

REMARKS BY MR TOM BURKE CBE

**VIP DINNER, 'FINANCING EUROPE'S ENERGY NEEDS AND  
CLIMATE ACTION IN THE 21<sup>ST</sup> CENTURY' CONFERENCE**

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Thank you very much for inviting me to respond to the presentations by the previous speakers. As I listened to this discussion between bankers, regulators and policy makers there were three thoughts that occurred to me that I wish to share with you.

This year there will be nearly 400,000 holes dug in the streets of London causing massive disruption to traffic. Everyone who lives in London has learned the hard way of the importance of regulators getting the balance right between consumers, taxpayers and shareholders.

Most of these holes are being dug to replace ancient water and sewer pipes. They are being dug all at once because the water regulator got that balance wrong for too many years. Consumer prices were kept too low. Investment was not made. Leaks proliferated until the patience of public and government alike was exhausted.

If energy and finance regulators do not get this balance right we will not make the investments we need to make in a low carbon economy rapidly enough to deliver energy and climate security.

We have just had a very brutal lesson in the consequences of mispricing systemic risk in the financial sector. Fortunately, it provoked a coordinated response from the world's governments that, so far, has been successful although those governments will be paying both the financial and political cost of their intervention for a long time to come.

If we misprice the systemic risk of carbon no such policy intervention will be possible. Such is the nature of the carbon problem. The carbon markets are nowhere near pricing the carbon risk accurately. Nor are they likely to be any time soon. We must look therefore to other policy instruments to ensure that we do not repeat the banker's errors. Economies recover, but the climate is for ever.

My third thought was stimulated by Philip Lowe's startling statistic that more than 95% of the electricity supplied to customers in Europe comes from one of 12 companies. I had the pleasure last week of listening to the CEO of one of those 12 companies. Herr Grossman from RWE was the guest of honour at a lunch at the German Embassy in London.

He set out his vision of what we should realistically expect on investment from the electricity utilities. He used the word 'realistic' a lot in his address. What he outlined was a programme of incremental change in which he sought to address all of the concerns we might have about electricity – security of supply, carbon burden, affordability, competitiveness. It was the very model of reasonable concern.

My problem with his vision is that the world we are living in, whether your preoccupation is with oil prices or climate change, is one which demands transformational change. His message to governments was to support incremental change. But that will deliver neither energy nor climate security. Currently governments are hoping to achieve transformational change by using public policy measures designed to deliver change at the margin. This will not create the volume of investment for transformation. We need to develop a new and more aggressive suite

of public policies to incentivise the transformational change need for energy and climate security.