

ECONOMISTS: DISCOUNT RATE NEEDS TO CHANGE TO PRICE CLIMATE CHANGE

The commonly used discount rate may not appropriately value the risk of climate change

In response to the assertion that climate change is doing irrevocable damage to our planet economists are asking: Are the costs of warming high enough that it's worth cutting emissions to stop it? Some economists are answering this question by making a critical [assumption about discount rates](#). They are asking: "How much should we, today, value benefits received well down the line in order to compare costs today to benefits tomorrow"?

Some argue that currently discount rates are too high. In a lot of climate modeling, researchers use discount rates of around 4% to 6%. These are based on commonly recognized estimates of the average rate of

return on capital to calculate the present value of future benefits from reduced emissions today. However, "that sort of rate implies that humans should do a bit to save the planet, but only just a bit. Lower discount rates, like the 1.4% effective rate used by Sir Nicholas Stern in his review of the economic risks from climate change, imply that humanity should be willing to be substantial costs in the present to protect generations in the distant future from harm."

A new [working paper](#) by NBER released this month estimates how distant benefits are actually valued in the market. Using an example of leasehold versus freeholds in the British real estate market, it finds that people are willing to part with real money now in exchange for benefit flows accruing well beyond any reasonable expected lifespan.

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DRC TO WORLD: PAY TO SAVE OUR RAINFORESTS

The Democratic Republic of Congo had a message for the world this week: either pay to protect a large portion of our rainforest, or we will cut it down. In an attempt to urge richer nations to fund climate change mitigation the Democratic Republic of Congo is [asking the international community](#) to pay because otherwise it would be unaffordable for the country. Indonesia, a heavily forested country, serves as a model. In 2010 Indonesia signed an agreement with Norway to halt deforestation. Wildlife Works has been developing a pilot project whose funding will pay for a "green development program" that will encourage people to find economic alternatives to the logging and farming that have destroyed large tracts of forests around the world.

INDUSTRY REACTIONS TO OBAMA'S CLIMATE POLICIES ARE MIXED

Coal and electric utility companies will take different approaches

In anticipation of [greenhouse gas emissions](#) rules from the Obama administration, coal companies are pledging to sue while electric utilities claim that they are willing to talk. The plan, due June 2, will outline goals to cut carbon emissions—as much as 25 percent over 15 years.

Electric utilities hope to negotiate with the Administration to allow for carbon reductions already achieved to count towards the goals. The electric utility industry has already reduced carbon emissions by 16 percent between 2005-2012, and they want credit. A spokeswoman for the coal industry, on the other hand, noted that no matter what the stated goals or timeframes are, the "debate will be settled in the courts".

SHELL RESPONDS TO STRANDED ASSET ISSUE

Company issues letter to shareholders that questions 'gaps in methodology'

Royal Dutch Shell issued a [20-page letter](#) this week in response to inquiries from shareholders regarding stranded carbon assets. Shareholders [brought the issue](#) of stranded assets to Shell's attention following the launch Carbon Asset Risk initiative by the advocacy group Ceres. In a meeting with shareholders in London in April, the company outlined its position in the letter, signed by the head of investor relations. The company recognizes that the risks from climate change will continue to play a prominent role on the public, political and shareholder agenda.

However, it writes that "while the stranded asset notion may appear to be a strong and thought-through case, it does have some fundamental flaws and there is a danger that some interest groups use it to trivialize the important social issue of rising levels of CO2 in the atmosphere... The methodology has significant gaps, not least the failure to acknowledge the significant projected growth in energy demand, the role of CCS [carbon capture and storage], natural gas, bioenergy and energy efficiency measures." Shell acknowledges that we need a 'fundamental transition' of the world's energy system but asserts that it will take considerably longer than 'some alarmist interpretations'.

STAT OF THE WEEK

The world's 10 biggest food companies emit more greenhouse gases than the whole of Scandinavia. In fact, [Oxfam reports](#) that apart from fossil fuel producers, the food and drinks industry contributed more carbon emissions than any other industry.

CDP: DROUGHT, HURRICANE AND SEA LEVELS THREAT TO COMPANIES

Carbon Disclosure Project (CDP) issues warning to world's largest companies

CDP noted in its most recent report that companies are currently dealing with about 45 percent of the [potential risks](#) from climate change. Many companies expect climate

change to have a significant impact on business operations and that costs are already being incurred. Costs included buildings destroyed by hurricanes and increased insurance premiums. Cost of fuel and disruptions to supply chains are other impacts companies reported.

BELIEVE IT OR NOT

Impactful billboards: A [giant banner](#) in Sheffield, UK, removes harmful pollution from the air, equivalent to approximately 20 cars per day.