

“GREEN PEACE: ENERGY, EUROPE AND THE GLOBAL ORDER”

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It is a great honour to be speaking at the LSE. To do so in a lecture series in memory of my father’s contribution to the School is poignant and a little ironic. Poignant because my dad is not here to listen. Ironic because his view of the School was a mixture of fondness for the people and frustration with the institution. His view of the Labour Party was also a mixture – not of fondness and frustration but frustration and despair. So the idea that his son would be speaking at LSE as Labour Foreign Secretary would have summoned pride and prejudice in equal measure.

My dad always described himself as a socialist, but also a teacher. When people tell me that his books made a difference to them it gives me huge pride. But they also tell me they remember his classes. As a teacher he was determined to engage the minds of his students. Perhaps surprisingly for someone of strong, in fact very strong, political views, he went out of his way to talk up and discuss alternatives to his own point of view. That spirit of openness and inquiry explains I think the bequest that funds the lecture series, the books and the scholarships that bear my father’s name in the Ralph Miliband programme at the LSE, and which have been brilliantly driven forward by Professor David Held since 1998.

I think the origins of the programme are important. It is funded by a bequest from an LSE student. The donor, who never wanted to be named, was helped by my dad with his thesis in the early 1950s. He described his relationship with him as follows:

“I am not a socialist. I try to be open-minded and non-partisan. Ralph and I were not always in agreement about specific ends. That is unimportant. What counts is his willingness and ability to avoid doctrines and socio-political traps. His work and spirit should not become a mausoleum for dead thoughts, like the various churches and political parties that strew the intellectual landscape.... That should clarify my wishes – to establish a living, breathing adjunct to the LSE traditions of the Webbs, RH Tawney, Harold Laski and all of us who came to the LSE in their spirit.”

My dad spent nearly thirty years of his life associated with the LSE. He gained admission a year or so after arriving in the UK in 1940, fresh from learning English and completing his Matriculation at Acton Technical College. After being demobbed in 1945 he came to Houghton Street to complete his studies. By the early 1950s he was on the faculty and stayed here until 1972.

Given my berth at the Foreign Office, I found an amusing item from the LSE student magazine *The Beaver*. The date is 1958: "Dr Miliband is a very popular lecturer at the school. He takes every opportunity to meet students...He is quick at grasping and anticipating questions, and talking with him makes one wonder whether the man across the table is some sort of dignitary at the Foreign Office."

Which brings me to today's subject. Other speakers in this series have come from the worlds of business, economics, and academia. I am a politician, and I want to address the politics of energy and the global order. Since I am Foreign Secretary, I want to talk about the international politics of the issues that have dominated this series.

If you want to skip the lecture and know the conclusion of my argument – I confess to using that tactic as a student - it is as follows. We face a new resource crunch, with spiralling energy and food prices as well as water shortages. Its origins are carbon dependence. Its consequences are not just economic and environmental, but geopolitical. We risk a scramble for resources, with each nation pitted against the other. The alternative is a transition from a global economy dependent on oil and gas to a low-carbon economy with a diverse mix of energy sources and suppliers. And the best way to set a new global course, in fact the only real means at our disposal, is through leadership from the European Union – the largest single market in the world, with the clout to set global standards.

Two global orders

I want to start with what I have seen in foreign policy over the last nine months. Two trends are visible, rubbing up against each other.

The first is a world built in reaction to the disastrous consequences of balance of power politics of the first half of the twentieth century. It is a world where national interest is pursued through international cooperation. It recognises that flows of people, money and products are making countries' prosperity and security more intertwined than ever. And it accepts that to address the shared threats we face - from financial instability and climate change to nuclear proliferation – we need to work together through shared rules and institutions, from the EU to NATO, the WTO and UN.

The second is a world where national interest is still pursued through competitive rivalry. Notions of interdependence and multilateral cooperation are dismissed as a passing fad. International relations is a zero sum game where nations compete for power. From trade to nuclear proliferation, the danger is more insecurity.

To emphasise, these are not competing visions of international interest on the one hand and national interest on the other. They are two different visions of how national interest is pursued. Multilateralism is not the betrayal of modern national interest, but its expression.

For much of the last decade, we have spoken as though cooperation will win over competition. We have tended to see globalisation as an inevitable force sweeping all before it. But the truth is that the globalisation of the 21st Century is as fragile as the globalisation of the 19th century – which ended on the streets of Sarajevo in 1914. Then, as now, there are big gains, often invisible, from globalisation. Then, as now, there are important insecurities, often all too visible. And I believe that the resource crunch we now face is the fulcrum on which this all turns. If we fail to address the problems of scarcity and high prices in respect of fuel, food and water, the traditional paradigm of competitive, balance of power politics threatens to return with a vengeance. But if we succeed in finding new, innovative ways to meet the growing demand for natural resources, the newer paradigm of cooperation and collaboration will win out.

The Resource Crunch

Let me start by setting out what is driving the resource crunch, and how we can address it.

First, a richer, more crowded world is propelling a surge in demand for natural resources. The global population is projected to rise from 6.6 billion now to 9 billion in 2050: an increase the size of the total global population in 1950.

As Michael Klare pointed out in his lecture in this series, the world is facing the most rapid and the largest build up in the demand for energy in modern history. All of the rise is coming in developing economies so that by 2025 the global South will have higher demand for energy than the North.

As India, China and other developing countries enjoy rapid economic growth, their citizens want and can afford the standards of living enjoyed in industrialised countries. They are driving more cars - 20,000 new vehicles appear on Chinese roads each day. And they are consuming more electricity – two additional coal-fired power plants each week to feed the Chinese grid.

Second, energy demand is growing at a time when the supplies of cheap oil and gas are dwindling. Oil and gas supplies are becoming far more costly to extract as more accessible reserves have been depleted and raw material prices rise. Supply is concentrated in countries whose governments directly control their hydrocarbon industries, and are developing them more slowly than consuming countries might want. Some of them might be prepared to use their natural resources as instruments of foreign policy. In the UK, as North Sea Oil and Gas

supplies are depleted, we are becoming increasingly dependent on energy imports.

As a result of rising global demand, we are seeing investment in alternatives to oil and gas. Some are better for climate change such as nuclear and renewables. Others are far worse, such as coal and oil sands. Over the next decade, the most likely effect of growing insecurity of oil and gas is a dash for coal - a resource that is relatively cheap, abundant in many countries, but far worse for carbon emissions.

Third, we are seeing an extraordinary period of food price inflation. Rice hit \$1000-a-tonne for the first time last week. The UN Food and Agriculture Organisation say food prices rose 57 per cent between March 2007 and March 2008. The World Food Programme is warning of a silent Tsunami plunging another 100 million people into starvation. There have been protests at food price rises in Egypt, Morocco, Mauritania, Ethiopia, Indonesia. In Haiti the prime minister was dismissed after days of deadly protests and looting.

The causes are manifold: global demand has surged, but supply has not kept pace. Higher energy prices have pushed up the costs of fertilizers and irrigation, making them unaffordable for many farmers in developing countries. Adverse weather conditions – such as a ten year drought in Australia - are limiting the land available for food production. Biofuels, not necessarily bad in themselves but sometimes sponsored without proper concern for sustainability, have prompted the cultivation of fuel-crops where food-crops might otherwise have been grown. Meanwhile, the World Bank estimates that demand for food will rise by 50 per cent by 2030. This is why Gordon Brown has written to the Japanese Prime Minister, as Chair of the G8, proposing an international strategy to address both the immediate hardship and the medium-term challenges.

Fourth, 500 million people live in countries chronically short of water. By 2050 this figure is expected to rise to 4 billion. In northern China, a sinking water table means wells need to be dug much deeper and more pumping capacity installed. A falling water table and lack of power to run pumps has led to a serious shortfall of drinking water in Bangladesh's capital, Dhaka. Irrigation will become more difficult, more expensive, and more energy intensive. Farming, both for food and for biofuels, will be affected by water shortages.

The future consequences of this resource crunch are not just economic, they are geopolitical: :

- the main energy consumers, in particular the US and China, competing for limited resources. There is already a scramble in Africa - the fastest growing source of new oil in the world
- the main production sites as the source of rising tensions, whether dormant border disputes in the Gulf or countries pushing claims to their

share of what could be a quarter of the world's undiscovered oil and gas in the Arctic. About a third of the world's civil wars are currently in oil-producing states, up from a fifth in 1992. And among developing countries, a country that produces oil is twice as likely to suffer an internal rebellion as one that doesn't.

- the main transit routes increasingly important to energy security, with Turkey playing a key role in bringing oil and gas from both the Middle-East and central Asia into Europe; shipping routes across the Caspian and Black Seas increasingly critical to European energy security; and two thirds of Asia's oil consumption depending on free passage through the Straits of Malacca between Indonesia and Malaysia
- and all the while economic power shifting to oil and gas-rich states and the elites within them. The vast majority of oil and gas in the world is now supplied by state-owned companies. The revenues accruing from high energy prices can then be used to buy up foreign assets. And, as Thomas Friedman has argued "soaring oil prices ...strengthen antidemocratic regimes." Resource rich regimes have less incentive to enter into bargains with their own people. "No taxation without representation" is meaningless when fuel revenues negate the need for taxation.

If we are to avoid these consequences we need to address the causes of the resource crunch. Dependence on scarce and vulnerable supplies of hydrocarbons is forcing up energy prices. Higher energy prices and pressure on land is forcing up food prices. Climate change exacerbates water shortages and the availability of agricultural land in some parts of the world.

People warned of the danger of oil dependence after the 1973 oil crisis. But global warming changes the equation in a fundamental way.

If climate change didn't exist the answer would be more straightforward. We'd switch to coal and possibly oil sands too for cheaper energy and greater security of supply. But our hydrocarbon dependence – at least when the carbon is emitted into the atmosphere – exacerbates the problems I've described. It exposes us to both energy and climate insecurity. So we need to shift to low carbon, investing not only in renewables and nuclear, but also moving forward with Carbon Capture and Storage to limit the damage of our continued dependence on coal.

Low Carbon Transition

There is a clear pathway to a low carbon economy that would reduce our carbon footprint and make our energy system more resilient. That is the good news. But for each of the technological changes I am going to describe there is a major political challenge – how to share the financial burdens of a transition from carbon dependence to carbon independence.

First, we need investment in energy efficiency. There is massive potential to cut our energy use and save money by insulating homes, making cars more fuel efficient, and using less electricity. If the US, China, India and Russia had the same energy efficiency as Japan, world energy consumption would be cut by 20%.

Second, we need to address energy storage as well as new energy production and infrastructure. Following the oil price shock in the 1970s, the International Energy Agency helped to develop a system of oil storage to insulate the global economy from short term oil shocks. It is right to ask questions about how we respond to shocks in the gas sector; how we improve gas storage; how we get more investment in interconnections between countries to ensure a better match between demand and supply; and how we create the right framework to ensure new pipelines are built to reduce dependency on individual suppliers.

Third, we need to move to low-carbon electricity generation. If we can develop near-zero emission electricity, the UK would cut its emissions by almost a third. Renewables and nuclear have a part to play here. But to meet the demand for more energy in the medium term, the world will continue to rely on fossil fuels, in particular coal, given the concern over security of gas supplies. That is why urgent investment in Carbon Capture and Storage for coal is indispensable. The technology exists, but it needs to be applied at scale to bring down costs quickly. The EU has made a commitment of up to 12 CCS demonstration projects by 2015. The UK government is playing its part by funding a competition to build the UK's first CCS coal-fired power station. We need similar investment across Europe to deliver on the EU commitments.

Fourth, a post-oil transport system need not be a mirage. As the King report set out last year, the initial steps will be through hybrid, and plug-in hybrid cars combining electric and petrol engines. Biofuels can also play their part where they are produced sustainably. In the longer term, fully electric and hydrogen cars are realistic options.

Europe's Responsibility

The political blockage on reforming the high carbon economy is a question of who moves first. The UK can play a role. But it can only have a decisive effect through the EU. The UK contributes about 2% of global man-made emissions; Europe contributes 14%. Britain accounts for less than 4.5% of global trade (in goods and services); Europe is almost 40%.

Europe's success in securing peace and prosperity across Western Europe, and democracy in Eastern Europe, leaves it ready to establish a new *raison d'être*. The answer is to go back to the future. The story of the European Union began with cooperation on coal and steel as a way of preventing conflict and instability. Coal and steel were the critical resources needed to wage war. A common market was

seen as a preventative step. Today, Europe again needs to avert an energy scramble leading to conflict not within its borders, but beyond its borders.

Michael Klare recognised this in his answer to a question about Europe after his lecture in this series. But it was interesting that his answer – that Europe should up its game in relation to Russia – gave no hint of Europe’s role as a global player. In fact, Europe’s goal should be to drive not just a low carbon transition in Europe, but beyond – using regulation, markets and negotiating positions that set the global benchmark. Five priorities stand out.

First, the world needs a global carbon market to enable transfers from rich to poor countries to help them leapfrog straight to low-carbon energy. The EU Emissions Trading Scheme is the foundation for this. We need to ensure its long term future. Extend the scheme to cover more sectors of the economy. Ensure caps are set centrally as the European Commission have proposed rather than by member-states. And link the EU Emissions Trading Scheme to carbon markets which are now emerging in other countries – the US, Canada, and New Zealand. A global carbon market would play a huge role in helping developed countries find the most cost-effective sectors to reduce their emissions, and transferring funds to poorer countries for mitigation and adaptation.

Second, the world needs to accelerate global investment in green technology. The EU has the critical mass to do this – and gain a competitive advantage for European businesses in the process. EU standards and regulations can mobilise capital investment in new vehicles, power stations and appliances, bringing down the cost of deploying low-carbon technology across the world. It is important to be clear why regulation is necessary. In 1981, it was widely assumed that oil prices would continue to rise. Instead, prices dropped steadily and investment in alternative energy sources tailed off. However high the carbon price, uncertainty in energy prices can deter investment. That is why alongside emissions trading, long term targeted regulation is often needed. That means following through on the European Commission’s commitment to reduce the emissions from power stations. It means setting ambitious long term regulations for reducing emissions from vehicles. It means dynamic regulation, as in the Japanese Toprunner programme, where minimum standards are ratcheted up to the level of the greenest products every few years, incentivising manufactures to innovate.

Third, the world needs open global markets in agriculture and increased global investment in low carbon R&D. The developed world’s agricultural policies cost developing countries about \$17 billion each year— about five times the amount of overseas development assistance spent on agriculture. The EU budget and the Common Agricultural policy must be redefined for a new purpose. Despite reform, it carries more baggage from the past than innovation for the 21st century.

The wrong response to the challenges is to hunker down, reiterating arguments from the 1950s and 1960s about food security to justify the CAP as a model for

the future. Instead we need continued liberalisation of agriculture, allowing market forces and the price mechanism to play a greater role, globally, in gradually matching supply and demand and avoiding sudden dramatic shortages and wrenching adjustments. As part of that, we must ensure the current budget review and the new EU Budget that follows aligns spending to priorities, and to ensure spending is only used as a policy tool when it is the best tool to use. A greener EU budget is an important part of that process. That will mean investment in low-carbon technologies and creating the conditions to enable private sector investment in infrastructure and energy grids.

Fourth, the world needs a global dialogue between producers and consumers. We must use the platform provided by the Lisbon Treaty to create a single dialogue between the EU and our key energy suppliers and trading partners around the world.

People often talk about Europe's dependence; but we have a market that others want to sell into, not just demands that we need to service. Energy security is one of the compelling strategic arguments for Turkish accession and demonstrates why it is so important to drive this process forward. The EU-Russia dialogue is critical to energy security too: we are stronger if the EU speaks with one voice, engages multi-laterally rather than bilaterally. The EU-China dialogue is critical to moving to a low-carbon economy: we need a low-carbon alliance between the world's fastest growing economy and the world's biggest single market.

Fifth, the world needs a global deal on climate change beyond 2012. The EU has a critical role as the negotiator on behalf of 27 countries. The most difficult questions at the key meeting in Copenhagen in December 2009 will be the level of ambition we set ourselves and who should pay for mitigation and adaptation. The EU will be able to lead the way. The targets we set ourselves last year - to reduce our emissions by 20% by 2030, and by 30% in the context of an international agreement - place us in the vanguard of the battle against climate change. And our carbon markets will stand us in good stead when it comes to financial transfers to the developing world.

Carbon dependence is the root of the resource crunch problem. So low carbon is the heart of the answer, not just to climate change but also to energy security. And it is the best route for protecting and promoting the liberal international order which has been the basis of our peace and security over the last sixty years.

Conclusion: Green is the new Red

I have focused today on the geopolitical impact of our continued dependence on hydrocarbons and the challenges we face in forging an alternative path. But I have called my speech "Green Peace: Energy, Europe and the Global Order" because I believe that the transition to low carbon promises not just environmental and economic dividends, but significant geopolitical advantages too.

A world in which we succeed in building low carbon economies and curbing greenhouse gas emissions is a world in which power and resource wealth will be dispersed. It is a world where we would all be less beholden to the fuel rich.

It is a world in which we mitigate the worst effects of climate change, and work together – through shared rules and institutions – to prevent or manage water and food shortages peacefully, and to minimise the conflict and mass migration that many are now predicting.

It is, in short, a world of order where shared rules are the basis for positive interdependence, and for our continued stability and prosperity.

No sane person could be opposed to this. But it is the subject of ferocious political debate. The reason is that the means are less consensual than the ends. The shift to low-carbon represents a wrenching transition in political economy, notions of social justice, and issues of international governance.

In other words, this is not just an environmental project. It is a political one. It challenges ideas of national sovereignty. It challenges attachment to free markets – since carbon dependence is the world's greatest market failure. It challenges distrust of collective action. And it challenges us to tackle inequality – or there will be no global deal.

I began by talking about the two paradigms within foreign policy: the risk that competitive rivalry between nations over resources will undermine co-operation to address shared threats. I want to conclude with two paradigms within progressive politics: the social democratic tradition and the radical liberal tradition.

Both these traditions have been championed at the LSE. Both had more adherents here than my father's commitment to Marxism. We will only overcome the resource crunch if we draw heavily on each: the social democratic belief in the role of the state in planning and regulation, and the radical liberal belief in the need to mobilise markets and social movements. That is what the resource crunch enjoins us to do. It is a huge project, but one which requires the spirit of social progress and intellectual inquiry that is the best of the LSE.