

Comments on *Carbon Valuation in UK Policy Appraisal: A Revised Approach*
(version of March 2009).

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These comments are my personal opinion and do not represent an official position of the World Bank Group.

Choosing a figure for the social cost of carbon is clearly a non-trivial matter, and so the stated aim of this paper, to suggest marginal cost based alternatives, is understandable. This approach raises a few fundamental issues:

By not using the social cost of carbon as the shadow price for carbon emissions, the resulting appraisal cannot be considered to be an economic analysis – it is closer to a financial analysis, in that the carbon shadow price used corresponds either to the cost of an emission permit in ETS traded sectors, or to the level of a carbon tax required to meet quantitative targets in non-traded sectors.

This approach also raises potential ethical and reputational concerns: if UK government analysis of the social cost of carbon (this is proposed to continue under the revised approach) shows that it is likely to be higher than either of the marginal costs proposed in the approach, then there is a risk that the UK government would be publicly proceeding with projects that are harmful to the global climate while hewing to its narrower cost-based project analysis.

Having two shadow prices for carbon very publicly highlights how inefficient the current climate regime is.

That said, the analysis of the proposed pricing options seems sound (with one minor exception noted below). Developing a price path over time, and assuming convergence of the two carbon prices, is important because many public sector projects have long lifetimes. There is still some risk that government could end up with stranded assets if, say, the price of an emission permit in the future is much higher than that assumed at the time of project appraisal – it may be worth considering ways to mitigate this risk.

There is a technical issue in section 7 on pricing in non-traded sectors. Reference is made to a MAC with and without carbon offset trading. This does not seem right – if carbon trades are made, they simply become part of the financial analysis of project benefits, and should not affect the MAC.