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Turning Fine Words into Deeds

by Walt Patterson

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'International' means 'between nations'. Let's not try to establish what 'nation' means. That's a topic for a book, or indeed a war. Let's take 'nation' to mean the same as 'state' or 'country' - a part of the world with defined borders and under some form of government. Anything international involves two or more of these parts of the world, and implicitly or explicitly their governments.

At the turn of the millennium, international companies, commerce and industry are exploding. International transfers of capital are essentially instantaneous, in sums that beggar the mind. Coupled with the global reach of telecommunications including the internet, these international trends are going to require an urgent and fundamental reassessment of the role and competence of national governments. In the 1990s electricity has joined the international agenda. Governments, of course, will play a key role in what is happening to electricity. In the next two decades, however, what happens to electricity is also going to play an increasingly major part in what happens to governments.

Consider for instance the Kyoto Protocol to the Framework Convention on Climate Change. The Protocol is an international environmental undertaking, agreed by governments in December 1997. Most observers concur that the Protocol is too weak to deal with the mounting threat from changing climate, and that in any case its key provisions are so imprecisely couched that no one can be certain what they mean in practice. The follow-up conference in Buenos Aires in November 1998 did little to dispel the fog. Yet action is clearly under way; and the lead is being taken not by the wrangling governments but by major international companies.

The turnaround is striking. At the Kyoto meeting, ferocious lobbying by the inaptly-named Global Climate Coalition, supported by many major companies, was a key factor in weakening the Protocol. Once governments agreed the Protocol, however, companies began cutting their links with the lobbyists. Instead, companies started reassessing their corporate strategy.

Acknowledging the climate problem as genuine, regardless of government foot-dragging, more and more companies are now looking for the opportunities that climate policy may offer. Provisions in the Protocol identify measures including tradeable permits for greenhouse gas emissions; the Clean Development Mechanism (CDM) by which developed countries can assist developing countries to foster sustainable and climate-friendly development; and technology transfer, crucially important to the CDM. Leading companies have begun setting internal targets to reduce their own greenhouse gas emissions, and establishing internal emissions trading within their own activities. Some are pursuing 'early crediting', according to which companies are ready to embark immediately on activities that would qualify for emissions benefits, without waiting for governments to agree how credits should be allocated. Senior executives from companies such as BP Amoco, Shell and DuPont have become outspoken advocates of changing corporate priorities to address climate issues.

Emissions trading, the CDM and technology transfer are all of substantial importance to electricity internationally. Much current international activity with potential climate benefits involves upgrading or replacing electricity facilities. These facilities, however, now increasingly belong not to governments but to private investors. Governments that until recently kept an iron grip on their electricity systems are being progressively sidelined, as events outstrip official policies. Even the ways to achieve environmental objectives for electricity are less and less directly the province of governments.

As this column has already noted on earlier occasions, the environmental benefits of electricity are so essential and so ubiquitous that people in modern industrial society take them completely for granted. They also take for granted that governments will keep the lights on. Governments, too, continue to assume that the lights will stay on, regardless of the upheavals now affecting many electricity systems - upheavals triggered by governments. But liberalizing electricity systems weakens or even eliminates many policy levers previously available to governments. Even the traditional 'obligation to supply', stipulated as a corollary of the monopoly franchise, may become impossible to impose after liberalization. Governments continue to presume that they have the relevant powers; but they may be mistaken.

The EU Directive on electricity, for instance, came into force on 19 February 1999. Article 3.2 of the Directive identifies a lengthy catalogue of 'public service obligations' that governments of member states may impose on electricity companies within their borders. It even declares that governments 'which so wish may introduce the implementation of long-term planning'. It does not say how this is to be managed across a 'single market' in electricity embracing companies in fifteen EU countries.

Responsibility for electricity, including the essential function of keeping the lights on, is passing inexorably to companies, many of them international, whose objectives in a competitive market context are substantially different from those of national governments. Foreign exchange and currency problems are already controversial. Multinational and foreign ownership of electricity assets may enfeeble regulation, taxation and other traditional government policy levers. Major blackouts in Argentina in February 1999 and Brazil in March 1999 involved foreign owner-operators.

Companies, too, are having to grapple with the implications. Companies can change the business they are in, and the most radical are already doing so. As electricity becomes international, can governments too change the 'business' they are in, keep the lights on and keep their constituents moderately content? How governments handle electricity will be a key factor in their futures.