

***Climate Change: International Perspectives***  
**Speech to a meeting of the New Zealand Business Roundtable**  
**16 February 2007**

**Introduction**



I am delighted to be back in New Zealand and to be taking part in a Business Roundtable event. It is both an honour and a pleasure for me to be invited to open this discussion.

I think the choice of subject needs a word of explanation. I was last in Wellington, working at the Roundtable with Roger Kerr, just about seven years ago. Suppose that he had then suggested the idea of my returning in seven years' time to make a presentation to you. We might in that case have thought about possible topics. But neither he nor I would have imagined for one moment that the subject we would jointly choose for such a presentation might be climate change issues: it would not have crossed our minds as a possibility.

Why then the choice? There are two reasons. The first is that, to my surprise, I have become personally involved with these issues. This began, more by accident than design, just over four years ago. Since then my involvement has deepened.

A second reason for choosing this subject is that climate change issues are especially topical right now, because of the publication of two large-scale, officially-commissioned and potentially very influential reports that bear on them. Because of these reports, 2007 will be a year of intensified debate, and possibly of new policy initiatives, national and international.

The larger of the two publications, scheduled to appear in full in the course of this year, is the Fourth Assessment Report (AR4) of the Intergovernmental Panel on Climate Change, the IPCC. It may well run to 2,000 pages of text, and some 2,500 experts from around the world have been involved in its preparation.

Like its predecessors, this new IPCC report mainly comprises three large volumes. The first of these, on scientific aspects, is close to being issued in final form, and its associated Summary for Policymakers is already published. The two companion volumes, one on possible impacts of climate change and the other on 'options for adaptation and mitigation', are due to be finalised and published later in the year.

The second major officially-commissioned report to appear on the scene is already in the public domain. It is the Stern Review on *The Economics of Climate Change*. The Review was set in motion by the British Chancellor of the Exchequer in July 2005. A text was posted, with a launching ceremony, at

the end of October last year, and this has now been published in book form, with some extra material added.

The Stern Review is not on the titanic scale of AR4. All the same, it is a weighty document. The main text comprises some 550 pages, and covers a very wide range of issues including both ethical and scientific aspects. It reflects the work of a team of more than 20 British officials, working under the direction of Sir Nicholas Stern, and backed by a number of commissioned reports and studies from research institutions and consultants.

Besides these two leading reports, a third less recent contribution is also worth noting. In July 2005, the month in which the Stern Review was commissioned, the House of Lords Select Committee on Economic Affairs issued a report on precisely the same subject as the that of the Review: it too is entitled 'The Economics of Climate Change'. The Select Committee included four former Cabinet ministers, two of them Chancellors of the Exchequer; two other members with ministerial experience; a former Governor of the Bank of England; two former CEOs; a leading professor at the London School of Economics; and the author of the award-winning biography of John Maynard Keynes. Its Special Adviser was the leading British environmental economist. The Committee took written and oral evidence – I was one of those who gave both – and its report was unanimous.

So much by way of introduction. The rest of my remarks fall under three headings:

- First, I comment briefly on the Stern Review and the debate that it has given rise to.
- Second, I place these comments in the wider context of the IPCC's AR4. In doing so, I will raise questions about the role of the Panel and the credibility of the IPCC process.
- Third, I suggest the moral that could be drawn by businesses acting in concert and by business organisations such as the Roundtable.

### **The Stern Review: a debate has opened**

The Stern Review paints a dark and dramatic picture of the risks and threats that could arise if anthropogenic emissions of (so-called) 'greenhouse gases' are not brought under control in the near future and then progressively and substantially reduced. The Executive Summary begins with the statement that

'The scientific evidence is now overwhelming: climate change presents very serious global risks and it demands an urgent global response'.

In a much-quoted conclusion, the Review asserts that the prospective damage to the world economy that could arise from global warming could amount to as much as 20 per cent of world GDP, while the costs of taking action to limit and reduce emissions, so as to avert the worst danger, can be out at around 1 per cent of world GDP. Hence there is a clear economic case for 'an urgent global response'.

The Review has been widely hailed, across the world, as an authoritative guide to thinking and policy. At the launch of the document in October, the British Prime Minister voiced some thoughts, taken from the Review, which many other commentators have echoed:

‘... what is not in doubt is that the scientific evidence of global warming caused by greenhouse gas emissions is now overwhelming... [and] ... that if the science is right, the consequences for our planet are literally disastrous... what the Stern Review shows is how the economic benefits of strong early action easily outweigh any costs.’

In Britain, a widespread cross-party view is that ‘the science’ was settled already; and thanks to Stern, ‘the economics’ is now also settled: the basis for action has been firmly established.

The only reactions to the Stern Review from the British business world that I have seen have been uncritically favourable.

In addition to these and other favourable notices following its appearance, the Review incorporates in the text, unusually for a document prepared under official auspices, a number of high level outside endorsements. Among these, three come from Nobel prizewinners in economics, one from the Head of the International Energy Agency, and another from the President of the World Bank.

However, there are dissenting voices. I am one of an international group of dissenters, and we are by no means alone.

Well before the Review saw the light of day, it seemed to a number of us, scientists and economists, that we would find much to query and to disagree with in its arguments and conclusions; and when the text appeared, our expectation was fully borne out. I conceived the idea of a dual critique: we would combine to prepare twin review articles, one authored by a group of scientists (actually, in the event, two of them are engineers) and the other by a team of economists, each covering its own set of issues but linked together. I managed to sell this project to a journal editor, and the result was published last month. Volume 7 Number 4 of *World Economics* carries both of our resulting texts: counting references and trimmings, the papers take up 68 pages.<sup>1</sup>

Our main verdict on the Review, in a word, is that it is a biased, a heavily biased, exercise in speculative alarmism. This overall judgement, as also specific criticisms that we make, have found support in a number of approving emails that I have received, while other economists have already voiced dissenting opinions in published pieces.

Both the bias and the alarmism (as we think) appear in particular at three principal stages of the argument.

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<sup>1</sup> One of the science team is a New Zealander – Chris de Freitas, of the University of Auckland.

Stage 1 is the treatment of climate science and the possible extent of global warming unless prompt action is taken to limit and reduce emissions. Our scientists say that the Review 'fails to take proper account of the profound uncertainties and major gaps in knowledge', and that 'it is misleading of [it] to draw so predominantly from the upper end of risk distributions and then present these as representative of the range of credible outcomes'.

Stage 2 relates to the possible biophysical impacts of projected global warming, over a period of two centuries or more. Here our scientists end their survey by saying that 'the Review's analysis... is consistently biased and selective – and heavily tilted toward unwarranted alarm'.

In Stage 3, the possible biophysical impacts are translated into money values so as to derive estimates of the net costs of global warming to the world economy: this process yields the up to 20 per cent of world GDP that I referred to already. The economist members of our team, drawing on the scientists' analysis of impacts, argue that the Review systematically overstates projected costs of climate change, and we also think that it underestimates the likely cost of the drastic global mitigation programme that it calls for.

In reckoning up the present value of projected costs and benefits, and weighing possible courses of action that are designed to have very long-term results, a lot depends of course on the rate of interest that is used for discounting the future; and the conclusions for policy that the Stern Review arrives at partly reflect its choice of a strikingly low rate. Although no specific rate was mentioned in the Review, it has since emerged that the figures chosen were 2.1 per cent per annum for this century, 1.9 per cent for the following century, and 1.4 per cent for the century after that. These are low figures, and have been widely criticised as such.

In our critique, we argue that the Review 'proposes worldwide adoption of a specially low rate of interest for discounting the costs and benefits of mitigation, on the basis of inadequate analysis and without regard for the problems and risks that would result'

When we put together these twin articles, we knew, and said in our introduction, that this was not a balanced treatment. We have presented a case for the prosecution, rather than a full account of pros and cons. But looking again at the Stern Review after our critique had gone to the printers, I did not feel, and I do not feel today, that overall we understated that case. Indeed, I think there are other points of criticism that we could have made, and some that we could have emphasised more strongly.

### **The shadow of AR4**

A surprising feature of the Review is that it seems to pay little attention to the argument and evidence presented in the IPCC's Fourth Assessment Report. Although the final text of AR4 is yet to appear, successive complete draft texts

were made available to member governments and participants in the IPCC process from about the time that the Stern Review was commissioned. It now appears that the Review did not draw systematically on this material, and just recently sharp-eyed British journalists have made the point that in some respects the Report is less tilted towards alarming possibilities than the Review. In particular

- Its projections for increases in global average temperature by the end of the century fall well short of the counterpart figures suggested in the Review.
- It apparently gives a higher figure for the prospective costs of mitigation, referring to an average of 5 per cent of GDP as opposed to the 1 per cent which the Review suggests.

Does this latest IPCC report support the case for ‘an urgent global response’? A clear positive response to this question has been given, in the context of the report of WGI, by some well placed high level persons.

- Dr Pachauri, the Chairman of the IPCC, said to Reuters (26 January): I hope this report will shock [people [and ] governments into taking more serious action’.
- Achim Steiner, the Director-General of the UNEP, has said that ‘in the light of the report’s findings, it would be “irresponsible” to resist or seek to delay actions on mandatory emissions cuts’ (*Financial Times*, 3 February 2007).
- Yvo de Boer, Secretary-General of the UNFCCC, said that ‘the findings ... leave no doubt as to the dangers that mankind is facing and must be acted on without delay’.
- Stavros Dimas, the EU’s Commissioner for the environment, called the WGI text ‘a grim report’ (same source).

It should be noted that in none of these statements is the wording taken from the Report itself.

Now it could well be argued – I would be tempted to make the argument myself, had I not been drawn into these issues - that just how much weight should be placed on the Stern Review is a minor issue. Even if the Review represents an extreme position – which is of course debatable – the case for immediate and effective action is made, independently and authoritatively, in the past and current work of the IPCC. Let me therefore tell you why I am personally not convinced by this very reasonable-sounding argument.

### **The wider context: the IPCC and the problem of unwarranted trust**

Since its creation in 1988, the IPCC has established itself, in the eyes of most if not all its member governments, as *their sole authoritative and continuing source* of information, evidence, analysis, interpretation and advice on the whole range of issues relating to climate change. It has acquired what is effectively a monopoly position.

I believe that there are good reasons to query the claims to authority and representative status that are made by and on behalf of the Panel, and hence to question the virtual monopoly that it now holds. The trust so widely placed in it is unwarranted.

To begin with, the principle of creating a single would-be authoritative fount of wisdom is itself open to doubt. Even if the IPCC process were indisputably and consistently rigorous, objective and professionally watertight, it is imprudent for governments to place exclusive reliance, in matters of extraordinary complexity where huge uncertainties prevail, on a single source of analysis and advice and a single process of inquiry. Viewed in this light, the very notion of setting consensus as an aim appears as questionable if not ill-judged.

In any case, the ideal conditions have not been realised. In my opinion, the IPCC process is far from being a model of rigour, inclusiveness and impartiality. In this connection, there are several related aspects that I would emphasise:

- Its treatment of economic issues has been flawed.
- The built-in process of peer review, which the IPCC and member governments treat as a guarantee of quality and reliability, cannot in fact be relied on to serve that purpose.
- In peer-reviewed work that the IPCC has drawn on, the authors concerned have failed to make due disclosure of data, sources and procedures, and the IPCC has not required them to do so.
- The response of the IPCC milieu to informed criticism has typically been inadequate or dismissive.
- Both the Panel's directing circle and the IPCC milieu more generally have, and have had from the beginning, an endemic bias towards alarmist assessments and conclusions. Note that I refer here, not to the 2500-odd experts who were involved in AR4, but to a more restricted and higher-level group.

In connection with the IPCC, let me bring in the report of the House of Lords Select Committee on Economic Affairs. Their lordships' report deals with many subjects, but for me its most striking feature, and a welcome one, was the concerns that it expressed about the Panel. Given the credibility which the IPCC has acquired, it is truly remarkable that a group of eminent, experienced and responsible persons, drawn from a national legislative body and spanning the political spectrum, with the help of an internationally recognised expert adviser, and after taking and weighing evidence, should have published a considered and unanimous report in which the work and role of the Panel are put in question.

After a long interval, Her Majesty's Government, through the agency of DEFRA, published a dismissive official response to the Select Committee report, in which the the IPCC and its proceedings were duly commended without reserve. In commenting on this document, I said that it illustrated

precisely those features of the IPCC process and milieu which prompted the Select Committee's concerns.<sup>2</sup>

How (you may ask) has the Stern Review treated the questions raised about the IPCC process by various writers and by the Select Committee in particular? The answer is surprising. Although the Review is long and wide-ranging, the text makes no reference to any of the criticisms that have been directed towards the IPCC. Moreover, although the Review lists around 1100 papers and studies as references, that list *does not include the report from the Select Committee*. There are other omissions - including work of mine - but this one is the most striking.<sup>3</sup>

### **Improving the policy process**

You may ask what conclusions I draw for policy. My main conclusion is this. *In relation to climate change, the overriding present need is to build up a sounder basis than now exists for reviewing and assessing the issues.* A process should be established, for informing and advising governments and public opinion alike, which is more objective, more representative and more balanced than that which the IPCC has built up and shown itself unwilling to change.

### **The moral to be drawn**

Let me end by answering a further question which you might want to raise. In the light of the Stern Review and the IPCC Fourth Assessment Report, as also the report from the House of Lords Select Committee, what is a reasonable position for business groups and business organisations to take on issues relating to climate change? In response, I would make two specific suggestions.

The first is simple and easily followed. It concerns the economic dimension. Don't join with our Prime Minister and other luminaries, some of them CEOs and business organisations, by endorsing uncritically the Stern Review, and don't for one moment fall in with any suggestion that 'the economics' is now settled. Keep an eye on the unfolding economic debate.

The second suggestion is both more important and harder to put into effect. Use your influence, in a continuing and resourceful way, to improve the policy process. In particular, try to ensure that the costs - past, current and prospective - of measures and programmes to reduce emissions are well identified, documented, and monitored, with the evidence and figures made public, and that appropriate lessons are drawn from experience

There is an international and a domestic aspect to such involvement. On the international scene, don't view the IPCC and the IPCC process as above

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<sup>2</sup> The comments were made in an article entitled 'Report, Response and Review', published in *Energy and Environment*, Vol 17, No 1, 2006.

<sup>3</sup> The remarkable joint work of McIntyre and McKittrick is likewise disregarded in the Review: the issue of due disclosure is passed over.

reproach or beyond improvement. Within New Zealand, make sure that policy analysis is not left to environment departments and agencies alone: try to get the Treasury fully and continuously involved.

### **Final word**

I am conscious that the arguments I have just put before you are not widely supported: mine is very much a minority view. Had I not become personally involved with the issues, largely as I have said by accident, I would have probably been disposed to side with the majority. In that case I might have been less unfriendly towards the Stern Review; and more important, I would not have questioned the generally received worldwide opinion that the IPCC process is thorough, objective and professionally watertight. It is only closer acquaintance with the issues, the process and the history that has led me to think that governments across the world, including yours and mine, are mishandling issues of climate change. That is the possibility that I would ask you to reflect on. I would like to thank you for giving me the opportunity to make my case.