the climate-industrial complex has shrugged him off with barely a glance. It is hard not to suspect that their flagrant disregard for sound economics may be mirrored in their approach to the science.

Notes

1. Conan Doyle, A. *The Adventure of Silver Blaze*. In: *The Memoirs of Sherlock Holmes*, George Newnes, 1893.
2. Helm, D. Cost of Energy Review, 25 October 2017.
3. Hughes, G., Aris, C. and Constable J., *Offshore Wind Strike Prices: Behind The Headlines Briefing 26*, The Global Warming Policy Foundation, 2017.

About the Global Warming Policy Foundation

The Global Warming Policy Foundation is an all-party and non-party think tank and a registered educational charity which, while openminded on the contested science of global warming, is deeply concerned about the costs and other implications of many of the policies currently being advocated.

Our main focus is to analyse global warming policies and their economic and other implications. Our aim is to provide the most robust and reliable economic analysis and advice. Above all we seek to inform the media, politicians and the public, in a newsworthy way, on the subject in general and on the misinformation to which they are all too frequently being subjected at the present time.

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