Mercator Research Institute on
Global Commons and Climate Change

The political economy of coal
-
Case studies to understand the politics behind ongoing coal investments

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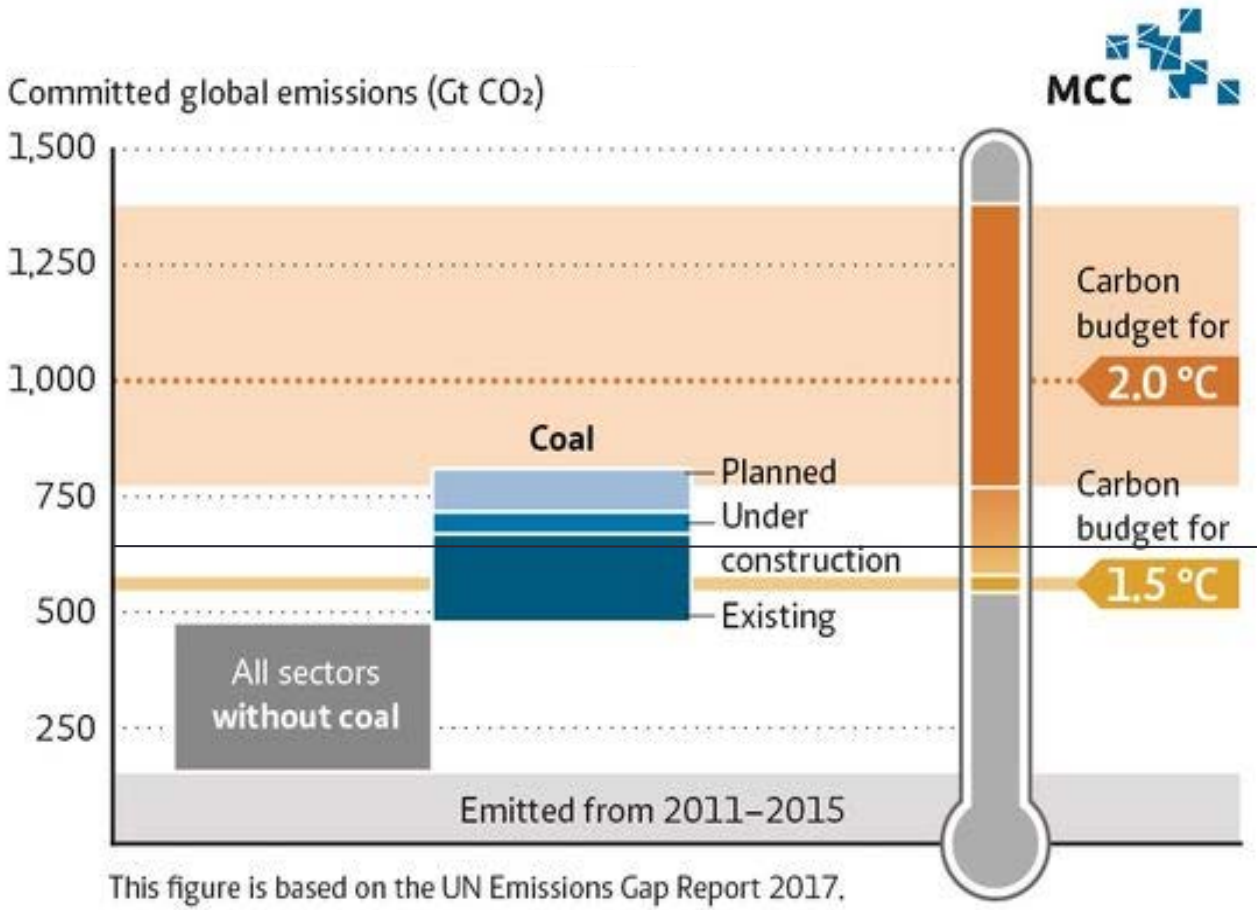
Motivation: The case of coal

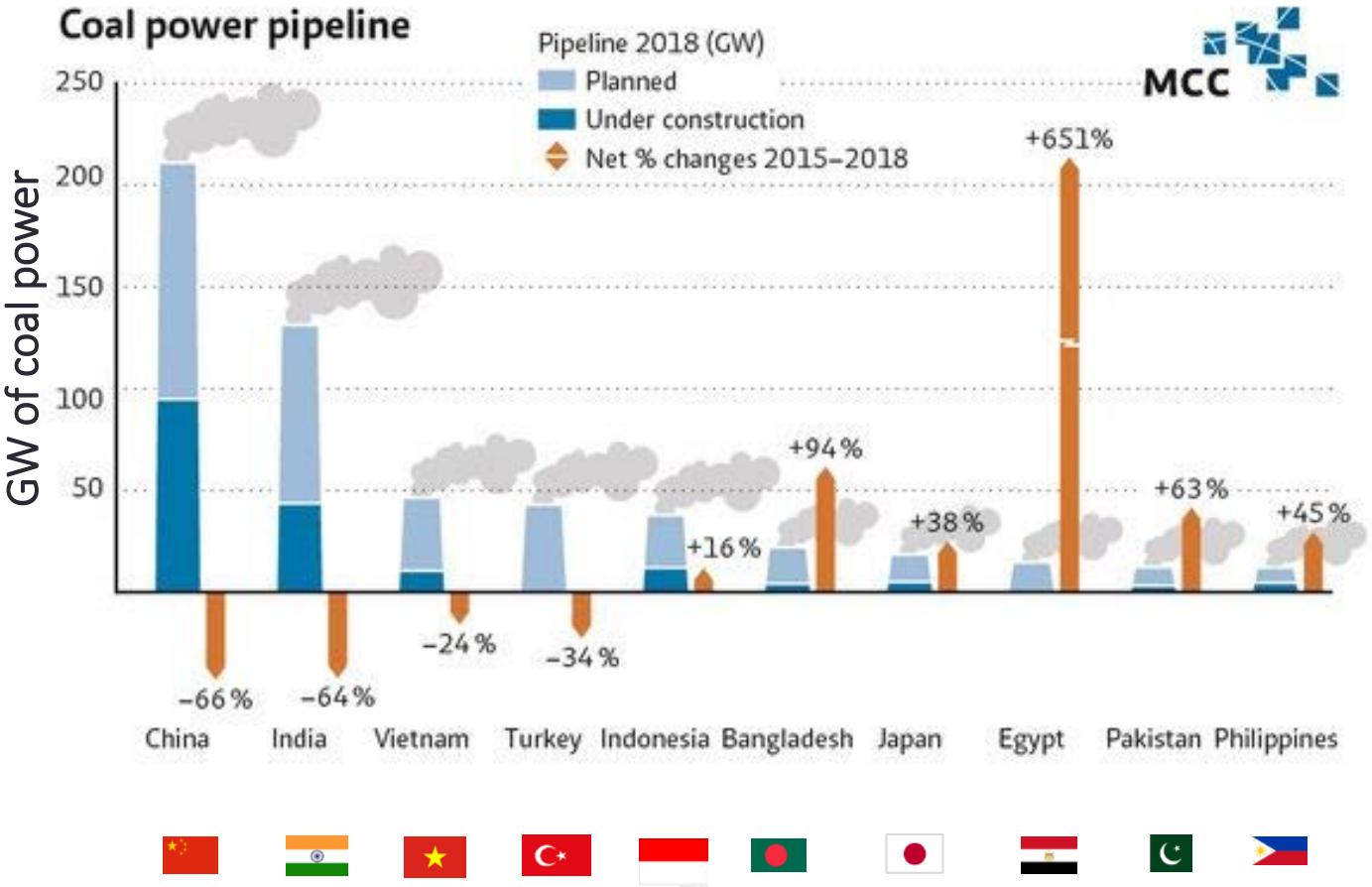
Many countries still invest heavily in coal; building all coal-fired plants that are currently in the pipeline would put the 2°C target out of reach.



IPCC SR1.5 update

Who builds coal?

Many countries still invest heavily in coal; building all coal-fired plants that are currently in the pipeline would put the 2°C target out of reach.



Why Political Economy?

- Energy transitions are not only an economic issue, but depend on politics. Some examples:
  - Distributional aspects
    - Housenholds
    - Jobs and regional economic factors
    - Competiveness concerns
  - Vested interests
  - Political dependence on specific interest groups
  - Lobbying power

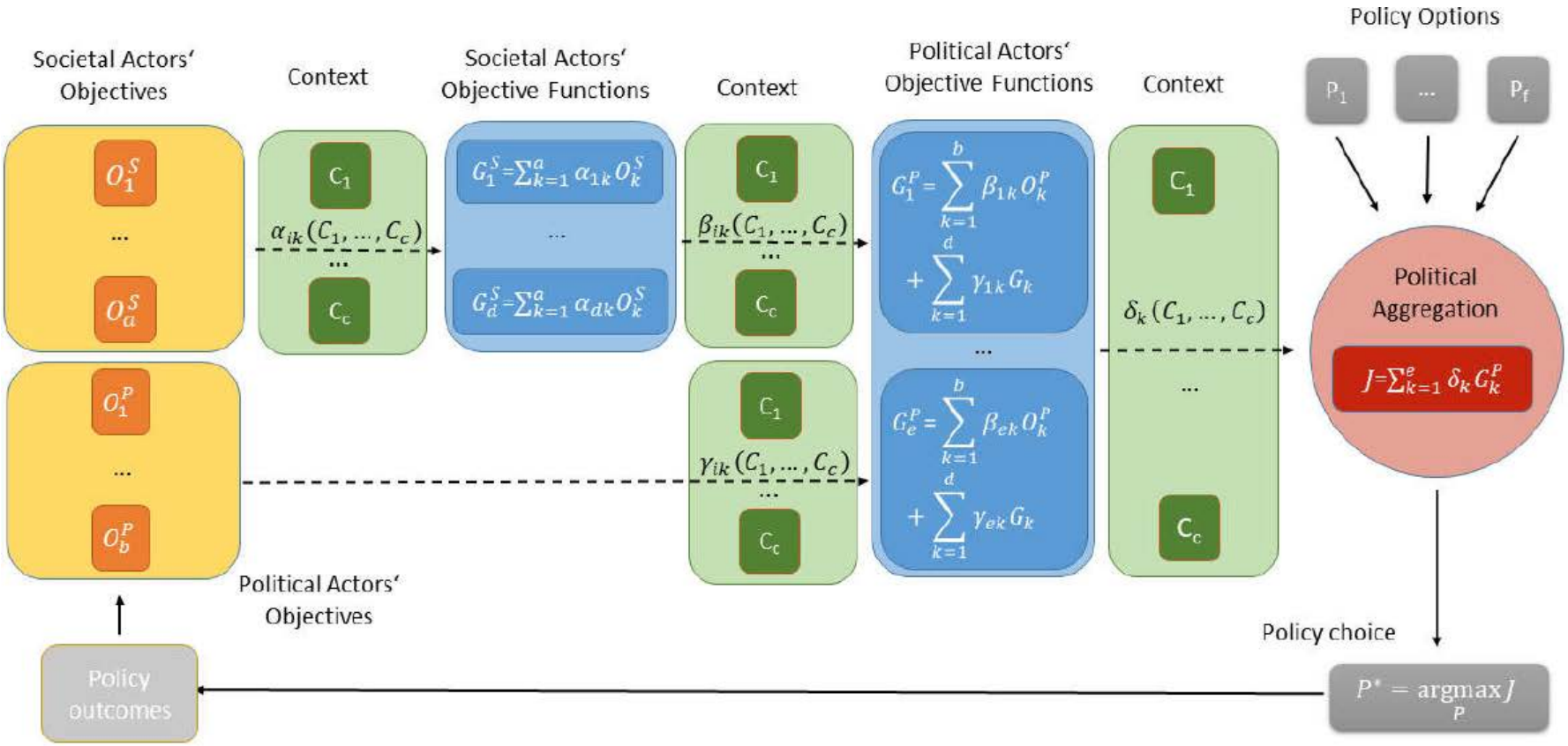
Who would be affected in what way by climate policy, and how can these actors support or block policy formulation and implementation?

A systematic country-specific approach

Case studies to empirically determine objectives, actors, contexts and their (relative) weights to systematically understand political economy aspects relevant to coal

- Goal: Establish a mid-size sample of **case studies**
- Common **case study framework** based on objectives, actors, contexts
- Systematically **synthesize** case study work

Systematic assessment – A new framework



Jakob et al., in review

How different dimensions of the political economy can be considered

Dimension considered	Examples for related Literature	Integration in Framework	
Actor objectives	Joas et al. (2016), Leipprand and Flachsland (2018)	Societal and political actors' objectives.	$O^S_1 \dots O^S_a$ $O^P_1 \dots O^P_a$
Institutions and power structures	Lockwood et al. (2017), Geels et al. (2017)	Context factors.	$C_1 \dots C_c$
Social Norms and Behaviour	Kahan (2015), Jakob et al. (2017)	Weight of individual objectives for societal actors.	α
Public choice, voting	Cremer et al. (2008), Habla and Roeder (2013)	Political Actors' objectives. Weight of political objectives and influence of societal actors on political actors	$O^P_1 \dots O^P_b$, β, γ
Lobbying, vested interests	Moe (2010), Aidt (2010)	Weight of political objectives and influence of societal actors on political actors. Relative power of different political actors	β ,γ, δ
Corruption	Fredriksson and Svensson (2003), Rafaty (2018)	Societal Actors' Objectives. Weight of political objectives and influence of societal actors on political actors.	$O^S_1 \dots O^S_a$, β ,γ
Time-inconsistency	Kalkuhl et al. (2019), Brunner et al. (2012)	Context factors.	$C_1 \dots C_c$
Sequencing	Meckling et al. (2015), Pahle et al. (2018)	Policy Packages.	$P_1 \dots P_e$
Policy outcomes	Goulder and Parry (2008), Dorband et al. (2019), Nemet et al. (2010)	Societal and political actors' objectives.	$O^S_1 \dots O^S_a$

Towards a set of case studies

In progress / finalized
Vietnam, India and Indonesia

In preparation:
Colombia, Phillipines, Tanzania,
Turkey

Additional case studies to be included in the edited volume in cooperation with the *Environment for Development* Inititative and *Routledge*:

Developed countries:

Germany, Australia, USA, UK, Japan , Poland + Serbia / Kosovo

Developing countries:

South Africa, Mozambique, Chile

***Further countries** currently discussed / planned:*

China, Pakistan, Bangladesh, Egypt, Kenya

Results for Vietnam

I. Affordability

a. *Lack of systematic cost analyses of capacity additions*
b. *Credit-constrained energy SOEs, subsidies and public debt*
c. *Dependence on independent power producers and high investment risks*

II. Security of supply

a. *Coal perceived as stable and well-known*
b. *Uncertainty about renewables' grid integration potential*

III. Promotion of the domestic energy industry and personal interests

a. *'Revolving door' with EVN and weak regulation*
b. *Complex permitting process and favoritism*

IV. Climate and environmental Objectives

a. *Vague, inconsistent and weakly implemented emission reduction targets*
b. *Reciprocal interests with international donors*
c. *Effective local public resistance against coal-fired power plants*

Results for Indonesia

I. Development of Infrastructure

a. *Provision of infrastructure central priority for President Jakowi's administration*
b. *SOE driven development approach*

II. Fiscal Sustainability

a. *Increasing low electricity tariffs politically difficult (kept low to attract investors and ensure popularity of President Jakowi)*
b. *Utility to build coal as it is perceived to be the cheapest option*

III. Secure profitability of the coal industry

a. *Create a domestic demand*
b. *Secure public revenues from coal royalties*
c. *Vested interests and personal profits*
d. *Regional development*

IV. Climate and environmental protection

a. *Climate policy not seen to be an energy issue, but in the domain of the forestry ministry*

Results for India

I. Reliable supply

a. *Planners focus on generation capacity*
b. *Rents potential in the power sector*
c. *Stressed assets and new rent opportunities*

II. Affordable tariffs

a. *Solve distribution companies financial problems*
b. *Centralization pull and reducing leverage of regional parties*
c. *Interstate distributional concerns and integration costs*

III. Jobs and regional development

a. *Geographical concentration of poverty and coal*
b. *Financial viability*
c. *Vested interests and personal profits*

IV. Reduce pollution and mitigate climate change

a. *International image of Prime Minister Modi*
b. *rising awareness of urban population*
c. *pollution regulation co-benfits*

First lessons learnt

- Political economy factors seem to be highly important why countries continue to invest in coal
- High electricity growth rates and access gaps make electrification and capacity additions a top political priority that is often decisive for political survival
- The coal industry often is very well connected to political decision makers, but through different channels
- High corruption levels generally beneficial for coal investments
- Still: Often the reasons for coal investments and channels of political economy factors are country-specific

Policy Relevance

- Better understanding why energy policies are the way they are provides a first step to design politically feasible climate measures.
- *Changing the context*: e.g. institutional reforms, liberalization of the energy market, splitting up deep incumbencies
- *Changing actors*: e.g. fostering new constituencies, creating new interest groups and 'winning coalitions'
- *Changing objectives*: e.g. independent advice to high-ranking party officials on true costs of coal and technical feasibility of renewables

Outlook

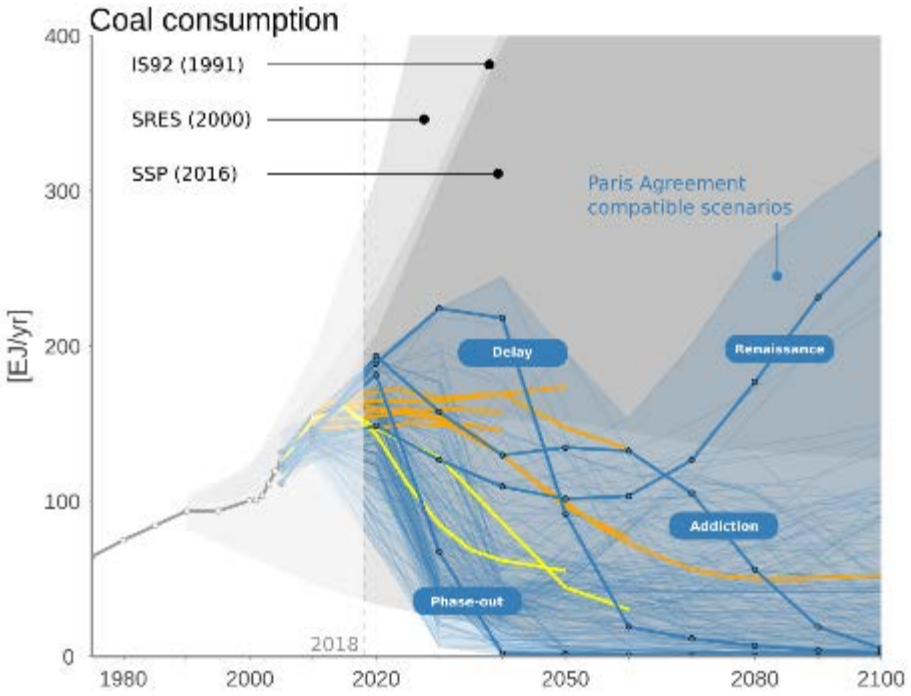
- The framework can serve as a basis to establish a medium- or large-n *database of country case studies* for **systematic reviews**, **meta-analyses** and **discourse analyses**

- *Comparative analysis* would help to better understand the reasons why countries in relatively similar situations often adopt quite different energy and climate policies

- A *collaborative research effort* would lend the credibility of an established and tested approach to each individual study (role model: Ostrom's IAD).

- Note: The framework is general, it can accomodate different (normative) perspectives (e.g. welfare maximization, public choice, etc.)

A coal transition focus in AR6 – synthetic evidence coming forward



- Coal phase-out pathways – looking at scenarios through a coal lense
- Carbon lock-in, committed carbon and residual fossil fuels
- Synthesizing case study evidence