MCC Mercator Research Institute on Global Commons and Climate Change

MCC Press Release

Climate policy & stranded assets: MCC experts are editors of special section in renowned journal

Analyses of the political economy of devaluating fossil investments and the resistance of their owners. Edenhofer: "Stranded assets are not per se detrimental to general welfare."

Berlin, 25/02/2020. Very little research so far focuses on the impact of climate policy on owners of fossil resources and production and their respective reactions. In its March issue, the renowned *Journal of Environmental Economics and Management* is now attempting to bridge this gap with a special section. The editors of this section are the environmental economist Till Requate based in Kiel, as well as three scientists from the Berlin-based climate research institute MCC (Mercator Research Institute on Global Commons and Climate Change): Ottmar Edenhofer, Director, and Matthias Kalkuhl and Jan Steckel, both working group leaders.

The section includes six studies, one of which was provided by the three MCC experts themselves (it was published online in 2019, more information here). All of these studies examine what fossil investments depend on and how they become unprofitable through carbon pricing, turning into so-called stranded assets. They also consider questions related to the political economy of climate policy, such as: to what extent do investors anticipate an increasingly ambitious climate policy? How does this constellation change, if the industries concerned organise political opposition? And lastly, to what extent does politics change its course in response, and how can a balance ultimately be struck?

In a new introductory article, the editors summarise the special section and name reasons for why stranded assets occur. Either, investors consider climate policy to be non-credible and ignore it or they are surprised because climate policy deviates from the announced path. Yet another path is possible, wherein investors, despite climate policy, deliberately opt for emission-intensive technologies because clean alternatives are too expensive at the time of the investment decision, and initial profits offset later losses. "Stranded assets are not per se detrimental to the economy and general welfare," MCC Director Edenhofer emphasises, "because an ideal carbon pricing mechanism adjusts the value of investments by the exact equivalent of social costs." Policy or market failures were what make things tricky, for example, when the state maximises its revenues, or when falling pension fund shares or property prices affect those most vulnerable to economic losses.

A fundamental decision could defuse the problem of stranded assets, MCC group leader Jan Steckel explains: "According to the analyses of our special section, climate policy that is credible from the outset leads to significantly better welfare results. For example, an institution independent of the government could assume responsibility for ongoing implementation such as adjustments to the pathway of carbon pricing. Potential designs of such forms of delegation are an important field for further research in this area."

About the MCC

The MCC explores sustainable management as well as the use of common goods such as global environmental systems and social infrastructures against the background of climate change. Our seven working groups are active in the fields of economic growth and development, resources and international trade, cities and infrastructure, governance and scientific policy advice. The MCC was co-founded by the Mercator Foundation and the Potsdam Institute for Climate Impact Research (PIK).

Further information:

The respective issue of the journal is available here.
Introductory article: Edenhofer, O., Kalkuhl, M., Requate, T., Steckel, J., 2020, How assets get stranded: the impact of climate policy on capital and fossil fuel owners. Introduction to the JEEM special section on climate policy and political economy, *Journal of Environmental Economics and Management*
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