Time to cut the green rubbish…and deliver a proper energy policy

G
roupthink says Russia's invasion of Ukraine shows we rely too much on fossil fuels. This is only partially right. A more accurate assessment would be that while still relying on fossil fuels, Western policymakers have failed for years to acknowledge the reality of energy transition: we still need them. Egged on by lobbyists and 'the science', politicians thought they could wave around emission targets like some magic wands that would fix everything and achieve net zero with a sprinkling of supply-and-demand economic fairy dust.

Ukraine underscores the importance of energy security, rather than net-zero. I'm not a fossil fuel nut, but I understand the difference of having supply and not having supply. Any fool knows that, only not our fools in Westminster, or Washington or Brussels. Not only does a lack of supply lead to insecurity – see Germany's reliance on Russia – but also makes the poorest people poorer, since energy demand is relatively inelastic.

It's not just upstream oil projects which have suffered from a lack of investment, but everywhere down the energy supply chain. For instance, in 2017, the British government refused to subsidise repairs to Centrica's Rough storage facility in the North Sea, leading to the shuttering of the facility that provided 70 percent of our natural gas storage for three decades. Net-zero meant there was no incentive. Prices spiked last autumn because of a lack of storage and are now back below where they got to last year.

And it's not just the politicians – the City and the

investment community is just as much to blame. Elon Musk recently called ESG a scam. Certainly, greenwashing is rife as funds and asset managers rush to claim they are Net Zero aligned, whatever that means. My belief is that this has meant crucial funds have been misallocated.

This cycle is self-fulfilling; ESG commitments, investor return requirements and regulatory pressure favours short-cycle oil investments over long-cycle. A pivot to more short cycle barrels creates a semi-permanent undersupply that maintains higher oil prices, exacerbating inflation pressures.

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You can dress it up in many ways, but because no one thought how to build the bridge, we're now left stranded on the other side staring at net zero, wondering how to get there as prices rise for the stuff we can use.

The Bank for International Settlements, BIS, a sort of overseer of global central banks, warns the world faces face a "paradigm shift" in inflation. Citing inflation drivers, it notes how "investment in fossil energy sources has been remarkably subdued, not least owing to the uncertainty-fraught transition towards zero emissions". Whilst an "orderly transition" featuring a timely increase in green energy investment could impose "relatively small near-term costs and

deliver persistent long-term gains … a disorderly shift where the adoption of clean energy technology lags but carbon-intensive energy sources are shut down rapidly, would involve significant costs in both the short and long run”.

Clearly, we’re in the middle of a ‘disorderly’ shift. The gyrations in energy markets over the last 2 years prove this. A totem, cancelling Keystone XL Pipeline revealed the lack of strategy. Still energy policy is Byzantine. President Biden is grovelling to the Saudis to produce more oil when the US has ample capacity. Meanwhile the G7 is trying to cap Russian oil prices through some as-yet-undecided process. France wants to cap all oil prices. Staring at a blackout this winter if Russia cuts the gas supply, Germany is cranking up the coal plants – it ditched nuclear after Fukushima. Guess where the coal comes from? (no prizes for getting Russia).

At present it feels like the blind leading the blind.

And should we in the UK even be worried about our emissions? UK CO2 emissions make up 1% of the global total today; China’s is over 30%. Even on a per capita basis, we produce 50% fewer emissions than the Chinese.

There are significant trade-offs from pursuing net-zero at all costs. A simple case of the law of diminishing marginal returns: every time we cut 10% of our emissions we are cutting far less from the global total each time but at a far greater cost to ourselves. China produces more greenhouse gases than the entire developed world combined. We’ve already cut lots; the last mile is always the hardest and, in this case, the least consequential; far better to spend money on ensuring emerging markets don’t balloon their emissions, than virtue signalling from here. It’s estimated net zero could cost the UK economy over £1 trillion over the next couple of decades – salami slicing our CO2 emissions just as those of India and China balloon seems ridiculous.

Xi Jinping has vowed to reach net-zero emissions by 2060 with a peak no later than 2030, yet China is building dozens of new coal-fired power stations every year. Good thing Xi doesn't need to worry about Greta Thunberg, as she'd never dare go to Beijing for fear of being locked up. A report from Global Energy Monitor showed China accounted for 52 percent of the 176 gigawatts of coal capacity under construction in 20 countries in 2021. The other main culprit is India. Why should we make ourselves poorer whilst they keep blackening the air and providing Putin a back door for his crude exports?

There are questions about the technology replacing fossil fuels, too. Biomass can increase CO2 and depletes forests. Mining for lithium, a key component in batteries for electric cars, has significant environmental and social impacts, including water pollution and depletion. Even if we put that to one side, supplies of several metals that are crucial to the green energy transition are heavily concentrated in just a few nations – China being number one for the likes of vanadium, graphite, molybdenum, aluminium and lead to name a few. In the week that Nato recognises the material danger from China, we should recognise the danger of outsourcing our energy and that it is inextricable from national security and prosperity.

It's not that reducing emissions is a bad idea, only the blind pursuit of net zero. If you must do more here, do it for security reasons. But on-shore wind turbines are godawful to look at – like a Bovis home development stuck on the village green. And they kill little blue tits. And they have quite a short life cycle. And they only work about one day a week. Hydro only works half-way up a mountain in Scotland. Off-shore wind requires so much copper there could never be enough to keep it going indefinitely. As does solar.

At the moment a nuclear cornerstone is the only answer to both net zero and security. In the meantime, we shouldn't worry about using fossil fuels as we build that future. A clear,

long-term, ambitious energy policy is required for the next 100 years, not the next ten. Just as well the world’s largest reserves of uranium are in Australia. Maybe they should be next to join Nato.