House of Commons

Environmental Audit Committee

Pre-Budget Report 2008: Green fiscal policy in a recession

Third Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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The fiscal stimulus measures intended to pull the economy out of recession represent an invaluable opportunity decisively to transform the UK into a low carbon economy. It is imperative that the Government grasps this opportunity in the forthcoming Budget.

This year's Pre-Budget Report announced a £535m package of green fiscal stimulus measures designed to tackle economic and environmental problems simultaneously. This investment is welcome, but the scale too small—especially given that most of this funding was already committed, and will be offset by reduced spending in 2010–11.

While welcome, the extra funding announced for the Warm Front programme will not deliver the scale and speed of change that is needed. The Treasury should make programmes aimed at improving the energy efficiency of existing buildings the number one priority for green fiscal stimulus. Such programmes are labour-intensive to carry out and do not require the development of any technological advances.

It is disappointing that the wider fiscal stimulus package contains hundreds of millions of pounds for road building and widening. The Treasury should publish an assessment of the *net* impacts of its fiscal stimulus package on the environment.

Meeting our climate change and renewable energy targets will require a step-change in environmental investment. The Budget in 2009 should contain a much bigger and more coherent package of green fiscal stimulus.

Green finance

The Treasury now has a controlling interest in a number of banks. The Treasury should examine how some form of environmental criteria for the investment strategies pursued by these banks might be imposed, and what impacts this might have on UK sustainable development objectives

The current economic crisis is characterised by a lack of credit. The Treasury should examine the risks to the UK's climate change and renewable energy targets from the shortage of capital for investment in low carbon infrastructure. It should bring forward proposals for ensuring that vital low carbon energy projects receive the finance they need.

Green taxation

Shifting the burden of taxation

The Treasury is continuing to fail in its aim to shift the overall tax burden from 'goods', such as those levied on labour and capital, to 'bads', such as taxes levied on resource use. In real terms, revenue from green taxes has gone down slightly since 1998, while revenue from all taxation has increased by around 30%.

Aviation taxes

The Treasury had proposed to replace Air Passenger Duty with a 'per plane' charge; this would have incentivised airlines to fill their flights more efficiently, and taxed air freight for the first time. The Treasury's decision to backtrack on this commitment is extremely disappointing, and its rationale unconvincing; it should reinstate its original plans.

The introduction of two new bands of Air Passenger Duty—to better reflect the emissions from longer intercontinental journeys—is welcome, but the amounts levied appear inadequate to influence people's decisions to fly, and should be increased.

The Government should urgently seek reform of the Chicago Convention so as to allow governments to impose a tax on international aviation fuel. The fall in oil prices makes such a move especially timely and desirable.

Motoring taxes

The Treasury's decision to cut the increases (announced in Budget 2008) in Vehicle Excise Duty for higher-emitting cars already purchased (between March 2001 and 2006) means policy on how to reduce emissions from the second hand car market is completely inconsistent. The Treasury should re-examine the merits and practicalities of a 'car scrappage' scheme to pay people to trade in their existing, older cars, for newer, more efficient models.

Introduction

1. The Treasury introduced a tradition of publishing annual Pre-Budget Reports (PBRs) in 1997. It described their purpose as being to "launch a national debate on important economic issues, including taxation and spending, [...] to inform the Government's Budget decisions."[1]

2. This year's PBR—entitled *Facing global challenges: Supporting people through difficult times*—was published at a time of economic turmoil.[2] In response to these economic conditions, the Pre-Budget Report announced a number of measures, including a fiscal stimulus package, "bringing forward £3 billion of capital spending from 2010–11 into 2009–10 and 2008–09 for housing, education, transport and other construction projects, supporting industries and jobs across the country".[3] Approximately one-sixth of this fiscal stimulus package was given over to specifically environmental objectives.[4]

3. The PBR stressed:

> Action to achieve environmental goals remains a high priority for the Government in current economic circumstances. The Government is putting in place policies and investment to support a low-carbon recovery, with new jobs and businesses created through green growth. Government policies are driving £50 billion of investment in the low-carbon sector over three years.[5]

4. The PBR also:

- increased fuel duty by two pence per litre (though this will be offset by the reduction of VAT);
- reduced the differential levels of Vehicle Excise Duty for cars bought since 2001 that had been announced in the 2008 Budget;
- abandoned the proposal to turn Air Passenger Duty (APD) into a 'per-plane' rather than 'per passenger' charge; but reformed it by moving from two to four distance bands;
- extended the duration of the Renewables Obligation to provide financial support for large-scale renewable electricity, and introducing a feed-in tariff for small-scale renewable electricity;
- called on the European Commission to bring forward a proposal to introduce reduced VAT rates for energy efficient products as soon as possible;
- announced the creation of a forum on low carbon skills.

1 "Pre-Budget 1997", HM Treasury, 25 November 1997, www.hm-treasury.gov.uk

2 HM Treasury, *Pre-Budget Report: Facing global challenges: Supporting people through difficult times*, Cm 7484, November 2008, p 2

3 Cm 7484, p 7

4 Cm 7484, p 126

5 Cm 7484, p 125

Focus of this inquiry

5. The Environmental Audit Committee has held inquiries into each of the Treasury's annual Pre-Budget Reports; this is the twelfth in the series. In these reports, we have reviewed the Treasury's approach to the environment, looking in particular at the extent to which it is following the policy it announced in July 1997 of shifting the burden of taxation from 'goods' (such as employment) to 'bads' (such as pollution). In addition, we choose one or more topical themes to focus on. In our terms of reference for this inquiry we said we would:

> […] focus on the implications of the economic downturn for environmental taxes and spending. This will include looking at the extent to which the Treasury is (or should be) using measures aimed at stimulating economic recovery simultaneously to advance environmental goals.[6]

6. The main questions we are asking in this report are:

- how effective is the announced green fiscal stimulus likely to be in meeting environmental challenges, while contributing to economic and social sustainability;
- how green is the *overall* package of fiscal stimulus measures;
- should more be done in terms of green fiscal stimulus, and if so what; and
- how coherent and effective are the Treasury's policies on green taxes, and to what extent should these policies change in the light of the recession?

Green fiscal stimulus

Context: A 'Green New Deal'

7. Over the past 18 months there has been growing interest in the potential for governments to implement a form of 'Green New Deal'. This term is generally used to describe a programme inspired by the New Deal policies adopted in the USA to combat the Great Depression in the 1930s, but designed not just to inject public spending (and a consequential increase in demand for labour) into the economy, but to do so specifically in ways which will promote investment in measures to benefit the environment, sustainable development and the reduction of greenhouse gas emissions.

8. UN General Secretary, Ban Ki-moon, explicitly called for a 'Green New Deal' ("An investment that fights climate change, creates millions of green jobs and spurs green growth") in his speech to the UNFCCC[7] conference in Poznan in December 2008,[8] reflecting proposals that had already been put forward by a number of economists and

6 "The 2008 Pre-Budget Report", Environmental Audit Committee press release,16 December 2008

7 United Nations Framework Convention on Climate Change

8 "Secretary-General calls for 'Green New Deal' at UN climate change talks", *UN News Centre*, 11 December 2008, www.un.org/news

environmental campaigners[9] and by the United Nations Environmental Programme (UNEP).[10] In January 2009 President Obama unveiled plans for a green fiscal stimulus package, which would double the production of renewable energy in three years, retrofit three-quarters of all government buildings, weather-proof 2 million homes, and create nearly half a million new jobs.[11] In February 2009, Lord Stern (and other authors) published a report entitled *An outline of the case for a 'green' stimulus*, which concluded: "A 'green' fiscal stimulus can provide an effective boost to the economy, increasing labour demand in a timely fashion, while at the same time building the foundations for sound, sustainable and strong growth in the future."[12] On 8 March 2009 the Chairman of this Committee wrote a letter to *The Times*, jointly with the Chairman of the Energy and Climate Change Committee and the Chairman of the International Development Committee, citing Lord Stern's report in pressing the Government to tackle climate change and the current economic crisis simultaneously.[13] **The fiscal stimulus measures intended to pull the economy out of recession represent an invaluable opportunity decisively to transform the UK into a low carbon economy. A programme of investments in low carbon industries would help build a modern and sustainable economy, securing Britain's competitiveness and future prosperity in the new global economy that will emerge from this crisis. It is imperative that the Government grasps this opportunity in the forthcoming Budget.**

Green fiscal stimulus in the PBR

9. The Pre-Budget Report picked up this developing theme of using public spending simultaneously to tackle economic and environmental problems, announcing:

> As part of the [£3 billion] fiscal stimulus, the Government is providing £535 million of accelerated capital spending and additional resources to promote its environmental objectives and support low-carbon growth. This stimulus will help to sustain and expand the estimated 350,000 jobs in the low-carbon sector, alongside measures set out in the Pre-Budget Report to develop skills and attract low-carbon investment.[14]

10. The PBR itemised this green stimulus package as follows:

- £100 million of new funding for Warm Front, on top of £50 million of spending on the programme brought forward now to support the economy. This will help around 60,000 low income households cut their energy bills through insulation and improved heating systems;

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9 For example, "UK needs 'Green New Deal' to tackle 'triple crunch' of credit, oil price, and climate crises", New Economics Foundation press release, 21 July 2008, www.neweconomics.org

10 "Global Green New Deal—UNEP Green Economy initiative", UN Environment Programme press release, 22 October 2008, www.unep.org

11 "Energy and emissions top Obama's green tasklist", *The Guardian*, 19 January 2009

12 Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, *An outline of the case for a 'green' stimulus* , February 2009, p 2

13 "A green economy is a healthy one", *The Times*, 8 March 2009

14 Cm 7484, p 126

- £60 million to provide 16,000 social houses with energy efficiency and heating measures as part of an accelerated Decent Homes programme (based on historical patterns of spending on energy efficiency);
- £300 million to accelerate the delivery of up to 200 new carriages to expand capacity on the rail network;
- £20 million of spending on flood defences, to deliver earlier protection for 27,000 homes; and
- £5 million of spending on British Waterways network infrastructure.[15]

To put these measures into context, the entire £3 billion package (including the £535m environmental priorities listed above) is summarised in Box 1.

Box 1: The £3 billion fiscal stimulus package

- **£700 million to advance the Department for Transport's (DfT) existing plans to increase capacity on the motorways and other critical highways, and to accelerate the delivery of up to 200 new carriages on the rail network** […];
- **£775 million of housing and regeneration investment brought forward to help offset the impact of economic shocks on priority programmes**, including £200 million on Decent Homes programmes to fund improvements and improve energy efficiency in 24,000 council homes, £150 million on social rented housing to deliver up to 2,000 more social rented homes and reduce the number of households in temporary accommodation, £175 million for major repairs to council housing stock, and £100 million to support key regeneration and housing infrastructure projects. […];
- **£800 million brought forward in the priority schools capital programmes, providing opportunities for small businesses locally and allowing schools and children to benefit early from important projects.** […] This could bring forward the adaptation of 2,000 secondary classrooms to improve personalised learning, energy-saving measures in around 140 secondary schools, the building of kitchens in around 300 primary schools, and the conversion of rooms for mother-and-baby groups and other community uses in 800 primary schools;
- **£442 million to accelerate support for around 25 capital projects to improve Further Education infrastructure and around 50 projects to improve facilities at Higher Education Institutions** […];
- **£50 million of investment brought forward, and £100 million of additional funding, for the Warm Front programme.** This means 60,000 homes will benefit more quickly from energy efficiency and heating measures, helping people heat their homes affordably during difficult economic times. […]
- **£100 million to advance the upgrading of up to 600 GP surgeries to training practices** […];
- **£20 million of investment on flood defences brought forward, […] and £5 million of improvements to the British Waterways network infrastructure;**
- **£20 million to improve the estates of the Serious Organised Crime Agency and the National Police Improvement Agency** […]

Source: HM Treasury, Pre-Budget Report, November 2008, Cm 7484, pp 112-3

11. Since publishing the PBR, the Government has made a number of announcements on fiscal stimulus measures. The day after the PBR was published, the Department for Transport (DfT) announced an extra £300 million, on top of the £700m announced in the PBR for transport objectives, for road and rail projects "to remove bottlenecks and increase

15 Cm 7484, p 126

capacity on road links to key airports and ports".[16] This decision was accompanied by a number of further announcements. As a DfT press release put it, these were:

> [...] measures to help protect jobs and put Britain on a footing to recover from the global economic downturn, including:
>
> - Details of where up to £6bn to increase capacity on some of the nation's busiest roads will be spent—providing an extra 520 lane miles of road by widening and opening up the hard shoulder—as well as new plans to roll-out hard shoulder running across the core motorway network.
> - The creation of a new company—High Speed 2—to help consider the case for new high speed rail services between London and Scotland and tasked initially with developing a proposal for an entirely new line between London and the West Midlands which could link to Heathrow and Crossrail through a new international interchange station. [...]
> - £250m to get more ultra low-carbon vehicles on Britain's roads, helping motorists to go green by stimulating consumer uptake and helping to reduce emissions from road transport and improve local air quality. [17]

On 27 January 2009, the Secretary of State for Business and Enterprise announced a £2.3 billion package of loan guarantees to UK car manufacturers, to help to sustain them through the economic downturn.[18]

Response to the Government's green stimulus

12. For several years we have made recommendations on the need for sharply increased investment in low carbon programmes.[19] Many environmentalists have welcomed the green stimulus measures announced in the Pre-Budget Report, but criticised them for being far too small, given the urgent need to cut greenhouse gas emissions and connected need for investment in low carbon policies and technology.

13. Tim Jackson, Professor of Sustainable Development at Surrey University and a Sustainable Development Commissioner, in a report published on the Sustainable Development Commission (SDC) website, described the green stimulus in the PBR as "a welcome package", but went on to say:

> [...] at £535 million, this represents much too small a slice of the overall stimulus package. This was a unique opportunity to re-structure investment towards a more sustainable economy [...] The PBR package could have included much stronger signals that the UK government is serious about renewable energy, home energy

16 "£1bn to accelerate key transport projects", Department for Transport press release, 25 November 2008

17 "Hoon outlines air, road and rail improvements to boost economy and jobs", Department for Transport press release, 15 January 2009

18 "Mandelson announces support for Automotive industry", Department for Business, Enterprise and Regulatory Reform press release, 27 January 2009

19 See, for instance, Environmental Audit Committee, Sixth Report of Session 2005–06, *Keeping the Lights On: Nuclear, Renewables and Climate Change*, HC 584–I, para 141

> efficiency, energy efficient transportation, clean technologies, and green businesses. […] The government must rethink its commitment to a 'green stimulus' package worthy of the name.[20]

14. Andrew Simms, of the New Economics Foundation and Green New Deal Group, pointed out to us that, of the £535m package, only £100m (to improve home insulation and heating systems under the Warm Front programme) was new money; the rest was funding already announced in the 2007 Comprehensive Spending Review (CSR) and brought forward from 2010–11, to be fully offset by reduced spending in that year. He felt that it "barely scratched the surface."[21] Paul Ekins, Professor of Energy and Environment Policy at King's College, London, described the PBR as "a massive missed opportunity",[22] while Ian Christie of Green Alliance believed the Government's plans lacked environmental ambition and coherence.[23]

15. We put these criticisms to the Exchequer Secretary to the Treasury, Angela Eagle MP. She confirmed that only the £100m Warm Front funding was new money, saying of the rest of the £535m package: "By definition, that has to be investment that was planned for in the CSR period, brought forward in order to be part of a fiscal stimulus, not extra investment […]".[24] She then made clear that: "money that is brought forward will not add, except at the margins, to carbon savings because it will just mean that homes are insulated a year or two earlier than they would have been without the extra money, and so that will be quite minor."[25] However, she drew our attention to: "the new legal structures that we have put in place, the carbon budgets, with the renewable strategies", as well as "the extra money that has been announced for ultra low carbon vehicles and the extra £1 billion of loans to the automotive industry".[26]

16. The recent report on green stimulus by Lord Stern and others suggests that the world should spend around 0.8% of global GDP in the next year on green stimulus measures, yielding a global 'ball-park' figure of around $400 billion.[27] For the UK 0.8% of its GDP would translate into around £11 billion in the next year.[28] The Exchequer Secretary would not be drawn on what proportion of its GDP the UK should be devoting to environmental stimulus measures, but stated:

> The more we spend now, the cheaper it will be in terms of GDP allocated […] Since we are such a small percentage of current world carbon emissions, we also have to

20 "Right Signals; Wrong Scale: Missed opportunities in the Pre-Budget Report", Sustainable Development Commission, December 2008, www.sd-commission.org.uk

21 Q57

22 " 'Green stimulus' fails to inspire environmentalists", *ENDS Report*, December 2008, p 45

23 " 'Green stimulus' fails to inspire environmentalists", *ENDS Report*, December 2008, p 45

24 Q84

25 Q102

26 Q103

27 Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, *An outline of the case for a 'green' stimulus*, February 2009, p 13. Regarding this 0.8% of GDP figure, the report states that this should be "higher in countries with a lot of unexploited opportunities for low-cost decarbonisation, lower in countries that have already made a significant start in this direction".

28 The Office of National Statistics lists the UK's GDP at market prices in 2007 as approximately £1.4 trillion; Table A1, http://www.statistics.gov.uk/downloads/theme_economy/UKEA_08q3.pdf

> remember that we have to get agreement and use credits elsewhere to try and help other countries also to reduce their emissions. In the end, it is overall global carbon emissions that matter. The ones we produce are important but that is not the only solution to the problem.[29]

17. **We welcome the £535m green fiscal stimulus announced in the Pre-Budget Report but are concerned that while it may assist economic recovery in the short term, in the longer term it will have very little additional impact on carbon budgets as little of the spending is new. The new money which is being applied as part of the overall fiscal stimulus could have been much better targeted at bringing environmental gains that would not otherwise have been made, especially by cutting emissions of greenhouse gases**.

18. We welcome the Exchequer Secretary's agreement that the earlier and more aggressively we cut carbon emissions, the cheaper action to tackle climate change will be. We are perplexed, therefore, by the Treasury's reluctance to direct more of the additional funds to climate change mitigation now. **We recommend that the Treasury should adopt a target on the proportion of the UK's GDP which should be spent on green stimulus in this and future spending rounds.** The target of 0.8% of GDP suggested by Lord Stern should be the starting point.

19. Looking at the content of the £535m package, we note that the majority (some £300m) is to be spent on up to 200 new rail carriages. Rail's greatest environmental benefit comes when it displaces plane and car travel; in order to qualify as green stimulus this spending needs to encourage modal shift rather than dealing with overcrowding or stimulating new demand for travel. Given that the larger part of the PBR's green stimulus package is to be spent on new train carriages, the Treasury should provide more information on how this funding will contribute to environmental objectives. **We recommend that the Treasury set out how the investment in new railway rolling stock will encourage modal shift away from journeys by car and plane and what impact it is expected to have. The Treasury should also explain how far environmental considerations will influence this procurement, given that some designs might be more energy efficient than others.**

20. The green stimulus package includes £100m of new money (plus £50m of existing funding brought forward) for the Warm Front scheme. The scheme provides free central heating and energy efficiency measures to vulnerable low income households. The Pre-Budget Report put this funding in the context of an overall £6.8 billion (half to come from private energy companies) to be spent through the Home Energy Saving Programme, which:

> … will substantially increase the number of homes receiving subsidised insulation and other energy saving measures. The programme was substantially enhanced in September to support higher take-up of energy efficiency measures. This winter, this will lead to the installation of 600,000 insulation measures, up 70 per cent on last winter.[30]

29 Qq 95–6

30 Cm 7484, p 140

We further note that the PBR stated that: "The Government will shortly bring forward proposals to support householders and businesses further in improving the energy efficiency of their properties, and installing low carbon heating in existing buildings."[31] On 12 February 2009 the Department of Energy and Climate Change (DECC) invited comments on three consultation papers on:

- the Heat and Energy Saving Strategy (HES), setting out the Government's longer-term ambitions for how we use energy in our homes and businesses;
- the design of the Community Energy Saving Programme (CESP), which aims to deliver significant packages of energy efficiency measures to households in low-income communities;
- a 20% increase to the Carbon Emission Reduction Target (CERT) on major energy suppliers, driving significant investment in GB household energy and carbon saving by March 2011.[32]

21. Lord Smith, Chairman of the Environment Agency, in a speech to the Royal Society of Arts, cited analysis by HSBC which suggested that of the UK's entire economic stimulus package, only 7% represented green investments. This compared to 10% green content in the Spanish stimulus package, 16% in the USA Administration's proposals, 19% in the case of Germany, 34% for China, and 69% for South Korea.[33] While we welcome the extra funding announced for the Warm Front programme, and the Government's wider programme of policies aimed at reducing energy and emissions from new and existing buildings, the scale and speed of Government action is far too modest. The DECC's recent announcements are only for another series of consultations. Retrofitting existing buildings with energy efficiency and renewable generation measures would be labour-intensive and fast to implement. They could sustain employment in local communities throughout the country, and could develop skills and supply chains required in what will be a long-term growth sector. Such action would cut emissions, reduce fuel poverty, and enhance the UK's energy security. **We recommend that the Government increase the scale and speed of its programmes to improve the energy efficiency of existing buildings, and make this the UK's number one priority for green fiscal stimulus.**

22. It is not only better targeting of fiscal stimulus measures on environmentally beneficial programmes that matters. It is also important that the spending is not running counter to such ambitions. Lord Stern and others said in their recent report: "It is important that fiscal measures that are not explicitly 'green' do not make achieving climate change goals more difficult by subsidising greenhouse gas emissions or locking in high-carbon infrastructure for decades to come."[34] The wider fiscal stimulus package includes infrastructure projects —notably hundreds of millions of pounds on road building and widening—that may

31 Cm 7484, p 139

32 "12 February 2009: The Heat and Energy Strategy", Department of Energy and Climate Change consultation, 12 February 2009, www.decc.gov.uk

33 "Out of red, into the green—After the credit crunch: a more sustainable future?", Lord Smith of Finsbury, speech given at the Royal Society of Arts, 11 February 2009, para 25; *The Green Rebound*, HSBC Global Research, 19 January 2009, p 4

34 Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, *An outline of the case for a 'green' stimulus*, February 2009, p 3

increase carbon emissions. **We recommend that the Treasury publish an assessment of the net impact of its fiscal stimulus package (to date, and continuing as further measures are announced) on the environment, in particular carbon emissions, so that it is possible to see not only the net overall impact but whether each element is making a positive or negative contribution. The Treasury must make clear what percentage of the entire stimulus package in the PBR is directed towards green objectives**.

23. The transport measures in the fiscal stimulus are directed overwhelmingly towards road building and widening projects. According to Richard George of the Campaign for Better Transport (CfBT), of the £1 billion announced for transport infrastructure only £54 million was new money that "was going to something other than road building, and that is a small amount of tinkering in North London in regard to rail freight."[35] Stephen Joseph, CfBT's executive director, described the overall package of transport measures as:

> […] a ragbag list of schemes […] While the rail upgrades are encouraging, some of the road schemes will worsen rather than solve local traffic problems and are not in fact the region's priority. For example, £500m to be spent on the A46 Nottinghamshire upgrade could pay for upgrades of parallel rail lines and safe routes to school for much of the region. By avoiding putting any money into local transport, the Government is avoiding tackling where most of the problems—and the opportunities for solving them—really are.[36]

Mr George suggested there were alternative candidates for investment which would both cut emissions and generate more jobs:

> There are jobs out there—the Department for Transport's 'Smarter Choices' transport package […] is a very good example of this. We know that if you pay people to engage the public in discussion around transport, targeting their local area, they will make a shift—10% car use, for example, as a result in the sustainable demonstration towns. Also road maintenance is a massive issue all around the country. Motorists, cyclists, pedestrians, are very happy to see that go on, and at the moment the amount of money paid out in compensation for people injured or vehicles damaged by collisions as a result of holes in the road is as high as local authorities' maintenance budgets. If we had invested in that, that can provide people with jobs tomorrow because there is always a need to fill in the road and get them to a decent standard, and it is the kind of work that could then feed into construction jobs or those sort of jobs that can then feed into these—be it road-building, light rail, train, or whatever construction schemes, when they become ready in a year or two. But none of the measures that were promoted in this £1 billion can be done now; they all have a couple of years' lead-in. These are conservative estimates—but that is roughly when we might be coming out of the recession, but none of these measures tackle the problem now.[37]

35 Q30

36 "Reaction to today's £1bn transport announcement", Campaign for Better Transport press release, 25 November 2008, www.bettertransport.org.uk

37 Q33

24. The Exchequer Secretary directed our attention to "the £250 million package for ultra low carbon vehicles, which the Department for Transport announced as part of—what I know is controversial, and perhaps more so in this Committee—the Heathrow expansion."[38] While we welcome the funding for low carbon cars, this measure cannot be used as justification for the decision to build another runway at Heathrow. Decarbonising road transport should move ahead regardless of what happens in other sectors, such as aviation. **We recommend that the Government make clear what the £250m for low carbon cars will be spent on, and when it will be spent.**

25. The evidence we have received makes clear that the transport element of the stimulus package represents another serious missed opportunity for developing the green economy. **We recommend that the Treasury increase funding to transport measures that might be labour-intensive, relatively fast to implement, lighter in use of raw materials and fossil fuels, and effective in cutting emissions—such as 'Smarter Choices' measures, road maintenance, and other projects that could be swiftly progressed.**

26. The Government has also provided support to car manufacturers in the UK, but there is no evidence that this has been used to promote the greening of that industry. **We recommend that the Treasury provide details of the environmental conditions attaching to the £2.3 billion loans package offered to car manufacturers.**

27. Overall, the Exchequer Secretary responded to criticisms as to the size of the green stimulus in the PBR by referring us to larger streams of Government spending on the environment:

> [… T]he green fiscal stimulus part of the Pre-Budget Report is only a very small part of the overall plan and approach that the Government is taking in this whole area, so it would be wrong to mix up the £535 million of green stimulus that was in the Pre-Budget Report with the £50 billion that we think is a conservative estimate of future investment we are putting into greening our economy as a whole.[39]

28. This comment reflected the statement in the PBR that, "Government policies are driving £50 billion of investment in the low-carbon sector over the three years to 2011".[40] No further breakdown was given of what this £50 billion was being spent on. This was given in a written answer to a parliamentary question on 21 January (see Box 2).

38 Q91

39 Q84

40 Cm 7484, p 126

Box 2: Breakdown of the £50 billion figure for environmental spending in the PBR

The figure of £50 billion brings together Government spending, fiscal support and private investment driven by Government regulation in energy efficiency, renewable energy technologies and public transport over the period of the comprehensive spending review (2008–09, 2009–10 and 2010–11). The estimated breakdown for the full three-year period is set out by theme, as follows:

Technology support
Estimated at £1,200 million including the domestic Environmental Transformation Fund, Research Councils, Technology Strategy Board, Carbon Trust, Energy Technologies Institute and Enhanced Capital Allowances.

Renewables support
Estimated at £5,800 million including private sector investment in renewables and the renewables obligation.

Energy efficiency
Estimated at £9,800 million, made up of CERT, the Community Energy Saving Programme, Warm Front, Decent Homes, the Energy Saving Trust, Smart metering for SMEs and public sector sites, Reduced VAT for Energy Savings Materials, Landlord Energy Savings Allowance, incentives for thermal insulation in industrial installations, and the value of CCL exemptions.

Reducing greenhouse gas emissions from municipal waste
Estimated at £2,200 million including PFI programme and capital grants to local authorities for recycling.

Transmission and electricity distribution infrastructure
Estimated at £7,600 million, including funding to link low carbon power generators to the national grid.

Public transport and low carbon and electric vehicles
Estimated at £23,200 million including spending on rail, Crossrail, TFL and public transport in the devolved Administrations, as well as spending on low carbon and electric vehicles.

The figure published is not exhaustive as it does not include: The value of 'EU ETS allowances' over this period; 'R and D tax credits' for low carbon R and D; The significant low carbon investment by 'local authorities' or much of the investment by 'devolved Administrations' and 'RDAs'; Low carbon investment driven 'by building standards regulations'; Low carbon investment driven by 'minimum efficiency standards' for products; Investment in the 'gas distribution grid' even where this brings new homes on to the gas grid, replacing higher CO2 oil heating systems; 'Stamp duty exemption' for new zero carbon homes; 'Enterprise Investment Scheme' (EIS) and 'Venture Capital Trusts'; Private or public sector spend on other low carbon electricity sources, such as 'nuclear' or preliminary work on the demonstration of 'carbon capture and storage'; and 'UK spend on low carbon technologies in developing countries'.

Source: HC Deb 21 January 2009 col 1477-8w

29. The £50 billion public and private investment in a low carbon economy over three years referred to in the Pre-Budget Report relates to existing programmes, and nearly half is made up from central government spending on public transport. While vital in keeping emissions lower than they otherwise would be, much of this spending is not necessarily contributing towards the development of transformative technology and the transition to a low carbon economy. There appears to be no coherent overview of the Government's announcements on fiscal stimulus, and no sense of the Treasury's assessing the net environmental impact of all the proposed measures together. **We would like to see a more strategic approach towards funding the transition to a low carbon economy. The Budget in April 2009 will be the ideal opportunity to set out such an approach alongside the carbon budgets; and we look forward to a much bigger and coherent package of green fiscal stimulus in the Budget, to be followed by consistently higher**

spending in areas designed to accelerate rapidly the UK's transition to a low carbon economy.

30. The PBR and the Budget itself provide a way of assessing the actual priority being given by the Government to greening the economy. **We recommend that, alongside the Budget, the Treasury publishes a comparison of UK Government spending on a low carbon economy with that of other G20 nations.** It would be useful for this to be on a similar basis as the £50 billion figure referred to in the PBR—that is corresponding to the spending areas listed in the Exchequer Secretary's written answer of 21 January, including capital and operational funding for public transport.

Green finance, regulation, and recession

31. Following its interventions to save a number of leading high street banks, we received written evidence (submitted jointly by PLATFORM, People & Planet, and BankTrack) which argued the Treasury should 'green the bank bail-outs'. Specifically, it argued that the Treasury should direct the Royal Bank of Scotland (RBS) to invest in more environmentally-friendly businesses:

> RBS has been the source of a great deal of controversy over its status as the UK bank that is the most heavily involved in financing the expansion of fossil fuel projects around the world […] The carbon emissions embedded in RBS' project finance are enormous. A report in 2006 calculated that they were greater than the carbon emissions of Scotland itself […]
>
> Instead of taking an 'arms length' approach to the management of RBS, the government should be using its political and financial influence to prioritise climate change as a principle concern in RBS' lending decisions.
>
> Banks, particularly those that are now bailed out with tax money, have an important role to play in this economic transformation. It must be a role based on serving the public interest, rather than safeguarding the profits of the few. Given their power and important role, banks can and should deploy capital in ways that promote the restoration and protection of the environment and help create sustainable economies.[41]

32. We asked the Exchequer Secretary for the Treasury's views on this argument. Her first response was:

> We know that part of the results of the work we have done in trying to unfreeze credit will be to support those [i.e. environmentally-friendly] businesses, but I am not sure that we could have got ourselves into a circumstance where we were somehow saying to banks, "But you cannot lend to those that are not green enough".[42]

41 Ev 60

42 Q155

However, she left the door open to the possibility that the Treasury would seek to exert some kind of guiding influence over the investments made by banks in which the Government had a controlling stake in the future:

> Once we have got ourselves into a position where we have stabilised the banks and got lending working again, we will be in a position to look to see during our stewardship of these institutions whether there are any other parameters that we might wish to put before them. I think at the moment the important thing is that we end up with a financial system where credit is flowing again, and that is the overriding aim of the work we have done. I am not saying absolutely not in the future but at the moment we have to be able to ensure that credit begins to flow again to all business so that we can try to deal with and mitigate some of the effects on the real economy that have been caused by the global credit crunch.[43]

33. **The Government now has a controlling interest in a number of banks. We recommend that the Treasury examine and report on how some form of environmental criteria for the investment strategies pursued by these banks might be imposed, and what impacts this might have on UK sustainable development objectives**.

34. Another issue relating to finance and the recession is the possibility that the 'credit crunch' will slow down investment in low carbon infrastructure. Adrian Wilkes, Chairman of the Environmental Industries Commission, told us: "the amount of green investment that is coming out of the City's financial institutions over the last six to nine months has been falling off".[44] Lord Turner, Chairman of the Committee on Climate Change, told us recently that one of the main impacts of the recession

> is the supply of capital, the credit crunch and, in particular, the supply of long-term capital, where obviously there can be a danger that some of the capital-intensive things we need to do in order to meet the [UK's carbon reduction] targets—things like the wind energy investments—may be set back simply because of the shortages of credit available.[45]

He said the Committee on Climate Change would look in detail at this situation, and decide whether Government climate change policy needed to change to address it.[46] On this point, we note the conclusion of the report by Stern *et al.* on the role that increased government spending on low carbon projects can play in the recession:

> Public spending […] relieves or by-passes credit constraints on consumers and companies, which are unusually acute in the current slowdown. Subsidising the development of renewable energy industries with tax breaks for R&D or financing home energy efficiency programmes directly are good examples.[47]

43 Q156

44 Q70

45 Oral evidence taken before the Environmental Audit Committee on 4 February 2009, HC (2008–09) 234, Q1

46 Oral evidence taken before the Environmental Audit Committee on 4 February 2009, HC (2008–09) 234, Q1

47 Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, *An outline of the case for a 'green' stimulus*, February 2009, p 10

35. **We recommend the Treasury, working together with the Department of Energy and Climate Change, examine the risks to the UK's climate change and renewable energy targets from the shortage of capital for investment in low carbon infrastructure, and bring forward proposals for ensuring that low carbon energy projects receive the finance they need**.

36. There may be some pressure on the Government to weaken or suspend environmental regulations on business during the economic downturn. Lord Turner noted the risk:

> […]of a recession being used by industry lobby groups, or whatever, to suggest the need to slow down targets in a way which is irrelevant and is simply tagging on what they want to achieve in any case to another … You could imagine that, in a situation where the car industry is clearly under huge short-term pressure, you might have an argument that says, "Let us delay the progress towards a stretching 2020 target in terms of grammes per kilometre at the European level"; but actually there is nothing about the degree of the stretch … that will make any difference to how many cars people buy in this year or next. One of the things I think we have to do therefore is, as it were, to stop the recession being used as an excuse to put off progress in ways which would be completely irrelevant to the short-term economic downturn.[48]

37. The Aldersgate Group (a coalition of business and environmental groups, including Tesco, BT, the Environmental Industries Commission, and the Environment Agency) echoed this point. Their argument was that: (i) the need to create a low carbon economy remains every bit as vital, and environmental taxation and regulation are necessary to help achieve it; (ii) achieving high environmental standards across the UK would produce significant cost savings, for individual businesses and the economy as a whole; and (iii) environmental regulation creates new business and employment opportunities in a fiercely competitive global marketplace.[49] The Environmental Industries Commission estimates that the global market for environmental industries is already worth £3 trillion.[50] The report by Lord Stern and others marshals a range of research to argue that investment in low carbon industries will lead to the net creation of new jobs:

> Spending on the transition to a low-carbon economy also has the advantage at a time of rising involuntary unemployment that it is likely to increase the demand for labour.

Citing a number of authorities, the authors of the report conclude:

> The potential increase in the demand for labour reflects not only the labour intensity of many of the tasks that need to be undertaken in the short run, but also the backlog of tasks to be done when a new policy framework is brought in (e.g. retrofitting the existing housing stock with insulation).[51]

48 Oral evidence taken before the Environmental Audit Committee on 4 February 2009, HC (2008–09) 234, Q1

49 Ev 21-5

50 Ev 26

51 Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, *An outline of the case for a 'green' stimulus*, February 2009, p 10

38. The Government should recognise these positive economic benefits arising from measures to green the economy and be prepared to resist calls for environmental regulations on business to be watered down during the recession which are not justified by the evidence. **We recommend that the Government ensures that the clear evidence that investment in low carbon industries will lead to net job creation is reflected in UK industrial policy.**

Sustainable development and the recession

39. Professor Jackson believed that the current economic crisis provided "an enormous window of opportunity" to rethink a 'growth at all costs' approach.[52] But he felt that the Treasury's engagement with a major recent project by the Sustainable Development Commission had not been encouraging.[53] While stressing that the SDC had had some positive engagement with the Treasury on other occasions, he told us that there had been no formal response to his criticism of the Pre-Budget Report, published on the SDC's website in December",[54] although the Exchequer Secretary assured us that the Treasury does "pay attention" to the SDC.[55] We welcome the 'Redefining Prosperity' work being carried out by the SDC on growth, sustainability, and well-being. **We recommend that when the SDC publishes its report 'Redefining Prosperity', the Treasury should publish a detailed response to it**.

Green taxation

Shifting the burden of taxation from 'goods' to 'bads'

40. In July 1997 the Treasury issued a "Statement of Intent on Environmental Taxation", setting out the Government's aim:

> […] to reform the tax system to increase incentives to reduce environmental damage. That will shift the burden of tax from 'goods' to 'bads'; encourage innovation in meeting higher environmental standards; and deliver a more dynamic economy and cleaner environment, to the benefit of everyone.[56]

The Treasury followed this with a number of bold moves, increasing the fuel duty escalator and introducing a range of new instruments, including the Climate Change Levy package and the Aggregates Levy. From 1999, however, this momentum stalled: in 1999 the fuel duty escalator was abolished; the main rate of Air Passenger Duty was halved in 2002; and Climate Change Levy rates were frozen between 2001 and 2007. Through our work on successive Pre-Budgets Reports we have tracked progress against the statement of intent.

52 Q22

53 Tim Jackson, "What politicians dare not say", *New Scientist*, 18 October 2008, pp 42–3

54 Q2

55 Q85

56 "Statement of Intent on Environmental Taxation", HM Treasury, 2 July 1997

41. Since the 2006 Pre-Budget Report there has again been a slight, if faltering, shift forward in momentum for all key environmental taxes (see Table 1). The main rate of Air Passenger Duty doubled in February 2007; fuel duty has increased each year since 2006–07; Vehicle Excise Duty has increased for all but the most fuel efficient cars; the Climate Change Levy has been revalorised twice since 2007–08 (i.e. raised in line with inflation); the Aggregates Levy increased by 5 pence per tonne (22%) in 2008–09 to take account of inflation since its introduction; and Landfill Tax continued its annual rise , increasing by £8 per tonne (33%) in 2008–09.

Table 1: Changes to five key environmental taxes since 2000

Year[1]	**Fuel duty**	**Vehicle Excise Duty**	**Climate Change Levy**	**Air Passenger Duty**	**Aggregates Levy**	**Landfill Tax**
2000–01	Revalorise[2]	Freeze	Introduction	Freeze	N/A	Rise **to £11/tonne**
2001–02	Freeze	Reform **(new bands),** Cut **for smaller cars**, Freeze **for other rates**	Freeze	Reform **(avg. rate cut)**	N/A	Rise **to £12/tonne**
2002–03	Freeze	Freeze, **plus** Reform **(new lower rate for lower emission cars)**	Freeze	Freeze	Introduction	Rise **to £13/tonne**
2003–04	Revalorise	Revalorise, **plus** Reform **(new lower rates for low emission cars)**	Freeze	Freeze	Freeze	Rise **to £14/tonne**
2004–05	Freeze	Freeze	Freeze	Freeze	Freeze	Rise **to £15/tonne**
2005–06	Freeze	Freeze **for lower emission bands,** Revalorise **for highest**	Freeze	Freeze	Freeze	Rise **to £18/tonne**

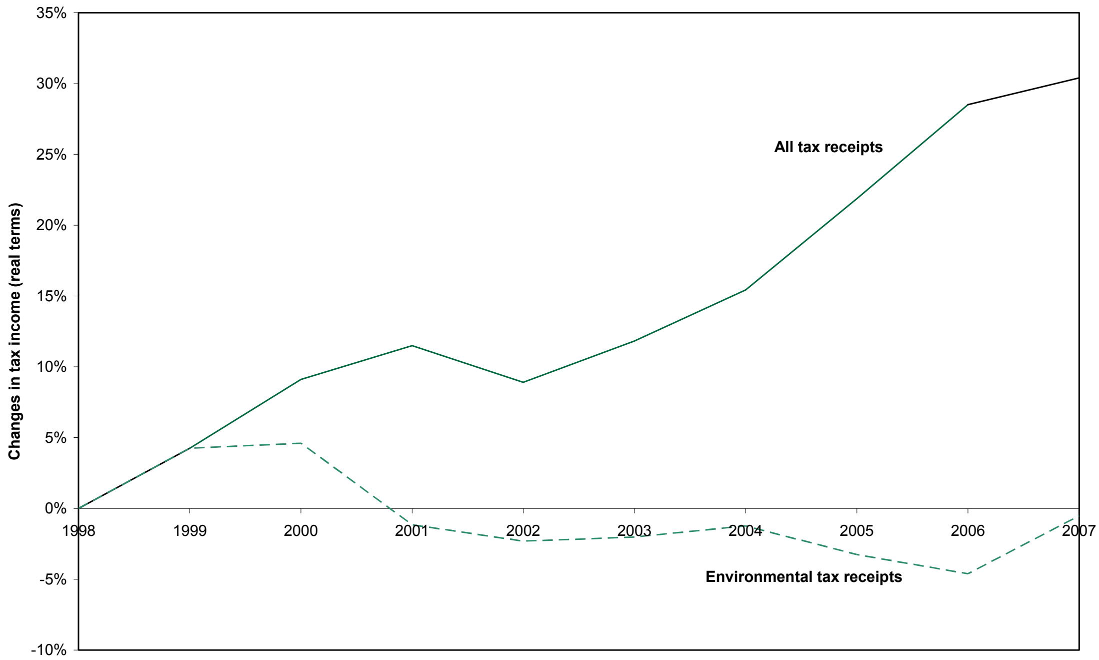
Year[1]	Fuel duty	Vehicle Excise Duty	Climate Change Levy	Air Passenger Duty	Aggregates Levy	Landfill Tax
2006–07	Revalorise	Cut **for lower emission bands,** Freeze **for bands D & E,** Rise **for band F** and a Rise / Reform : **new band G for highest emitters**	Freeze	Freeze **until February 2007, then** Rise **(doubling all bands)**	Freeze	Rise **to £21/tonne**
2007–08	Rise **(2ppl in October 2007)**	Freeze	Revalorise	Freeze	Freeze	Rise **to £24/tonne**
2008–09	Rise **(2ppl in December 2008)**	Freeze **for bands A & B**; £5 rise **for bands C to F**; £100 rise **for band G**	Revalorise	Freeze	Rise **from £1.60/tonne to £1.95/tonne**	Rise standard rate **to £32/tonne.** Rise lower rate **from £2.00/tonne to £2.50/tonne**

Notes:
[1] Changes are listed in the year in which they take effect, rather than the year in which they are announced.
[2] 'Revalorise' means 'rise in line with inflation experienced since the previous year'.

Source: EAC analysis of Budgets and Pre-Budget Reports 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008; and Supplementary Memorandum from HM Treasury to Environmental Audit Committee inquiry into Pre-Budget Report 2005

42. While we welcome these renewed initiatives, it is clear that the Treasury is continuing to fail in its avowed aim to shift the overall tax burden from 'goods' to 'bads'. In 1998 and 1999 green taxes as a proportion of all taxation peaked at 9.7%; since when the proportion has fallen almost steadily, although the figure of 7.4% in 2007 was a slight increase from the 7.2% recorded the previous year. During the same period, environmental taxation as a proportion of Gross Domestic Product (GDP) fell from 3.5% (1998) to 2.7% (2007). In all years since 2001 real terms income from environmental taxation has been below that recorded in 1998 (see Chart 1).

Chart 1: Environmental tax receipts have gone down in real terms



Source: UK Environmental Accounts Autumn 2008, Office of National Statistics

Note: Income from environmental taxes has been revalorised into 2007–08 equivalents using the Treasury's GDP Deflators: http://www.hm-Treasury.gov.uk/Economic_Data_and_Tools/GDP_Deflators/data_gdp_index.cfm

43. The Aldersgate Group believed that the Government was giving out a mixed message on the future direction of taxation.[57] This view was echoed by Tim Jackson who expressed concern about the effects of the cut in Value Added Tax and future rise in National Insurance Contributions.[58] Paul Ekins criticised the VAT cut in the PBR as "an undifferentiated stimulus to consumption."[59]

44. We asked the Exchequer Secretary what impact the overall package of tax measures announced in the Pre-Budget Report would have on shifting the burden towards green taxes. She did not tell us what changes would result to the measure of green taxes made each year by the Office of National Statistics but claimed that:

> The way that we define green taxation in the Treasury is by things like the Climate Change Levy where we actually recycle the income. We have changed behaviour that way. I suppose you could say that we could make major structural changes to taxation, which would be very much larger than the changes we have made—for example, [… to] shift to green taxes away from income taxes. It has not been the Government's view that we should shift our structure to that extent. You can take radical or pragmatic approaches to this. We have taken a pragmatic approach.[60]

57 Q69 Mr Young

58 Q1

59 " 'Green stimulus' fails to inspire environmentalists", *ENDS Report*, December 2008, p 45

60 Q131

We recommend that the Treasury publishes with the Budget its assessment of how the tax changes announced in the Pre-Budget Report help to shift the burden of taxation from 'goods' to 'bads'. This assessment should quantify the expected changes to environmental tax receipts, as defined by the Office of National Statistics, in terms of their proportion both of total tax receipts and of GDP. The Minister's answer appeared to suggest—for the first time in our knowledge—that hypothecation of tax revenues to environmental ends, as in the case of the Climate Change Levy, is essential to the Treasury's concept of environmental taxation. **We also recommend that the Treasury confirm whether its definition of an environmental tax is one in which the revenues are explicitly hypothecated to environmental ends.**

Aviation

45. For several years we have identified failings of taxation policy with regard to aviation. Emissions from aviation, especially on short-haul flights, continue to increase. Government policy on Air Passenger Duty (APD), however, has not addressed this at all. In 2000 the then Chancellor cut the short-haul reduced rate of Air Passenger Duty from £10 to £5, and it was not restored to its former level until February 2007, since when it has been frozen. The current rate per passenger represents a cut in real terms of 30% since March 1997.[61] Yet it is short-haul passengers travelling in economy class who have driven the overall increase in passenger numbers (Chart 2). The number of reduced rate short-haul passengers increased from 41.4 million in 2001 to 82.1 million in 2007 (a 98% increase); and in 2007 they accounted for over 76% of all passengers, compared to 67% in 2001.[62] The significant increase in Air Passenger Duty receipts in 2007 compared to 2000 reflects the restoration of the £10 rate for economy short-haul travellers; but this level of duty would seem unlikely to have a large influence on behaviour.

46. The 2007 Pre-Budget Report announced that the basis of Air Passenger Duty would be changed from a charge per passenger to a charge per plane. We welcomed this reform, which we had recommended in our previous two reports on the Pre-Budget Report, arguing it would tax air freight for the first time, and incentivise airlines to increase the efficiency with which they fill their flights. The 2008 Budget Report stated: "This [reform] will send better environmental signals and ensure that aviation duty better reflects environmental costs".[63]

47. We were therefore surprised and disappointed that the 2008 Pre-Budget Report announced that this change will not now take place.[64] When asked about this decision, the Exchequer Secretary explained that, according to the Treasury's analysis, the extra carbon that would have been saved by this reform was marginal, while economically it might have caused difficulties for freight transporters and regional airports.[65]

61 Calculated using Treasury Deflators: "GDP deflators at market prices, and money GDP", HM Treasury, 23 December 2008, www.hm-treasury.gov.uk

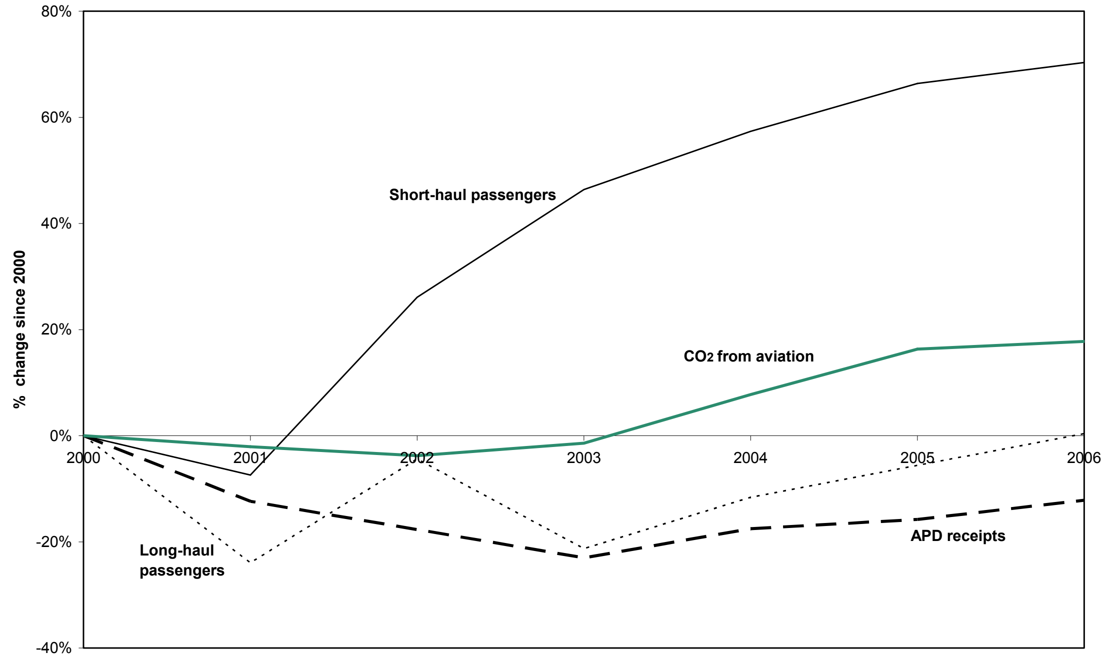
62 HM Revenue and Customs, *Air Passenger Duty Bulletin*, November 2008

63 HM Treasury, *Budget 2008—Stability and opportunity: building a strong, sustainable future*, March 2008, HC 388, para 6.38

64 Cm 7484, para 7.55

65 Q133

Chart 2: Changes in passenger numbers, aviation CO_2 emissions and Air Passenger Duty receipts, 2000 to 2006



Source: Air passenger numbers and APD receipts from HMRC, Air Passenger Duty Bulletin, November 2008 (http://www.uktradeinfo.co.uk/index.cfm?task=bullair); CO_2 emissions from Defra, Estimated emissions by source, IPCC categories, 1970-2006: carbon dioxide, methane and nitrous oxide (http://www.defra.gov.uk/environment/statistics/globatmos/download/xls/gatb04.xls)

Note: Income from environmental taxes has been revalorised into 2007–08 equivalents using the Treasury's GDP Deflators: http://www.hm-treasury.gov.uk/Economic_Data_and_Tools/GDP_Deflators/data_gdp_index.cfm

48. The Government's decision was welcomed in written evidence submitted by Virgin Atlantic[66] and the Freight Transport Association.[67] WWF took the opposite view:

> WWF-UK is disappointed that this opportunity [to switch from a per passenger to per plane tax] has not been taken, and concerned that the Government appears to have yielded to pressure from scheduled airlines and cargo operators, who wanted to preserve anomalous exemptions on transit passengers and air freight respectively. […] WWF has not seen convincing evidence that there would be a substantial switch of freight from aircraft to road; even if there were this would represent a saving in carbon terms … As well as excluding these two categories, the structural advantage of a per-plane tax—that it discourages operators from flying empty planes—has been lost.[68]

49. We are unconvinced by the reasoning behind the Government's decision not to go ahead with a per plane charge, the arguments for which the Treasury had formerly accepted. We are extremely concerned that the Government is abandoning a proposal that by its own admission would send better environmental signals and better represent the

66 Ev 52

67 Ev 58

68 Ev 72; see also Q39

environmental costs. The decision to backtrack on this commitment means that air freight will continue to be entirely untaxed—in direct conflict with the Treasury's endorsement of the 'polluter pays' principle. **We recommend that the Treasury reinstates its plan to reform Air Passenger Duty into a per plane tax**.

50. In place of a per plane charge, Government has decided to reform the existing Air Passenger Duty. Currently, a lower rate applies to European Economic Area (EEA) destinations (£10 for economy class, £20 for first / business class), while a higher rate is charged for those flying to non-EEA destinations (£40 for economy class, £80 for other classes). From 1 November 2009 APD will be based around four distance bands, in rough terms meaning that the current 'long-haul' band is divided into three, so as better to reflect the distance actually travelled (see Table 2). As WWF put it to us last year: "The emissions from a trip to Australia are around three times those of a trip to New York, but both are currently classed simply as long-haul."[69] In evidence to the Treasury Select Committee, easyJet argued that, under the current system, a passenger travelling from London to Auckland would be responsible for more than 15 times the emissions of a passenger travelling from London to Marrakech, yet would be charged the same rate of tax.[70] Last year we recommended that the Treasury closely examine the merits and practicalities of better reflecting the emissions arising from longer intercontinental journeys by increasing the number of Air Passenger Duty bands.[71] **We welcome the Treasury's introduction of the link in the Air Passenger Duty regime between distance travelled and tax payable**.

51. However, we doubt whether the Band A economy class rate will be enough to discourage anyone from flying short-haul, and so curtail the increase in this market witnessed since 2000. Even though the rates of Air Passenger Duty are set to increase in each of the next two years, in real terms the Band A reduced rate in 2010–11 will still be 5% lower than in 1997. Equally, we doubt that the highest rate (from 2010–11) of £170 for Band D flights will do much to affect the number of such journeys, given it will add only 2.5% to an average business class return from London to Sydney, costing around £6640.[72] **We recommend that the Treasury publish an explanation of why it believes the APD charges announced in the PBR will discourage unnecessary air travel.**

69 Ev 15

70 Treasury Committee, Fourth Report of Session *2007–08, Climate Change and the Stern Review: The implications for Treasury policy*, HC 231–I, para 110

71 Environmental Audit Committee, Third Report of Session 2007–08, *The 2007 Pre-Budget Report and Comprehensive Spending Review: An environmental analysis*, HC 149–I, para 15

72 Based on a fully flexible business class return from London to Sydney, quoted at £6642 for February 2009

Table 2: Revised Air Passenger Duty rates

Band and approximate distance in miles from the UK	In the lowest class of travel (reduced rate) from		In other than the lowest class of travel (standard rate) from:	
	1 November 2009	1 November 2010	1 November 2009	1 November 2010
Band A (0-2000)	£11	£12	£22	£24
Band B (2001-4000)	£45	£60	£90	£120
Band C (4001-6000)	£50	£75	£100	£150
Band D (over 6000)	£55	£85	£110	£170
Note: If only one class of travel is available and that class provides seating in excess of 40" then the standard (rather than the reduced) rate of APD applies				

52. Although the Chicago Convention prevents countries from imposing tax on aviation fuel, the Exchequer Secretary told us: "We have certainly been pushing as the UK for a renegotiation of the Chicago Convention, which is plainly anachronistic and prevents the appropriate taxation of fuel for aviation on a worldwide basis in what is clearly a global industry."[73] **We recommend that the Government seek the support of the new US Administration in promoting reform of the Chicago Convention to allow governments to impose a tax on international aviation fuel.** In the meantime, we note that the Chicago Convention does not extend to fuel for domestic flights, and that most other European countries charge Value Added Tax on domestic flights.[74] **We recommend that the Treasury introduces both fuel duty and VAT on domestic flights, to encourage modal shift, especially to rail.**

Motoring

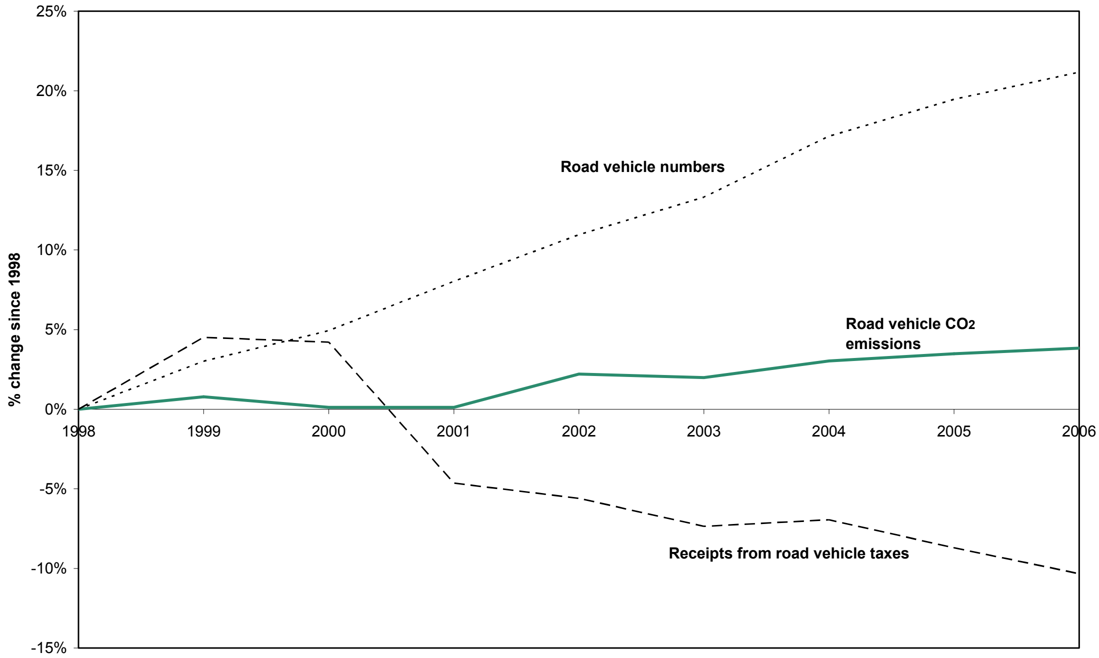
53. Since 1998 the number of road vehicles has risen steadily, with CO_2 emissions also rising (but much less sharply); yet since 2001 tax revenue from road vehicles has fallen in real terms (see Chart 3). Indeed, the 2008 Budget stated: "By 2010–11, main fuel duty rates will remain at least 11 per cent lower in real terms than they were in 1999".[75]

73 Q 135

74 Qq 42 & 46

75 HM Treasury, *Budget 2008*, HC 388, para 6.30

Chart 3: Changes in road vehicle numbers, road vehicle CO2 emissions and tax receipts from road vehicles in real terms, 1998 to 2006



Source: Tax receipts from road vehicles based on figures of revenue from duty on unleaded petrol, leaded petrol/LPR, ultra low sulphur petrol, diesel, ultra low sulphur diesel, a corresponding proportion of VAT on duty, and Vehicle Excise Duty, from UK Environmental Accounts Autumn 2008, Office or National Statistics. CO_2 emissions from Defra, Estimated emissions by source, IPCC categories, 1970–2006: carbon dioxide, methane and nitrous oxide (http://www.defra.gov.uk/environment/statistics/globatmos/download/xls/gatb04.xls). Road vehicle numbers is taken from Vehicle Licensing Statistics 2007 (http://www.dft.gov.uk/172974/173025/221412/221552/228038/367311/datatables2007.xls

Note: Income from environmental taxes has been revalorised into 2007–08 equivalents using the Treasury's GDP Deflators: http://www.hm-treasury.gov.uk/Economic_Data_and_Tools/GDP_Deflators/data_gdp_index.cfm

54. The 2008 Budget announced a major reform of Vehicle Excise Duty (VED), with new first-year rates (designed to influence purchasing decisions, akin to a 'showroom tax'), and an introduction of several new bands, that would apply to cars already on the road (which had been purchased after March 2001)—in some cases introducing fairly significant rises in annual road tax for cars that had already been purchased. The 2008 Pre-Budget Report confirmed the introduction of the new bands in 2009. However, it also announced:

> … that to reduce pressures on motorists during the current economic downturn, there will be no significant rate changes until 2010, and no driver in any given band will pay more than £30 more in that year. […] As a result of these reforms to graduated VED, no driver in any given band will pay more than £5 extra in 2009. In 2010–11, when more significant rate changes are introduced, a majority of drivers will either pay less or the same as in 2009.[76]

55. While we welcome the fact that the Treasury has retained plans to introduce a new first-year system of Vehicle Excise Duty charges, we are concerned that in the current economic circumstances the Treasury may postpone their implementation. **We urge the Treasury to stick to its plans to introduce first year rates of VED in 2010–11, even if the**

76 Cm 7484, pp 134–5

economy continues in recession, and recommend that it should review the proposed increases in the standard rate for 2010–11 to assess whether they are sufficient to encourage people to purchase more fuel efficient vehicles.

56. Our biggest concern, however, relates to the Treasury's lack of a clear policy on how to reduce emissions from the second hand car market, given the decision to reduce the VED charged on higher emitting vehicles registered since 2001. We have previously recommended that the Treasury examine the merits and practicalities of introducing a 'car scrappage' scheme, such as has been introduced in France and proposed in Germany; this would pay people to trade in their existing, older cars, for newer, more efficient models.[77] The Treasury previously told us that they had no plans to introduce such a scheme, but that they were keeping the proposal under review.[78] We note that such a scheme has the potential both to combat emissions and to provide a stimulus to the beleaguered motor manufacturing industry in the UK. However, when we asked the Exchequer Secretary about the review process we were surprised by her claim that, according to the Department for Transport's initial analysis, the environmental costs of a car scrappage scheme would "outweigh the benefits even when the replacement vehicle has better than average fuel efficiency".[79] **We recommend the Treasury set out the calculations which lead to its conclusion that under a 'car scrappage' scheme, the environmental costs of buying a new car would outweigh the benefits of trading an old vehicle for a more efficient model.**

57. The 2008 Budget announced that the already postponed 2008–09 increase in fuel duty of 2 pence per litre would occur from 1 October 2008,[80] but in the event this was once more postponed. When the 2008 Pre-Budget Report announced that it would finally be implemented, from 1 December 2008, it went on to say: "However, as a result of the 2.5 per cent cut in VAT this December, the cost of petrol and diesel will fall for private motorists who should see no increase in the price they pay at the pump this year from this measure".[81] If the Government is serious about reducing CO_2 emissions from private motorists it will need to increase prices at the pump, where people most regularly experience the cost of motoring. Were the Treasury to do this, it would be important that some portion of the revenue was seen to be used for the benefit of the environment, to help make such increases politically more acceptable. **We recommend that the Treasury looks again at linking an element of fuel duty revenues to increased funding for public transport and the development of alternative technologies, such as electric cars, in order to develop public support for more consistent use of fuel duty as an environmental tax.**

77 Environmental Audit Committee, Tenth Report of Session 2007–08, *Vehicle Excise Duty as an environmental tax*, HC 907, para 38

78 Environmental Audit Committee, First Special Report of Session 2008–09, *Vehicle Excise Duty as an environmental tax: Government Response to the Committee's Tenth Report of Session 2007–08*, HC 72, p 6

79 Ev 47

80 HM Treasury, *Budget 2008*, HC 388, para 6.30

81 Cm 7484, para 7.39

Other environmental taxes

58. The 2008 Budget announced that Climate Change Levy rates will be raised in line with inflation from 1 April 2009 and the 2008 Pre-Budget Report announced that Government will shortly consult on the form and content of new Climate Change Agreements (these complement the Climate Change Levy by allowing energy intensive industries to pay a reduced rate of the levy in return for making improvements in the efficiency of their energy usage). The 2007 Pre-Budget Report had already announced that the Government intends to extend the Climate Change Agreement scheme until 2017, subject to state aid approval. The Committee welcomes these announcements, along with the increase in Landfill Tax by £8 per tonne each year at least until 2010–11, and the increase in Aggregates Levy from £1.95 per tonne to £2.00 per tonne from 1 April 2009, announced in the 2008 Budget. But we note that in the past, rates for these taxes have been frozen or subject to below-inflation increases; and we may decide to look at these taxes in more detail in the future.

Conclusion

59. The Government must continue with a programme of environmental regulations, taxes, and investments, in order to show businesses and individuals that its environmental objectives will not be blown off course by the recession. The backtracking on reforms to Air Passenger Duty and Vehicle Excise Duty are moves in the wrong direction. They suggest that the Government might respond to the recession by unpicking other elements of its environmental tax and regulation programme. This could increase uncertainty for business, leading to higher risk premiums for taking action, and a resulting lack of investment in the technologies that contribute to the transition to a low carbon economy. If the Treasury shows such weakness, then businesses and individuals will be much less inclined to play their part.

60. This year, for the first time, the Government will alongside the Budget publish its response to the Committee on Climate Change, and the UK's first carbon budget. This places even greater emphasis on the environmental content of the Budget Report. The purpose of the Climate Change Act was to put UK climate change policy on a long-term basis, in which short-term policy options would be assessed against their ability to reduce damage to the climate. **The 2009 Budget is a test of the Government's commitment, in difficult economic times, to its climate change policy. It requires consistency and boldness of purpose; the Pre-Budget Report 2008 does not reassure us that this is in place. We hope the Budget itself will.**

Conclusions and recommendations

Green fiscal stimulus

1. The fiscal stimulus measures intended to pull the economy out of recession represent an invaluable opportunity decisively to transform the UK into a low carbon economy. A programme of investments in low carbon industries would help build a modern and sustainable economy, securing Britain's competitiveness and future prosperity in the new global economy that will emerge from this crisis. It is imperative that the Government grasps this opportunity in the forthcoming Budget. (Paragraph 8)

2. We welcome the £535m green fiscal stimulus announced in the Pre-Budget Report but are concerned that while it may assist economic recovery in the short term, in the longer term it will have very little additional impact on carbon budgets as little of the spending is new. The new money which is being applied as part of the overall fiscal stimulus could have been much better targeted at bringing environmental gains that would not otherwise have been made, especially by cutting emissions of greenhouse gases. (Paragraph 17)

3. We recommend that the Treasury should adopt a target on the proportion of the UK's GDP which should be spent on green stimulus in this and future spending rounds. (Paragraph 18)

4. We recommend that the Treasury set out how the investment in new railway rolling stock will encourage modal shift away from journeys by car and plane and what impact it is expected to have. The Treasury should also explain how far environmental considerations will influence this procurement, given that some designs might be more energy efficient than others. (Paragraph 19)

5. We recommend that the Government increase the scale and speed of its programmes to improve the energy efficiency of existing buildings, and make this the UK's number one priority for green fiscal stimulus. (Paragraph 21)

6. We recommend that the Treasury publish an assessment of the net impact of its fiscal stimulus package (to date, and continuing as further measures are announced) on the environment, in particular carbon emissions, so that it is possible to see not only the net overall impact but whether each element is making a positive or negative contribution. The Treasury must make clear what percentage of the entire stimulus package in the PBR is directed towards green objectives. (Paragraph 22)

7. We recommend that the Government make clear what the £250m for low carbon cars will be spent on, and when it will be spent. (Paragraph 24)

8. We recommend that the Treasury increase funding to transport measures that might be labour-intensive, relatively fast to implement, lighter in use of raw materials and fossil fuels, and effective in cutting emissions—such as 'Smarter Choices' measures, road maintenance, and other projects that could be swiftly progressed. (Paragraph 25)

9. We recommend that the Treasury provide details of the environmental conditions attaching to the £2.3 billion loans package offered to car manufacturers. (Paragraph 26)

10. We would like to see a more strategic approach towards funding the transition to a low carbon economy. The Budget in April 2009 will be the ideal opportunity to set out such an approach alongside the carbon budgets; and we look forward to a much bigger and coherent package of green fiscal stimulus in the Budget, to be followed by consistently higher spending in areas designed to accelerate rapidly the UK's transition to a low carbon economy. (Paragraph 29)

11. We recommend that, alongside the Budget, the Treasury publishes a comparison of UK Government spending on a low carbon economy with that of other G20 nations. (Paragraph 30)

12. The Government now has a controlling interest in a number of banks. We recommend that the Treasury examine and report on how some form of environmental criteria for the investment strategies pursued by these banks might be imposed, and what impacts this might have on UK sustainable development objectives. (Paragraph 33)

13. We recommend the Treasury, working together with the Department of Energy and Climate Change, examine the risks to the UK's climate change and renewable energy targets from the shortage of capital for investment in low carbon infrastructure, and bring forward proposals for ensuring that low carbon energy projects receive the finance they need. (Paragraph 35)

14. We recommend that the Government ensures that the clear evidence that investment in low carbon industries will lead to net job creation is reflected in UK industrial policy. (Paragraph 38)

15. We recommend that when the SDC publishes its report 'Redefining Prosperity', the Treasury should publish a detailed response to it. (Paragraph 39)

Green taxation

16. We recommend that the Treasury publishes with the Budget its assessment of how the tax changes announced in the Pre-Budget Report help to shift the burden of taxation from 'goods' to 'bads'. This assessment should quantify the expected changes to environmental tax receipts, as defined by the Office of National Statistics, in terms of their proportion both of total tax receipts and of GDP. (Paragraph 44)

17. We also recommend that the Treasury confirm whether its definition of an environmental tax is one in which the revenues are explicitly hypothecated to environmental ends. (Paragraph 44)

18. We recommend that the Treasury reinstates its plan to reform Air Passenger Duty into a per plane tax. (Paragraph 49)

19. We welcome the Treasury's introduction of the link in the Air Passenger Duty regime between distance travelled and tax payable (Paragraph 50)

20. We recommend that the Treasury publish an explanation of why it believes the APD charges announced in the PBR will discourage unnecessary air travel. (Paragraph 51)

21. We recommend that the Government seek the support of the new US Administration in promoting reform of the Chicago Convention to allow governments to impose a tax on international aviation fuel. (Paragraph 52)

22. We recommend that the Treasury introduces both fuel duty and VAT on domestic flights, to encourage modal shift, especially to rail. (Paragraph 52)

23. We urge the Treasury to stick to its plans to introduce first year rates of VED in 2010–11, even if the economy continues in recession, and recommend that it should review the proposed increases in the standard rate for 2010–11 to assess whether they are sufficient to encourage people to purchase more fuel efficient vehicles. (Paragraph 55)

24. We recommend the Treasury set out the calculations which lead to its conclusion that under a 'car scrappage' scheme, the environmental costs of buying a new car would outweigh the benefits of trading an old vehicle for a more efficient model. (Paragraph 56)

25. We recommend that the Treasury looks again at linking an element of fuel duty revenues to increased funding for public transport and the development of alternative technologies, such as electric cars, in order to develop public support for more consistent use of fuel duty as an environmental tax. (Paragraph 57)

26. The 2009 Budget is a test of the Government's commitment, in difficult economic times, to its climate change policy. It requires consistency and boldness of purpose; the Pre-Budget Report 2008 does not reassure us that this is in place. We hope the Budget itself will. (Paragraph 60)

Formal Minutes

Tuesday 3 March 2009

Members present

Mr Tim Yeo, in the Chair

Mr Martin Caton
Martin Horwood
Mark Lazarowicz
Dr Desmond Turner
Joan Walley

Pre-Budget Report 2008

The Committee considered informally the Chairman's draft Report.

Draft Report (*Pre-Budget Report 2008*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 60 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Written evidence was ordered to be reported to the House for printing with the Report.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 17 March at 09.45am

Witnesses

List of written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008–09

First Report	Work of the Committee in 2007–08	HC 108
Second Report	Environmental labelling	HC 243
Third Report	Pre-Budget Report 2008: Green fiscal policy in a recession	HC 202

Session 2007–08

First Report	Are biofuels sustainable?	HC 76-I & -II (HC 528)
Second Report	Reducing Carbon Emissions from UK Business: The Role of the Climate Change Levy and Agreements	HC 354 (HC 590)
Third Report	The 2007 Pre-Budget Report and Comprehensive Spending Review: An environmental analysis	HC 149-I & -II (HC 591)
Fourth Report	Are Biofuels Sustainable? The Government Response	HC 528 (HC 644)
Fifth Report	Personal Carbon Trading	HC 565 (HC 1125)
Sixth Report	Reaching an international agreement on climate change	HC 355 (HC 1055)
Seventh Report	Making Government operations more sustainable: A progress report	HC 529 (HC1126)
Eighth Report	Climate change and local, regional and devolved government	HC 225 (HC 1189)
Ninth Report	Carbon capture and storage	HC 654 (HC 1126)
Tenth Report	Vehicle Excise Duty	HC 907 (HC 72)
Eleventh Report	The Exports Credit Guarantee Department and Sustainable Development	HC 929 (HC 283)
Twelfth Report	Greener homes for the future? An environmental analysis of the Government's house-building plans	HC 566
Thirteenth Report	Halting biodiversity loss	HC 743 (HC239)

Session 2006–07

First Report	The UN Millennium Ecosystem Assessment	HC 77 (HC 848)
Second Report	The EU Emissions Trading Scheme: Lessons for the Future	HC 70 (HC 1072)
Third Report	Regulatory Impact Assessments and Policy Appraisal	HC 353 (HC 849)
Fourth Report	Pre-Budget 2006 and the Stern Review	HC 227 (HC 739)
Fifth Report	Trade, Development and Environment: The Role of FCO	HC 289 (HC 1046)
Sixth Report	Voluntary Carbon Offset Market	HC 331 (HC 418)

Seventh Report	Beyond Stern: From the Climate Change Programme Review to the Draft Climate Change Bill	HC 460 (HC 1110)
Eighth Report	Emissions Trading: Government Response to the Committee's Second Report of Session 2006–07 on the EU ETS	HC 1072
Ninth Report	The Structure of Government and the challenge of climate change	HC 740 (HC 276)

Session 2005–06

First Report	Greening Government: the 2004 Sustainable Development in Government Report	HC 698
Second Report	Sustainable Timber	HC 607 (HC 1078)
Third Report	Sustainable Procurement: the Way Forward	HC 740
Fourth Report	Pre-Budget 2005: Tax, economic analysis, and climate change	HC 882 (HC 195)
Fifth Report	Sustainable Housing: A follow-up report	HC 779
Sixth Report	Keeping the lights on: Nuclear, Renewables, and Climate Change	HC 584 (HC 196)
Seventh Report	Sustainable Development Reporting by Government Departments	HC 1322 (HC 1681)
Eighth Report	Proposals for a draft Marine Bill	HC 1323 (HC 1682)
Ninth Report	Reducing Carbon Emissions from Transport	HC 981
Tenth Report	Trade, Development and Environment: The Role of DFID	HC 1014 (HC 197)
Eleventh Report	Outflanked: The World Trade Organisation, International Trade and Sustainable Development	HC 1455 (HC 354)
Twelfth Report	Transport Emissions: Government Response to the Committee's Ninth Report of Session 2005–06 on Reducing Carbon Emissions from Transport	HC 1718

Oral evidence

Taken before the Environmental Audit Committee

on Tuesday 27 January 2009

Members present

Mr Tim Yeo, in the Chair

Mr Martin Caton
Colin Challen
Mr David Chaytor
Martin Horwood
Jo Swinson
Dr Desmond Turner
Joan Walley

Witness: **Professor Tim Jackson,** Sustainable Development Commissioner & Professor of Sustainable Development, Centre for Environmental Strategy, University of Surrey, gave evidence.

Q1 Chairman: Good morning. I am sorry we have kept you waiting. We had rather more future business to go through than we anticipated. We will run to about 11.15 with you. Thank you very much for coming in. We have obviously seen your response to the Pre-Budget Report on behalf of the SDC, which was pretty forthright and all the more welcome from our point of view for that. Would you just like to run through the headlines, the main points in it for us?

Professor Jackson: I guess our headline message was that there were bits of the right signal in the sense that the words "green stimulus" were used, and there were some components that could be characterised as green stimulus, but that the scale was entirely wrong, really, when you look at what constitutes that green stimulus, which was pitched at about £535 million in the Pre-Budget Report; it actually amounts to something like £200 million of spend upon anything other than adaptation and rail; and of that £200 million, some of it was spending brought forward; so you are really talking about a minuscule spend in relation to certainly the average financial rescue package, and indeed the scale of the Pre-Budget Report as a whole. So we felt that there was a good signal there in the sense that some of those things were mentioned, but that it could and should have gone an awful lot further. We were encouraged by signals in relation to reducing income inequality—that is an important element of sustainability, and the evidence suggests that the UK is at this point in time more unequal than it was 20 years ago, so moves in that direction in terms of fiscal recovery are sensible. We were less encouraged by the attack on employment through higher national income contributions, and that seems to be, again, a move in the wrong direction in environmental terms and in contradiction to the Government's own statement on environmental taxation in 1997, which is just a shift from labour taxes to environmental taxes. Finally, like many other people, we felt that the £12.5 billion spend on VAT reduction was misplaced, not only from the perspective that it may not work in terms of providing the stimulus—there is too much leakage possibility—but also that it was problematic to encourage households into higher levels of consumer spending when they are already exposed to financial risk, when consumer debt is at an all-time high, and household saving has plummeted. It looks like too dilute a measure that is going in the wrong direction to us.

Q2 Chairman: Have you any idea what the Treasury thought of all these comments of yours?

Professor Jackson: We have not had a direct engagement with Treasury on this. They do not seem to trawl our website and respond to it as perhaps we might wish they would! We have had some engagement with Treasury on some of the issues, and, to be honest, I think it would be fair to say that there is a recognition of some of those issues, certainly around environmental taxation and the green investment; and some of that is coming through in some of the work that is going on, for example, in the Low Carbon Industrial Strategy. However, in terms of the direct positive acknowledgment of our undoubted wisdom in this area, we have not quite had what we might have hoped for!

Chairman: We sometimes have the same feeling ourselves!

Q3 Mr Caton: Going back to your comments on the inadequacy of the green stimulus package, how much do you think the Chancellor should have given?

Professor Jackson: There are different ways of putting this into context, I think. One of them is obviously to go to the Stern review and to look at the bottom-line numbers in the Stern review. Stern was suggesting at that time, nearly three years ago, a 1% annual spend on climate reduction, climate mitigation, carbon reduction. That would have amounted to about £15 billion of spend just in the area of carbon reduction. As I say, that was 2006. Stern's target was 550 parts per million in the atmosphere. The perceived wisdom is that it should be considerably lower. There are some estimates that put the spend needed to achieve a low carbon society in the region of 3% of GDP per annum. That is a £45 billion spend, considerably higher than the fiscal package in the Pre-Budget Report, and clearly subject to all sorts of difficulties in relation to financial prudence and the national debt and so on. Our suggestion is that a spend of this magnitude, of at least £15 billion, of the same order of magnitude as the fiscal package in the Pre-Budget Report, is entirely in order. We have done some preliminary costing of the kinds of things that you might wish to see in that package, and they fit, I think, with a sort of emerging consensus about what is needed. That consensus suggests a rapid ramp-up of retrofitting the present building stock for energy efficiency; investment in the Grid perhaps to develop the smart grid; investment in public transport, for example rolling out the Department for Transport's Smarter Choices Programme, which is being piloted in three English towns; and perhaps making some movement in relation to greener businesses and the greening of the Government estate—carbon neutrality in the Government estate. Just taking one of those options, there is a really, really obvious case for a quite considerable spend. If you think about the housing stock and say we have got 20 years perhaps to get the housing stock in the UK to a decent level, that is 24 million households; assume that you could do it at a million households a year, at an average cost of £10,000–11,000 a year, which might be conservative, that is a £10 billion a year spending package that ramps up very fast into something that suddenly begins to look like a real green stimulus. It is spending of that order! We did some estimates in relation to the transport spend, which could easily absorb a half billion pound spend a year, but could generate returns, in terms of carbon savings, which the DfT estimates could be 10 times that amount of spend. We are saying that there is plenty of room to spend £15 billion if you wanted a fiscal stimulus package in the green measures that we know we need in order to achieve the carbon targets that we are facing, that are now in legislation; and, most importantly perhaps, we also know that that kind of spending generates carbon savings, financial returns and jobs.

Q4 Mr Challen: Following up this point about the overall spend, the Government in the Pre-Budget Report said it would be spending £50 billion over the next CSR period, starting in this financial year. I have a breakdown of this figure, which I thought was perhaps slightly on the high side, and they include things like Cross Rail, spending on rail and the National Grid infrastructure investment, which might be simply replacing, in the case of National Grid, existing transmission lines and so on. Is it correct to include things like Cross Rail in something described as "driving a low-carbon economy" when it was already in the pipeline? It seems to me that the key question is if Nick Stern, for example, is saying you only need to spend an extra 2% of GDP, can you really transfer projects already in our system as extra, or should we have two Cross Rails rather than one Cross Rail, if you get my point?

Professor Jackson: I would not want to say you should not be spending on Cross Rail—of course you should be spending on public transit, and on approved public transit, and to the extent that that is going to be brought forward, accelerated, fantastic—but it is essentially already in the baseline. You cannot claim it, I would argue, as an additional fiscal stimulus or green stimulus over and above what is already in that baseline. That is the criterion against what was set out in the green stimulus, should be judged. All of these programmes, the Community Energy Savings Programme, the Cross Rail public transport stuff, Ofgem looking at the Grid—all of these are incredibly important programmes; but the question that the stimulus package was asking is where now should Government address additional investment and additional spend in order to achieve what we intend to do, both in terms of jobs in the economy and in terms of meeting carbon targets. We would argue quite strongly that the criterion should be additional spend over and above baseline commitments.

Q5 Mr Chaytor: You have a particular concern about debt levels in the United Kingdom, having huge personal debt levels and public sector debt and national debt, at the same time as the economic downturn, and clearly you think this places us in a particularly vulnerable position. Can you expand on that a little bit?

Professor Jackson: There are three areas of debt where one should be concerned. The first is national level, what the public sector owes to the private sector, which, as we know, at the moment is about 40% of GDP and predicted to rise to something like 60%. That might be conservative once financial rescue packages, re-capitalisation of the banks, is taken into account. Actually, that area of debt, although it has broken the Treasury's own rules and is rising fast, is still lower than several other advanced countries. It is a cause for concern, and particularly the rate at which it is rising is a cause for concern; but in a sense it is less of a concern than perhaps the consumer debt position, where we stand at one of the highest consumer debts in the world. Household saving has plummeted so that the position that households find themselves in, going into a recession, is incredibly precarious—borrowing against declining assets, the value of their houses going down, and their exposure to economic risk going up, their savings having declined over a decade. This is a position of financial imprudence at the household level that households are now being encouraged into in order to escape from the economic downturn. That, I think, is a deep concern. It is particularly a concern that our economic stability rests on encouraging financial imprudence at the household level over quite a long period of time. We believe that that is something that needs to be addressed both in terms of the signals that are sent to consumers, the options that are available to consumers and indeed the model of economic stability that relies on pushing people into high levels of debt in order to maintain high-street spending to keep the economy going. That is a structural concern. The third level of concern is what is called the external debt. The UK has the highest level of external debt at around 40 to 50% of GDP, other than the US, at absolute levels in the economy—although that is balanced by a similar level of overseas assets. That precarious position of having a high level of overseas assets and a very high level of overseas debt is exacerbated in volatile markets with the fall of the pound and really does put the economy, as a whole, in the very precarious position of having lent a little too much, engaged in financial risk in the financial markets a little too heavily, and will make it difficult to maintain and to find economic stability in the future. We are concerned about all three levels of indebtedness in the UK. Perhaps the least of those is the one that has had the most attention, which is the national debt, but it is still a concern because it is rising so fast.

Q6 Dr Turner: You also call for much greater public spending on low-carbon investments. How do you square that with the concern about the level of public debt, because we would all love to see massive investments in low-carbon infrastructure projects whether transport projects or electrical engineering—whichever; but how do you propose to finance them, given that you want to restrict the level of public debt?
Professor Jackson: Everybody wants to restrict the level of public debt, even the Government, and there is a recognition at this point, and there is a recognition in the recession that public debt is likely to expand. I think that is almost inevitable. The question of financing that debt, as both a short-term and a long term aspect—in the short term it is about making prudent choices about what we invest in. To be honest, the debt is expanding at the moment not through anything remotely like green investment, but through financial rescue packages, and to some extent through a long programme of public spending. We are saying essentially that you have to target where you are spending that public money, and if you target that public money at things where you are simply throwing public revenues into something like a dilute incentive like the VAT measure, you really have no chance of clawing that back except through higher tax levels at some point in the future. It may be then that higher tax levels at some point in the future are going to be necessary, but the two things that promote the case for a green stimulus rather than simply a fiscal stimulus, is that many of these measures are cost-saving to the nation over a short time period, so that improving insulation in the housing stock, improving energy efficiency in business, improving the efficiency of appliances, improving the efficiency of cars, generating fuel savings, generating economic savings—these are real savings to the nation. They do not all necessarily come to Government—that depends on fiscal structure, but they are savings to the nation, and as savings to the nation they ease the constraints on households in terms of their indebtedness and spending and they also ease the possibility for getting money back into the public coffers and reducing the burden upon public debt.

Q7 Dr Turner: Can you put rough numbers on the amount of public indebtedness you would like to see in -loosely—green infrastructure projects, and what sort of projects you would prioritise?
Professor Jackson: I mentioned this very quickly before, but we believe that at least at this point in time it is appropriate to have a green stimulus package of a size comparable with the 15.5 that was in the Pre-Budget Report, and that that spending should be prioritised certainly on a retrofit programme for the domestic housing stock to bring it up to SAP80 to 85. SAP81 is the agreed rating that would improve fuel poverty and put us on track to achieve an 80% carbon emission reduction. The cost of that would be quite high, depending on how long you did it for. If you are going to hit the whole 25 million households in the UK, you would have to be spending around £10 billion a year, so there is a big potential spend there and it would need some time to ramp up and it would generate returns on some of that money quite quickly. Some of it would be longer over 20 years. We also think that there is a need to prioritise something like the Smarter Choices Programme, the DfT's programme, trialled in three English towns to reduce car travel and to improve public transport, access to walking, cycling and to develop personal travel plans, personal mobility plans, that reduce car use; and that estimated cost would be something less than half a billion pounds per year. The smart grid, which has been talked a lot about by various people in the US—the costs for the development of the smart grid in the UK is very difficult to get a clear handle on, but certainly rolling out the development of a grid that is able to take on distributed renewable energy projects and to allow for active management through smart metering, could reduce energy consumption by 10 to 15% per annum and begin to do that quite fast. That is a big investment. It is going to need substantial thought about how to work that through, but, again, the cost savings on that in terms of the total energy bill to the nation are very substantial. A fourth priority area that we have identified is in relation to bringing forward the Government's own ambitions for carbon neutrality in the public sector itself as well as in the Government's estate.

Q8 Dr Turner: Your comments about the Grid do not seem to extend to remodelling the Grid to accommodate far-flung sources of renewable energy, which is a major problem, as you know.
Professor Jackson: Absolutely, no. That idea of making the Grid accessible to distributed and far-flung renewable energy sources is absolutely key to this. That would be about strengthening, redesigning and smartening the capacity of the Grid to do the job.

Q9 Dr Turner: To what extent would you want to see the green stimulus package applied at the household level, given that you want to encourage households to save?
Professor Jackson: It does apply at the household level. As we go into possibly quite a lengthy recession, the plight of households, particularly

poorer households, is something that should be at the forefront of concerns. Again, this is one of the self-reinforcing aspects of the green stimulus, particularly if it is focused properly; it is mainly the poorer households that find themselves in fuel poverty and unable to maintain even basic living conditions under higher energy prices and threats to their income. So it is absolutely appropriate, we would argue, that you focus attention on easing that burden on households. That will put money into the pockets of householders, but some of that legitimately, they will want to spend on the high street, which could provide a stimulus effect to the economy. At this point in time, in the short term, with the economy declining, it is absolutely clear that there is a need to stabilise the economy as a whole, and that is probably going to mean a change in consumer confidence. That change in consumer confidence has to come through both the ability of households to spend and their confidence that they are spending in a financially prudent way. So although offering energy efficiency frees up funds to households and allows them to spend where they want, they will not begin to do that unless they are confident that it is financially prudent; so at this point in time I think that is both right in terms of financial prudence, and right in terms of a moral choice that people should be looking to their future financial and economic stability, and that the Government should be encouraging that kind of prudence. So along with the idea of stimulating household spending through improved energy efficiency, which has national savings, is the idea of encouraging financial prudence at the household level, doing something about the plummeting savings rates and reducing debt.

Q10 Dr Turner: You have criticisms of conventional measures of economic growth.
Professor Jackson: Yes.

Q11 Dr Turner: Would you wish to see some refined measure of economic growth that took into account environmental considerations, so a green measure of economic growth, if you like, so that you can redirect the economy?
Professor Jackson: That is something that personally I have worked on over a number of years, and I do believe that it has a role to play. The failings of GDP are well known. It does not account for changes in the asset base properly, whether that is financial assets, social assets or natural capital. There are some ways of improving those measures. There are a number of pilot measures that have been developed over 20 years or so. The Stiglitz Commission in France is looking at those measures and the idea of measuring social progress and environmental performance in a more accurate way. It is our position that a sensible long-term position going forward beyond recovery from recession is to address very firmly that relationship between economic growth and sustainability and take on board those criticisms of GDP as the simple single measure of economic progress; and indeed a green measure of some kind, some kind of programme that looks at those limitations of GDP and adjusts for the most obvious ones, at least, is very long overdue.

Q12 Chairman: Given the external debt figure of 450% of GDP, external debt is defined as the borrowing by British individuals and corporations from overseas sources—is that right?
Professor Jackson: Yes, indeed.

Q13 Martin Horwood: Can I draw you on the subject of the banking sector, where obviously the British Government now has a surprisingly large interest and degree of control. Do you think the Government has been right to exercise that kind of control for the moment at reasonable arm's length; or do you think we should get involved in using environmental priorities to determine the policy of the banks we now control, for instance, either by disinvesting from the unmentionable Bank of Scotland's less than wonderful record of investing in fossil fuel projects, or lending to consumers for green mortgages and energy efficiency or lending to businesses that were in green industries? Do you think that would be an appropriate way to go?
Professor Jackson: It is a really tough call in terms of politics and in terms of financial prudence. What I would say is absolutely clear is that we need mechanisms for investment in green infrastructure, and some of the things that have been talked about, for example, are a green infrastructure bank where everyone from Deutsche Bank to Greenpeace, or Greenpeace to Deutsche Bank, whichever way you go, has argued for something along those lines, and there is rather a strong case for something that would be a public infrastructure bank able to lend into the green sector and to stimulate that kind of investment. Another of the options that has been put on the table, which is an interesting one, is the idea of raising green bonds, essentially bond issues which were specifically dedicated to the idea of investment in green technologies, green businesses, renewable energy, energy efficiency and so on and so forth. As the bond market looks to have some signs of possibly saturating, actually the idea of a green bond attains a nice market distinction, which might make it something quite attractive as the years go by, and as this year goes by even. The question of what you should do with these now part-nationalised banks in terms of managing how they lend and where they lend is much more fraught than that general principle that we need this kind of green infrastructure. It is about the precise way in which the mechanisms of rescue, re-capitalisation, the housing market, lending into the housing market, separation of toxic assets—all of that plays out. It is enormously complicated and I would not pretend to sit here and offer you financial expertise at that level. What is really important is that there is an examination of the appropriate mechanisms for both protecting against the toxic debt and ensuring that lending is going into the appropriate places in households and businesses, and something which directs green investment towards the kinds of things we know we need in terms of carbon reduction.

Q14 Martin Horwood: Would the kind of green infrastructure you are talking about be created out of existing banks or would it be an entirely new institution?
Professor Jackson: It could be that that is the best way to do it, with all this other stuff parcelled up in the mix. It is really difficult to answer off the top of your head and you really do need to look at that incredibly carefully. There have, for example, been calls, largely from within the more mainstream financial sectors, that the only bit that should be nationalised is toxic debts; that you take that out and keep that and clean up the rest of it and take away the liabilities from the private sector and let it do its job. That is one way of addressing where the banks stand at the moment. It is not one, I think, that addresses the difficulties associated with getting investment flowing into the green areas that we know that it needs to go into. My point to you is that from that end of the spectrum, where you just take away the nasty liabilities and say to the financial sector "okay, boys, off you go", as it were before business as usual, to one where you say, "RBS is the target now to become a green infrastructure bank and that is what we are going to turn it into". That is a huge range of options in the banking sector, and to some extent it would be cleaner to say, let us start from scratch with a national infrastructure bank and build what we need out of that, rather than saddling it from the word "go" with the toxic liabilities that are associated with part nationalised banks.

Q15 Martin Horwood: You are happy with the idea of the Government running banks, are you!
Professor Jackson: Happier at this point of time than the way they have been run up into this crisis.

Q16 Mr Challen: You have been critical of the Pre-Budget Report for not doing enough to reverse inequality in the UK. Can you explain the importance of tackling equality issues in the context of sustainable developments?
Professor Jackson: It is really important to acknowledge that sustainable development is not just ecology, not just environmental limits. What environmental limits do in terms of social well-being is that they put a finite bound around the pie, what can be divided up between people. The distribution of that pie is incredibly important both in terms of its environmental components and environmental qualities divided up and environmental resources divided up and are deeply unequal across the world and even to some extent within the UK. Of course, they are the social goods that those resources are used to produce. As I mentioned before, inequality is higher now than it was 20 years ago. There is a need to address that inequality. What do we know about unequal households, or those at the lower end of the income distribution? We know that they have lower life expectancy, higher morbidity; they report lower satisfaction with life and typically live with lower environmental quality. These are real standards of living differences between huge sections of the population, and that cannot be characterised as a strong, healthy and just society—one of the principles of the UK sustainable development strategy. The important of inequality to us is absolutely central, and it is inequality now; it is intra-generational inequality that matters as a priority in sustainable development. We all know that inter-generational or cross-generational inequality also matters in the ability of future generations to achieve a decent standard of living and are also compromised by promiscuous resource use and breaching of environmental limits. Both of those, now today—inequality as we see it in the country at the moment, is unacceptable from the sustainable development point of view, as is the risk to future generations.

Q17 Mr Challen: What sort of redistributed measures would you suggest to tackle this?
Professor Jackson: There are various issues. The statement of intent on environmental taxation in 1997 does provide the basis for shifting taxation from income to taxes on environmental bads, from goods to bads. It is a fairly basic principle. We know that there are all kinds of difficulties with it, but we also know that in some cases it can have some progressive impact because typically higher income households use more energy and emit more carbon, so that in itself is a measure that hits both the needs of reduced environmental resource use and throughput, and to some extent addresses the inequality issue. It is not necessarily the only one—I have mentioned already that we have praised the idea of a shift in taxation to higher income earners, at least as a recovery measure and possibly as a way of achieving more income equality in the longer term. There is also a role for caps on executive remuneration, perhaps a range of income levels from not just minimum income level but maximum income level. These are measures that are deeply contentious and fiercely argued against by liberal market economists; but from a social welfare perspective something like this looks like it must be in order at this point in time, in order to achieve the social well-being goals that sustainable development has at its heart.

Q18 Mr Challen: Do you think in this context the Government was right to downgrade its interests in personal account analysis?
Professor Jackson: I am not sure I understand why that might be right.

Q19 Mr Challen: They said it was an idea before its time but most people say it is redistributive.
Professor Jackson: It could be redistributive. What we know about the evidence in relation to that kind of measure is that you have to look after the poorest households incredibly carefully because it is not typically—it is not always, across the board, exhaustive in terms of its progressive impact. It can be regressive on the most fuel poor. The only way really to address the impact of that is to target very strongly investment measures in the building—particularly the building fabric in the poorest houses. That comes out very clearly from all the analysis. In terms of, was it before its time—I do not

think it can possibly be regarded as being before its time in the context of the carbon targets that we are now in legislation permitted to achieve.

Q20 Mr Challen: In relation to part of what you have said, we have quite a number of regressive influences at work: climate change policy, like the EU ETS, the renewable obligation and other things that add to household costs for energy use. What specific thing do you think could be introduced to compensate people for that and try to keep them out of fuel poverty?
Professor Jackson: What households are facing at the moment is an increase in the unit cost of energy. That might increase with the carbon price. The total cost of energy to that household, the total cost of the service of staying warm and achieving the services they want in the household is partly about the unit cost of energy but it is also about how much energy is needed to deliver that service. The really important thing is to be able to achieve measures not that attack the unit price of energy, but attack the overall cost to households of energy services; and we know what the options are for that; they are about fabric measures, they are about improved appliance efficiency and they are about, to some extent, relatively simple changes in behaviour that do not change quality of life but do reduce energy consumption. We know what that package of measures is that would both reduce the overall cost of achieving those services whilst at the same time incentivising reduced fuel use through higher fuel prices. Those things exist. We also know some of the difficulties and dangers in achieving those things, and they are about access to capital, access to know-how, the fact that it is a low priority on some people's agenda; and for the poorest households that they simply do not have the capabilities, either financially or in terms of their time and their ability to access the knowledge that is needed. The measures that come out of that are, again, pretty straightforward; they suggest that you have to make capital accessible for those investments at a broad level, across households, and in particular with the fuel poor—that you have to provide infrastructures to improve the built environment, improve the building environment, and you have to make that part of the working model of some agency/agencies, enterprise or business, that it has to be part of the *modus operandi*, the ethos of the business. We had a unique opportunity to do that, I believe, in the suggestion in the 2006 White Paper for a supplier obligation, which would have imposed a cap on energy supplies in terms of the amount of energy they could supply, the carbon from the energy they could supply to households. That cap, if properly executed, could have changed the business model of the energy suppliers. It would have allowed us to develop energy suppliers into energy service companies in a way that could tackle the aspects of fuel poverty, invest in building infrastructure, and at the same time reduce the overall fuel bills in households across the nation. One of our concerns at the moment is that that indication of change and the application of a capping trade system in relation to suppliers seems to be being moved away from in policy, and at this point in time it looks as though the Government is favouring an extension of the measures-based approach which we have had for a number of years, which has implemented some energy efficiency but has not changed the basic build—business model, and under which energy consumption in households has increased. There is clearly a need for a different approach. That approach, we believe, is to be able to transform business enterprises and agencies into things that can effectively get energy efficiency into all households and in particular the fuel poor.

Q21 Mr Chaytor: I want to ask about the attitude of the Treasury to the work that you have been engaged on: specifically, why do you think the institutional culture of the Treasury has always been so wedded to neo-conservative ideas?
Professor Jackson: There is obviously a sort of cultural history aspect to that question, and it is an interesting cultural history. It is fascinating in the sense that it applies across the broadly Anglo-Saxon nations, that there is a well known split between liberalised market economies, which are the US, Canada, New Zealand, Australia, the UK; and the so-called coordinated market economies where the emphasis has been much more around regulation of the labour market and coordination between enterprises. The cultural answer to that question is that we have emerged and possibly even led that culture of neo-classical liberalised market economy and are therefore historically wedded to it to an extent.

Q22 Mr Chaytor: At this point in time, when there is growing awareness that that economic thinking that has collapsed, do you think it is going to be possible to shift the culture of the Treasury, or do you think they are still wedded to getting through the current crisis and just taking us back to where we left off a couple of years ago?
Professor Jackson: No, I think this is the point in time in which there is an enormous opportunity for change, and to some extent an appetite for change, because there is an understanding that at least some of what went under the auspices of being a liberalised market economy have failed, and they have failed spectacularly, and particularly the deregulation of the financial sector leaps out as being one of those things. But in the questioning of that and the questioning of the boundaries between the private sector and the public sector in that most holy of holies in relation to the liberalised market economy, it opens up almost anything really, certainly in a—not necessarily in the eyes of Treasury spokesmen, but certainly in the eyes of those who are doing blue-skies thinking about how economies develop. I believe there is an enormous window of opportunity. In addition to the cultural differences, I would say that both liberal market economies and coordinated market economies are wedded to the idea that economic stability depends upon economic growth; so they are divided over the best way to achieve it, but they are united in the idea

that economic growth is the aim. From the point of view of sustainability, this is a piece of work that we are taking forward on prosperity, on re-defining prosperity, which questions that relationship. What is clear is that it does provide Treasury with the rationale to be wedded to whatever it believes will stimulate economic growth for as long as economic growth is seen as the basis for economic stability. To some extent, you would have to argue that it is a legitimate, essential role of government to ensure economic stability. If the mechanism for that is economic growth, then that also explains some of the allegiances.

Q23 Mr Chaytor: The re-defined programme will be translated into a report quite soon.
Professor Jackson: Yes.

Q24 Mr Chaytor: Do you have a publication date?
Professor Jackson: We are looking at the end of March/early April for that.

Q25 Mr Chaytor: In that report, without pre-empting the conclusions, will you be challenging the existing methodology of calculating GDP, or to what extent do you think that is a problem for the economy as a whole?
Professor Jackson: We were challenging existing methodology for challenging GDP—not quite—certainly challenging the primacy of GDP as the appropriate measure for measuring prosperity, lasting prosperity in forward terms, and in challenging the assumption that economic stability has to be achieved through continual, never-ending growth.
Chairman: I am afraid we are probably out of time. There may be some other points we might like to put to you in writing, if we may, some further issues that we hoped to explore which are important, but in order to preserve the integrity of our timetable we have to stop there. Thank you very much indeed for coming.[1]

[1] Ev 7

Letter from Committee staff to Professor Tim Jackson, Sustainable Development Commissioner, Centre for Environmental Strategy (CES)

The Chairman mentioned that there were a couple of questions the Committee would have liked to ask, but ran out of time:

1. You've criticised the way in which mainstream politicians will promote sustainable consumerism, but will never urge people simply to consume less—even though this may be the single biggest thing they can do to save carbon emissions. What would a Government campaign to get people to buy less look like? And how should the Government decide what a sustainable level of consumption would be?
2. In his book, *Capitalism As if the World Matters*, Jonathon Porritt wrote that the effects of lower economic growth—and the lower public spending that would go with it—would be as bad for society as higher economic growth is for the environment. Do you agree with him? If so, then what is the answer? What exactly does the SDC think the Treasury should be aiming for?
3. Jonathon Porritt also argued that a capitalist economy that ceased to grow might actually "put the cause of environmental sustainability further beyond reach". In what ways might the recession be bad for the environment, and how might the Government make things better?

27 January 2009

Supplementary Memorandum submitted by Professor Tim Jackson

Q1. There is considerable detail on this in our forthcoming report. But the short answer is that a government campaign to address consumption would have to do two things. The first is to redress the systematic bias towards consumerism. The second is to provide the opportunities for people to flourish in less materialistic ways.

Redressing the consumerist bias will mean curtailing signals (including advertising) that promote unproductive, status driven positional consumption and ensuring that government's own messages are consistent in relation to consumption and the need to consume less. At the moment of course this is very difficult for Government to do because of the assumption that consumption growth is essential for economic stability. But in a longer-term better thought through strategy, this consistency of message will be an essential part of government's role in achieving sustainability.

Providing the capabilities for flourishing means investment in public spaces and infrastructures, support for community-based resources and the strengthening of social goods and services. There is more detail on this in our forthcoming work. Suffice it to note here that there are clear opportunities for stimulus investment here, particularly in relation to public investment in social infrastructure.

The "ecologically sustainable" level of consumption should be established according to principles laid out some time ago by Herman Daly that refer to a "constant stock of capital that can be maintained by resource throughputs (and emissions) that remain within ecological limits". Establishing those limits—as the UK has done for carbon emissions—is a vital first step in figuring out a sustainable level of consumption. The next step is to develop the capacity to understand the macroeconomic implications of an economy constrained in this way. Again, this point is developed more fully in our Prosperity report.

Q2. Jonathon's point, and I agree with it, is that within the existing model, we rely on growth to maintain full employment and to furnish growing revenues for increased public spending. When liberal market economies collapse, the biggest hits are to jobs and to public sector revenues. These things both matter. Both are essential to providing people with capabilities to flourish. In our prosperity report we identify this as "the dilemma of growth". Neither is easy to solve but there are some mechanisms for redressing the structural reliance on growth and addressing the impacts of recession. Essentially these mechanisms come down to the question of fair shares: sharing the available work and national income in ways that protect the most vulnerable and promote social wellbeing. There is more detail on this in our Prosperity report, but there is also a lot more work that needs doing—by Treasury and others—to get from points of principle to a workable low-growth economy. Clearly, however, this demands active policy that goes beyond the dogma of free market economics. Hopefully at this point in time our eyes are open wide enough to accept this point. It should be noted, though, that planning for low-growth is very different from negotiating unplanned collapse. What we're seeing at the moment is the abject failure of plan A (assumptions of continued growth) and the blinding realisation that there is no plan B.

Q3. Again a lot depends on how this happens. In some ways, Jonathon was making an obvious point that when investment stalls, it is difficult to fund the investment in technological and infrastructural changes that is essential to achieve the transition to a sustainable society. It's become very obvious that in fact, when economies collapse it is essential for government to intervene, particularly through public investment and spending. The point here, and I know that Jonathon agrees wholeheartedly with this, is that this provides a unique window of opportunity to target that investment and that spending towards things that we know are needed to put us on a path to sustainability. As I hoped to make clear in my oral evidence, these investments offer clear returns to society not just in terms of reduced carbon emissions, and better lives but in economic terms as well. As such they are much better places to put our money than in blind fiscal stimulus to promote blanket increases in undifferentiated high-street spending.

February 2009

Witnesses: **Mr Richard George,** Roads and Climate Campaigner, **Mr Alastair Hanton**, Treasurer, Campaign for Better Transport, and **Mr Keith Buchan**, Director, Metropolitan Transport Research Unit, gave evidence.

Q26 Chairman: Good morning. Thank you for coming in. You will have heard a bit of the last witness's evidence. We are up a time deadline and need to finish at 12.10. Can you begin by giving us your general verdict on the Pre-Budget Report?

Mr George: Absolutely. I think the Pre-Budget Report was a real missed opportunity because we have not really had such a level or such an opportunity for increase in spending, and I suppose it was timed to coincide with the very public discussion on climate change. Certainly that is the theme the Chancellor was using when he described the fiscal stimuli he was investing in. Sadly, what came away was the idea that economic growth can only be obtained by investing in high-carbon industry, certainly so far as transport goes. Even the stimulus that they went for—mostly investing in road construction—is not, either because of the long lead times—you are talking 2011–12 before construction will start—and also the number of jobs, type of jobs and length of jobs that will be provided is not the kind of measures we need. They are very high in capital. What we really need are revenue projects, which employ people now and get people working. I suppose the equivalent example is digging a ditch and filling it back in again—filling potholes is the best example you can think of that in a practical sense would boost the economy and provide jobs. We really should be on the pathway to low-carbon transport; instead, we had guidance for the regions, saying: "The way to go if you want to boost the economy is build roads." Two-thirds of the investment in transport was entirely road building. The remainder was a very, very small amount of rail freight and the moving forward of a pre-announced purchase of train carriages, which came at the exact time that the regions are deciding on future of transport for the next 10 years, and many of those schemes were promoted as schemes that were not under consideration, entirely road schemes. The Transport Secretary and the Chancellor have turned to the regions and said: "If you are looking for guidance, fund road building." That is exactly where we do not want to be if we want to hit our 80% targets. It is a missed opportunity really, and also does not provide the stimulus that we need.

Q27 Chairman: In terms of the speed with which jobs can be created, are there opportunities in rail investment that offer a more rapid job creation than roads?

Mr George: Rail has got much higher revenue costs. You need staff to check that the tracks are being maintained; you need staff to man the ticket desks and drive the trains, which is not the case with roads. I think light rail has an awful lot of projects—

Mersey Tram springs to mind immediately and has been ready for years, and also some of the schemes that were considered in the Manchester TIF, the transport innovation funding that occurred in December—these are all schemes that are ready to go. There is no need for extensive public inquiries. The road schemes that are chosen often have strong local groups opposing them, which generally draws out the process. Going forward, any public transport certainly has much higher revenue costs and therefore more job creation.

Q28 Joan Walley: Given your objective of moving towards a low-carbon budget, particularly looking at transport and integrated transport, can I ask you about the Government's position on the Heathrow expansion? Given that part of the justification is to help secure jobs now and for the future, can I ask what your analysis is of the economic impacts of the Heathrow expansion? I am not talking about the just proposed third runway but about the construction work that would be underway in order to achieve that runway.

Mr George: Absolutely. It could not have been a more bizarre statement and position to be in. The assumption that jobs will be created by the third runway and that this will bring us out of recession assumes that we are still going to be in a recession around 2015, which I do not think any of us would want! This is tied with the fact that the economic benefits—the calculation are very interesting, shall we say. They count, for example, benefits to non-UK residents as part of the overall package of benefits, which is against Treasury guidance, and certainly is not the kind of thing we should be relying on to sort the economy out. They also do not use the Stern figure for CO_2 costs—the Stern figure for the cost to the economy in CO_2 impact. If you calculate all these together, the World Wildlife Fund reckons that instead of having a 5 million benefit, you are looking at a 5 million deficit.[2] Also, when they are calculating the tax input, 3.7 billion of the benefits come from air passengers, and the new rate increases that to 5 billion. What they failed to take account of was the fact that any money they have spent on tickets and aviation tickets would otherwise be being spent on general goods. There is no VAT on a plane ticket. There is 15% VAT on almost all other goods and services, so there is a huge amount of lost revenue that ought to be calculated in the full tax account.

Q29 Joan Walley: I just wanted to concentrate on the jobs issue, given that you were present for our previous witness where we had just got to the point about economic growth and whether that was sustainable.

Mr George: Again, the jobs that are created are not being created for the better part of half a decade. There is no construction work taking place now. We have got a full public inquiry to go through, which is expected to last a good number of years. There is no planning permission yet. None of this will happen in the immediate future. The idea that Heathrow would otherwise be losing jobs is—I simply don't believe it, to be entirely honest. The industry is in decline at the moment because of the recession, but there is no idea that Heathrow will close without a third runway. I find it very hard to believe that that many jobs will be transferred away from the airport. That is also ignoring the tourism deficit we have in the UK—I think it is between 17 billion and 19 billion. That is the amount of money spent abroad by British citizens versus tourist revenue brought in; far more is spent by people transferring their holiday from destinations in the UK to France and Spain, which is entirely made possible by the growth in short-haul aviation. It is an enormous deficit. This is more Mr Hanton's area of expertise.

Mr Hanton: The expansion of aviation which the Government is planning will roughly double the tourist deficit. At the moment about twice as many Britons go abroad for their holidays as foreigners come here; so the doubling of that deficit between now and 2030 will, we calculate, cost the UK economy about 700,000 jobs. To put that into perspective, over that 20-year period, on average that is 35,000 jobs a year because of the tourist deficit, even calculating that there will be more people, but not a huge number more required to run the expanded airports. That is roughly the figures. It is quite against the statement that jobs will be created; they will actually be lost.

Mr George: It is also worth saying that this is a very expensive project—9 billion to 13 billion, depending on whose estimates you believe. If you spend that much money on almost anything you will create a fair amount of jobs, but aviation and to a certain extent road-building is very capital-intensive and most of that money is going on buying—setting concrete, building terminals and buying materials. If you invest in anything like that in revenue-heavy jobs, you create far more jobs, simply because you are not spending so much on the materials required.

Mr Buchan: Can I say a word about the Heathrow decision because I think it is important in all this that we get our forecasts right! The big issue for me on Heathrow is whether the forecasts of future aviation demand are correct. Let me give just one example from the most recent document. It says in that document that full account has been taken of the change in the UK exchange rates. The exchange rates are absolutely critical in forecasting demand for aviation because it affects the cost of the whole trip, not just the air fare, and that is what has a major effect on people's choices. The document says it takes account of the most recent exchange rates, but if you read the small print carefully it actually uses the 12-month average ending in September 08. It gives a dollar price of $1.97 and a euro price of €1.31. It is very important that when we look at the foundations on which this investment is built, that we are very careful about the small print and fine detail of what has been done. If I could conclude by saying on aviation that I do find it remarkable that the Heathrow case economically is so weak, there is

[2] *Note by witness:* The WWF reckons that instead of having a 5 billion benefit, you are looking at a 5 billion deficit. This was stated as 5 million benefit and 5 million deficit during the evidence session, which was incorrect.

a lot of attention given to environmental problems with it, but we have major doubts over whether this is a low-risk investment for the future.

Q30 Mr Chaytor: In terms of the £1 billion on transport infrastructure that was announced after the Pre-Budget Report, what is your estimate of the proportion of that that would be genuinely green transport infrastructure?

Mr George: Of new money, £54 million of the total 1 billion investment was money that was not promised for anything else and was going to something other than road building, and that is a small amount of tinkering in North London in regard to rail freight. It is a drop in the ocean because of what we need if we are going to shift HGVs and their goods on to rail. The only other non-road announcement was 300 million for train carriages, which is part of the package of investment in rail carriages promised in the 2007 White Paper. It is a re-stating of existing money. To a certain extent, the managed motorway schemes, the hard shoulder running schemes, are greener than road widening, which is about the best you can say for them. They have got some advantages. They do not require huge land-take and you are not generating as much traffic. But the overall impact will be an increase in CO_2 and traffic, and they do not tackle the problem of congestion, 80% of which is in urban areas, where you cannot build roads and you cannot have people driving on the hard shoulder because there is no hard shoulder. It is also fair to say that it is not an economic stimulus at all because of the lead-in times. These projects are not ready to go. Many of them are in the very early stage of planning. We became very worried when we started to hear rumours that there were roads to be fast-tracked because what appeared to be happening is that the Transport Secretary or his officials were phoning the regions and saying, "What road projects do you have? We need some quickly."—without really any strategic thought. We have had for the best part of two years a long, ongoing discussion through two departmental documents *Towards A Sustainable Transport System* and *Delivering A Sustainable Transport System*. It is under consultation at the moment and is supposed to lay out a clear pathway towards, as I say, a sustainable transport system; and yet what it appeared to be was a ring-round, saying, "What have you got we can build?" There was very little analysis of whether these schemes were deliverable, whether they were even considered as regional priorities. The regional funding advice process is underway at the moment. It is 10 years looking forward, giving the regions an opportunity to choose whatever they like for transport. It is incredibly road-heavy. One estimate has the least, east midlands, between 65 and 95% road building. Just as this was underway, as the regions were compiling their first round of advice, we had a huge amount of investment in road schemes, making road schemes easier to fund, because they were part-funded as part of the small . . . initiative. The advice they are sending is, "please go ahead, build road schemes, ignore all the Treasury guidance that we have just published about needing to consider CO_2; if you want economic growth we need to build roads". It is something we have been fighting very hard against—both the idea that we should build roads at all because of CO_2 emissions, but also the idea that the road to prosperity comes from road-building. It was the worst possible thing that could have happened at the worst possible time if you are looking to moving towards a greener transport system.

Q31 Mr Chaytor: At a time of rising unemployment and significant recession, you do not think it is at all legitimate to invest in infrastructure projects that can be delivered! It is not as if these have no priority. Picking up your point about picking up the phone and ringing transport authorities, these are projects that are in the pipeline and in transport authorities' long-term plans. You do think there is any validity in re-ordering those strict priorities as a means of keeping employment levels higher than they would otherwise have been!

Mr George: You are absolutely right; there is a real need to bring forward transport schemes but they have to be schemes which conform to Government objectives and policies. A very good example is bringing forward many light rail schemes, ready to go that often—

Q32 Mr Chaytor: How many light rail schemes are ready to go?

Mr George: I have to admit I am not a rail expert—my area of expertise is road building—but there is a wide variety of schemes that have been worked up. The problem with—

Q33 Mr Chaytor: Surely light railway, for example, is a classic example of something that takes a much longer lead-in time than widening a road or building a by-pass that has been planned for many years?

Mr George: Yes and no; it depends on how far the scheme is along. I would be happy to come back and list the schemes we think would be ready within the next year. These road schemes are not schemes that can be delivered quickly; they have got at least a one-year or possibly two-year lead-in time. There are jobs out there—the Department for Transport's Smarter Choices transport package that we heard Professor Jackson talking about beforehand is a very good example of this. We know that if you pay people to engage the public in discussion around transport, targeting their local area, they will make a shift—10% car use, for example, as a result in the sustainable demonstration towns. Also road maintenance is a massive issue all around the country. Motorists, cyclists, pedestrians, are very happy to see that go on, and at the moment the amount of money paid out in compensation for people injured or vehicles damaged by collisions as a result of holes in the road is as high as local authorities' maintenance budgets. If we had invested in that, that can provide people with jobs tomorrow because there is always a need to fill in the road and get them to a decent standard, and it is the kind of work that could then feed into construction jobs or those sort of jobs that can then feed into these—be it road-building, light rail, train, or whatever construction schemes, when they become ready in a year or two. But none of the measures that were promoted in this £1 billion can be done now; they all have a couple of years' lead-in. These are conservative estimates—but that is roughly when we might be coming out of the recession, but none of these measures tackle the problem now.

Q34 Martin Horwood: I am disappointed you say you are not a rail expert because that is the area of my question really, which was, if part of your alternative strategy is to invest in rail rather than roads, which I would certainly agree with, whether it is those kinds of projects like light rail, which have some problems but which have enormous potential—or the big dramatic projects like high-speed rail links to Scotland or the West, or smaller scale faster return links like my personal favourite, the redoubling of the Swindon to Kemble line, but those kinds of local infrastructure plans that which can increase capacity quite dramatically. Maybe your colleagues will want to come in on this, if it is not your bag particularly.

Mr Buchan: I think it is true there are a lot of light railways. The one in South Hampshire for example has got to quite an advanced stage. There has been a lot of to-ing and fro-ing and a lot of speech about whether they be bus-based or rail-based, and there has been a lot of change of mind in the Government, really as to what is flavour of the month. There are some complications there, and that needs to be sorted out because some of the light rail schemes were, quite plainly, by the conventional cost-benefit analysis that the Department for Transport uses, very good value. The South Hampshire one is 4:1 which is a fairly stunning cost-benefit ratio. The trouble is that there has been a lot of to-ing and fro-ing and there does not seem to be a proper national framework in which these things can proceed. I have mentioned the to-ing and fro-ing between—should we have bus rapid transit or light rapid transit, which is often taken to be the heavy tram end, but there are a whole range of opportunities in between for doing this. I think that in this country we have slightly suffered from not having a consistent policy, which would lead probably to some bus rapid transit, probably to some tram schemes and probably to something in between sometimes. There has been a general failure of policy in that regard. On the rail side, it is crucial to look at the speed issue very, very carefully and robustly; but before we get to that issue there is the issue of capacity, at the local level and at the national level. Capacity is probably the key issue rather than speed. We have seen some excellent speed improvements although I know there is some issue as to whether track work is completed properly. We have seen some schemes now for a relatively modest investment and I do think that capacity is the first line of attack. That is what is required. What speed that capacity runs at needs another study, and I think that study will come in due course. At the local level there is a need for investment. I would like to reiterate the emphasis on Smarter Choices because that does deliver both jobs and benefits much faster than any form of infrastructure investment. If we had a go at the sort of Smarter Choices programme tomorrow, within six months we would have people out on the road, on the street, actually putting these schemes into action. In terms of the speed of implementation and support and creation of jobs, those sorts of initiatives are very good.

Q35 Mr Caton: You have talked about the Secretary of State's announcement about Heathrow and increasing road capacity; what about what he said in that same announcement about the high-speed rail link to Scotland and indeed the investment in ultra low-carbon cars?

Mr George: There has been an awful lot of fixation on high-speed rail as the solution, and I think we need to step back somewhat and work out what the problems are and whether high-speed rail can address them. High-speed rail will certainly solve your London to Edinburgh trips, if that is as far as the line is built. It is unlikely to solve people going to Birmingham, which is only as far as the current plans are going. You are missing out the Manchester/Leeds section, which has real capacity issues that could be solved by high-speed rail. The further you extend it, the more of the aviation market you can divert and the more CO_2 reduction you can get. However, we need to solve capacity across the board and improve services across the board. If high-speed rail is implemented, it is not going to make it easier for people to get to work or travel around their local area. As we have seen on the London to Ashford line, where they have spent on high speed rail services, we have seen huge increase in rail fares, though, which is now dissuading people from taking trains. It is no good running every train because they are fast. We need to go back and look at how we fund and structure the current franchise system. I know that the 2007 White Paper reduced the amount of Government subsidy for services which led to above-inflation fare rises for the unregulated tickets, which is again moving people off the rail back into cars and planes. Until we can tackle that price parity issue and until we can increase capacity across the board so that people do not hear horror stories in the newspapers about cattle-truck conditions—for the most part they are not really experiencing those—but where they are, they are very iconic and dissuading people from using rail—even including building high-speed rail will not attract people back into railways. If it is unaffordable, people will still continue to fly.

Q36 Mr Caton: What about the ultra low-carbon cars?

Mr George: It is certainly part of the solution. I am sure Keith will be very happy to talk about the impact and the Grid, and moving people to electric vehicles, but despite to the King conclusions it is not quite as rosy as it looks. My understanding of the measures was that in part they incentivise people to borrow to buy. That is kind of what has got us into this economic crisis at the moment, and I am not entirely sure whether we should be making it easier for people to borrow at all at the moment. I am not an economist, but perhaps what we ought to be doing is using the current fiscal system we have in place with the level of taxation and level of VED that we have on vehicles rather than encouraging people to get further into debt for a car they may not need on the grounds that the loans are now available.

Mr Buchan: I think the real issue is to move the whole vehicle fleet into a more efficient form. To do that you need to ensure that when cars are replaced, they are replaced with the most efficient vehicles. That needs to run not just to a few interesting efficient vehicles, but it needs to spread into the whole of the car fleet. We have a problem in that the recession will slow down the replacement rate, so all the forecasts of improvements by replacing inefficient cars with efficient cars will have to be revisited. In terms of the structure of what the Government has done, which is not to put the VED up but keep the first year tax in place, and have fuel duty raised, is the right structural approach, because it is at the point of purchase that one wants to influence behaviour, and then it is the amount of fuel duty you are interested in. The VED is fairly indirect in operating on those two key items. Structurally, they have not gone as far as we would like but I think that structurally it is the correct way, which is to penalise inefficient purchase at point of sale, and then to encourage more economical driving and less use through fuel duty. Richard mentioned the electric vehicle. I have noticed, going round to various meetings on transport that the electric vehicle has become suddenly a new magic bullet. We have to look at this very, very cautiously. If you think of about 15 million vehicles coming home in the evening from work and plugging in at the same time, the very lowest charge rate would be something equivalent to four electric kettles and you would have to keep them plugged in for six hours. The idea of peak flow on the Grid as opposed to the 24-hour average, which the King report was based on, would mean something like a two to three-fold increase in peak generating capacity. Given that we are going to be struggling to maintain our power generation capacity when our already dirtier coal-fire stations are shut—I think one has to be very, very careful about encouraging a particular sector. Research and development is fine, but, really, we have to move the mass of cars into a more efficient box. In the short term hybrid vehicles would be very beneficial—but it is going to come slowly even if we do sort out getting credit moving in the economy. The replacement rate will still slow down.

Q37 Mr Challen: There has been some discussion about the Government bailing out the car manufacturing industry in the US as well as here of course. If that were to take place it would be conditional upon producing models with lower emissions.

Mr George: Absolutely. One of the opportunities being afforded by the economic downturn—one of the few silver linings—is that the Government has the ability to say to the banks and car manufacturers: "We will give you this money, but here are the conditions; we need you to stop lobbying against the EU CO_2 limits and start bringing them in faster" and we also need to see heavy investment in high skills jobs as well as the manufacturing. We need to ask ourselves why the car manufacturers should be singled out when carriage manufacturers, tram manufacturers and the like are not. They are equally British-based manufacturing with similar levels of skills, and they are also transport related. They are not the iconic brands that we see—Jaguar Land Rover is a good example—but also Jaguar Land Rover is one of the most polluting, the most prestige forms of vehicle out there; and whether we want to be committing ourselves to another 10 or 15 years of large numbers of CO_2 heavy four-by-fours specifically associated with those brands for the sake of preserving an icon. This is something that needs further discussion.

Q38 Mr Chaytor: I think Jaguar is the one that is in contention here. Even if they said they could produce a new luxury model with, say, 15% reduction in CO_2 emissions, you would still oppose that in principle!

Mr George: We do not oppose it—I think we need to make sure that any bail-out enables Government policies, and if we could use the bail-out as an opportunity to shift the more—I do not use the word "stubborn" in terms of resisting but stubborn in terms of the harder-to-tackle areas of the market for these niche vehicles, and start using the investment to get good research and development and really show the rest of the world how you can make cars that appeal to that audience but that are also low in emissions and low in particulates. That would be fantastic and that would really be something to work for. In the absence of that, it is a very odd decision to single out car manufacturers for receiving bail-outs in the absence of similar bail-outs for the rest of the manufacturing industry.

Q39 Joan Walley: In relation to aviation and tax, can I ask for your views on the Treasury decision not to charge air passenger duty into a charge per plane rather than per passenger?

Mr Hanton: We were very disappointed. It would, for the first time, have imposed tax on air freight. The background is that the Treasury deficit on aviation is about £10 billion a year.

Q40 Joan Walley: Can you explain by "Treasury deficit"?

Mr Hanton: The cost of not applying any tax on aviation fuel and not applying Value Added Tax to aviation passengers is about £10 billion a year. APD contributes about £2 billion, and aviation duty would have increased that by about half a billion. It would also, as I say, have taxed air freight for the first time, freight planes—so we were very disappointed that this was U-turned on. Of course, we welcome the fact that APD is being reformed to be more distance related, but it still remains a small tax. If I remind you that in 1997 the figure of APD

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was £10 for the short haul, and even with the new proposals will only go up to £12, we are talking of a small tax.

Q41 Joan Walley: I understand that your director has written to the Chancellor about whether or not anything can be done in the short term to tax air freight. Have you had any indication back from the Treasury as to whether there might be any progress?
Mr George: Not as yet. The letter only went out very late last week.

Q42 Joan Walley: Does that representation include changes in respect of flights without passengers operating just to keep the slots?
Mr George: Auctioning slots, for example, would be a very good way around that, or would just restrict them, saying, "you are not using this for a genuine passenger service; you cannot have the slot". We have heard talk about green slots, which sounds in principle like a good idea but these have been announced for the third runway, which would be a disaster. Also there is potential for taxing fuel for domestic flights. That is not covered by the Chicago Convention. You probably need to do an equivalence in tax because of the opportunity for suppliers to get fuel abroad and then transfer fuel over. Certainly there would be nothing to stop you doing that. They have something like that in Norway and in America at the moment, and with the Obama presidency perhaps there will be an opportunity to re-negotiate the Chicago Convention, which would probably need EU agreement in the light of the Emissions Trading Scheme being finalised there, and there are plenty of opportunities to lobby at an international level. There is really no reason, given the climate change impacts, that it should be singled out as a special case.
Mr Hanton: The government has indicated that it is in favour of re-negotiating the Chicago Convention, enabling countries to impose tax on aviation fuel. We think that that is an important urgent priority nationally, particularly given the fact that aviation is much more polluting than the mere CO_2 emission figures would indicate; it is because of other emissions between two and four times polluting as the CO_2 figures would imply; and the Government uses a multiplier of two for that, so that is urgent. The other urgent thing is to begin a process of Value Added Tax imposed on aviation within the EU at least, and also Value Added Tax imposed on domestic flights, as is done in most other European countries.

Q43 Joan Walley: You have raised quite a few suppositions there.
Mr Hanton: Yes.

Q44 Joan Walley: I just wonder again what indication you have got that there might be some movement on each of those, including the change of president in the US, and whether there is any scope for the Chicago Convention to be re-negotiated.
Mr Hanton: We are only in day eight of the administration, so it is difficult to know, but if the world—if the UK is serious about an 80% reduction, and if the world is serious about reducing CO_2 and its polluting effects, this is an urgency. That is all we are saying.

Q45 Joan Walley: You have almost answered a previous question I had when you volunteered information that the changes in the levels of duty that would be paid with the new short-haul and long flights over 2000 miles et cetera would in the lowest grade bring about an increase to the Treasury from £10 to £12. Have you done any research on how these changes altogether will have any implications for the amount of annual flights that are made? Do you have any idea how it would affect some people's travelling habits and use of aviation?
Mr George: I think Keith's point about the exchange rate is likely to be the biggest deflator of the aviation market at the moment. If you are moving from $2 to the pound to considerably less at the moment—I am not sure what it is today—that will dissuade people from shopping trips to New York and unessential flights that would otherwise effectively be a drain on our economy because people are not only flying abroad and not holidaying here but spending large amounts of money abroad, and returning, with all the tax, all the duty and all the profit being absorbed in other countries.

Q46 Joan Walley: That is not the tax issue, I am talking about the green issue that might come from the Pre-Budget Report.
Mr Buchan: I think it is important to separate out the international flights where the exchange rate mechanism is terribly important, and the domestic flights issue which is often overlooked because it is quite small in terms of its carbon emissions, but is very important in terms of its capacity, because if you take take-off and landing into account, it's about 30% of all take-off and landings in the UK; so in terms of capacity, domestic flights are incredibly important. Also, the actual cruise bit tends to be a bit shorter; then the take-off and landing emissions are quite serious. It is very odd that we have a situation that if you take a coach or drive between London and Leeds or Liverpool or Edinburgh, you have to pay fuel duty, but if you fly you do not, and yet the emissions are doing, as Alistair said, about twice the damage to the climate. It does strike us that there is a complete discontinuity here and there is something wrong, even in liberal economic terms; there is a market distortion caused by not having a proper taxation framework. That is something we could address. There are various options for doing it. You can use the VAT route or the fuel duty route, and everyone knows what they are! That needs to be done. I think that the current recession did cause the Government to withdraw and come back from the position of a major reform of APD and possibly looking at domestic, because they are very concerned about disrupting the domestic airport situation. Some of the airports are fairly marginal and I think if you look at places like Norwich, which

has just lost its main international operator, and lost 20% of its passengers in about three months, I think there is going to be some restructuring in terms of local airports. I think the prospect of that kind of scared the Government away from making the reforms that are necessary, but those reforms do need to come. If you look at the competition between rail and domestic air, the Civil Aviation Authority is quite open about it; they have predicted—and we are now seeing—transfer from domestic flights to rail where they are available.

Q47 Joan Walley: How much have or should those calculations feature in the overall framework within which the assessment is made in respect of the third runway at Heathrow Airport?
Mr Buchan: The central case does not actually include the Pre-Budget Report changes because of the very odd way that the economic case treats taxes. If you put air passenger duty up, the benefits go up. I have to say I am not entirely convinced that that is an accurate picture because it would mean that the more and more you put the tax up, the more benefits you get, and I think at some point there should be some kind of break from that. I do think that in terms of the overall tax treatment, that needs to be sorted out. There needs to be a proper extraction of the way that is being dealt with before we can have a really sensible debate about what the genuine economic case is for a Heathrow third runway. I am sorry, I have strayed slightly from your question.

Q48 Chairman: Just on the question of VAT on flights within Europe, how do you think that would interact with the inclusion of aviation in the ETS?
Mr Hanton: It would be additional to. We need all the instruments that we can get for containing the growth of aviation on grounds of the climate and on the grounds, as far as the UK is concerned, balance of payments; so let us have both.

Q49 Chairman: In practical terms, it is almost certain that the amount of flying will be the maximum permitted under the ETS, is it not; and so just charging a bit more does not make any difference to the amount of flying that takes place?
Mr Hanton: It will discourage it. It will be less likely to come up to a maximum.

Q50 Mr Chaytor: Can I come back to Vehicle Excise Duty, because you defended the Government's position in the Pre-Budget Report to soften the increases originally proposed on the existing vehicles and sticking with the original increases for new vehicles. But my recollection of the evidence we have received from the motor industry was that as a proportion of total annual sales, new vehicles were about 2% of total sales. Given the impact of the recession and the collapse of new vehicle sales in the last few months, by focusing overly on a substantial tax on new vehicles, how many years will it take to have an impact, because presumably now it is not just 98% of vehicles in the second-hand market—it must be higher than that as the new vehicle market has collapsed.
Mr Buchan: Yes, I think the new vehicle at its peak, say 12 to 18 months ago, was about 2 million vehicles a year[3] and total vehicle parts about 29–30 million vehicles—that is in terms of private vehicles and company cars taken together. That replacement rate has gone down by half. In the longer term, structurally the new car tax has to be right. In the short term the VED merely taxes you for owning a vehicle, so in fact it is just saying, "you have got the vehicle; if it uses a bit more fuel you will have to pay more just to keep it standing there"; whereas the fuel duty, which is the other aspect of this, means that there is a direct incentive to drive that car more economically, which is a very great possibility and can save you 10 to 15%, and in fact we do see that. We have some data on the effect of fuel duty since the escalator was introduced in the nineties and we can see a division between people buying—about half are getting more efficient cars, and driving what they have got more efficiently the other half is driving less. It is roughly split. I think that is the right way to go. I think you are right, obviously, that that replacement rate will be slow, but even with that replacement rate one needs to have the right incentive. If it was VED and you get people going into the showroom and saying, "my annual duty is . . . " it does not impinge so directly on the decision as saying if it goes the wrong side of the desired average, "it will cost you £900" which is the top rate.

Q51 Mr Chaytor: Surely the other point is that leaving aside the change in new vehicle sales, the majority of households in Britain never buy a new vehicle; they get their cars entirely through the second hand market, so you have a huge number of people who are just not affected, so behaviour would have no reason to change if they never buy new vehicles, and therefore, are never faced with the differential tax spend. This is the point I find hard to understand—how you are so relaxed about the tax not being used to influence the second-hand market because that is where most people buy their cars, and as time goes on even more people are going to buy through the second-hand market!
Mr Buchan: Sure, but there are two responses to that. One is that we still have a company car purchase, which is still very, very important, and that has been very much reformed and is still being reformed and other reforms are in preparation. That has had the effect of reducing the average size of company cars that are purchased significantly. In other words, it has worked. However, it partly worked by pushing some people out of the company car perk into looking at other ways of things like company loans, mileage allowance, which also could be addressed. Those purchases are now private purchases but some are related to company finance, for example. Those purchases will undoubtedly be influenced by a change in the actual purchase price of the vehicle because some of that will have to be funded by the private individual. The mileage allowances are now more or less—you do not get more mileage allowance according to the fuel

[3] *Note by Witness:* The amount of vehicles were, in fact, 2.5 million, not 2 million.

consumption, so we have got rid of that aspect of it. I think that will therefore influence those new car purchasers, even though they are semi-private as well as company. It is getting at those that are semi-private, and the modest number of people who can afford a new car. Then the VED is even less important. That is my response.

Q52 Chairman: The Pre-Budget Report raised the fuel duty by 2p in the context of a 20p fall per litre in pump prices because of the fall in oil prices. The 2p rise is of course offset by the cut in VAT. What do you make of the coherence of the Government's use of fuel duty as a policy?
Mr Hanton: We would say that it is necessary that fuel duty goes up progressively to offset the reduction of motoring costs because of technological improvements—so this is necessary. The Government has intermittently increased the charge, but not enough to compensate for technological improvements and thus keep motoring costs stable in real terms. On the assumption, which we hope will be true, that the charge will not be reduced when VAT goes up again to 17.5%, it is faltering steps along the road of gradually increasing fuel duty, but inadequate steps.

Q53 Chairman: It is your view that those steps could be taken regardless of the underlying oil price!
Mr Hanton: Yes.

Q54 Chairman: What has been the effect of the rise in oil prices and more recently of the recession on carbon emissions from road transport?
Mr George: We know that the AA reported, and the DfT confirmed this, that at least the second and third quarters reflected a roughly 2% decrease in vehicle traffic, and the AA survey of its members also reported that people were thinking about how they travelled, switching to public transport where possible. Stagecoach reported that their passengers had gone up. I do not think we have got the data yet as to CO_2 but we could assume therefore that there was a 2% decrease in road transport CO_2 as a result. It probably is not quite as correlated as that! Certainly over the next year or so we will be able to get that data together. We did see for the first time people having motoring costs on a better parity or more even playing field to public transport fares, which have been rising. To give the comparison, the RAC report looking back on 20 years—80% decrease in real terms in the cost of motoring. At the same time rail fares went up 55% in real terms and buses 63%. Even with the high oil prices in the summer you still saw, if not a decrease[4] in cost of motoring only a levelling off, while you saw bus operators putting up fares because they were paying the oil prices as well. Until we can tackle that disparity we will not see long-term reductions in CO_2 emissions. I suppose the fluctuation in the oil market is not something we can rely on as a means of CO_2 reduction. It may achieve some benefits, but at the same time it made it difficult for the government to introduce the 2p fuel duty increase as well as the changes in VED because the focus of the media and the public at large was very much on the high cost of motoring. The price of motoring is high, and of course year on year,[5] but when you get such a sharp increase it feels that it is very high and that makes it very hard to bring in the kind of taxation measures we need. It also opened up a very interesting discussion around this such as the fair fuel stabiliser the Conservative Party proposed, or the Scottish National Party's stabiliser. Neither of those is the solution but at least people are talking about measures and about the impact of the idea of long-term high oil prices. Of course, the recession has rapidly brought that back down again and has probably undone all the benefits we had in the summer as motoring became 20p cheaper in the price of fuel. When you are getting that decrease at the pump, which is where most people experience the cost of motoring—if you only buy a car every few years and pay VED once a year and you buy petrol once or twice a week, whether people go out of their way to drive further I do not know, but certainly when prices are high they will drive less.
Chairman: Thank you very much. We are out of time this morning. Thank you for coming in; it has been a useful session.

[4] *Note by Witness:* Even with the high oil prices in the summer, you still saw an increase, not a decrease, in cost of motoring, then a levelling off.

[5] Note by Witness: The cost of motoring is not high, and of course falls year on year. During the session the witness referred to motoring as being high, which was incorrect.

Tuesday 3 February 2009

Members present

Mr Tim Yeo, in the Chair

Colin Challen
Mr David Chaytor
Martin Horwood
Mark Lazarowicz
Jo Swinson
Dr Desmond Turner
Joan Walley

Witness: **Mr Andrew Simms**, Green New Deal Group, gave evidence.

Q55 Chairman: Thank you for coming in. We are very interested obviously in the idea of the Green New Deal. The report that you produced refers to the "triple crunch", the financial crisis, climate change and peak oil. How interlinked are all these problems and, in particular, how interlinked might the solutions be?

Mr Simms: I would say all are firmly interwoven. The reason that we did it was that we found there were a number of us, and this is one of the reasons why I do feel I have to apologise for the fact that it is only me today because the point of us coming together and producing this report as a group was that we brought specialisms ranging from financial expertise to the understanding of energy issues to the understanding of climate change issues, and we were all aware that, separately, each of the issues that we were dealing with was capable of triggering a fairly substantial threat to the healthy functioning of the system. Together, the three of them were the sort of perfect economic and environmental storm, so we saw that both the trajectory that the global economy was on in terms of its energy use, the frailty of the system created by the debt bubble or the credit bubble, depending upon your preferred way of describing it, and the vulnerability of the system in terms of the energy shock that it was facing and the scale of the change implied in how we do business by climate change was so substantial that, when they came together, they posed this enormous threat, and we thought that you could not tackle any one of them in isolation. Thinking about the need to find the resources to tackle the energy transition problem, we were mindful of the fact that, if you go not that far back in history, when we made the huge energy transition from coal to oil, for example, it took about 50 years to achieve it. We saw, in the face of the deflationary circumstances following the credit crisis, that we needed to find a way to stabilise the economy, hopefully to re-inflate the economy, but one which also dealt with the fact that we have, if we are lucky, perhaps a window short of eight or so years to make the change in how we use energy in the face of the climate change problem and in the face of the global peak, plateau and ultimate long-term decline of oil production in the global economy, even if we listen to some of the most conservative voices from the International Energy Agency, for example, who are predicting a capacity crunch as soon as perhaps 2012–13 and have finally admitted in public that the year of peak oil may be as short a time away as 2020, and others will tell you it is much shorter than that. However, we had to achieve a number of complicated things in a very short period of time and there was both an enormous threat and an enormous opportunity in that, if we respond to the problem of the credit crisis by using a range of financial resources, both public, private and personal, and redirect those to achieving the ends that we need to achieve anyway in terms of tackling our energy security and in terms of tackling the massive unprecedented change in the economy and in our behaviour and lifestyles implied by climate change, not only was this perhaps the biggest threat that we had ever collectively seen, but it was also perhaps the biggest opportunity to achieve, in a short period of time, what we needed to achieve.

Q56 Chairman: Has the Treasury been showing any interest in your sort of analysis?

Mr Simms: We had a very nice letter from the Prime Minister, thanking us for our efforts and then outlining everything that the Government was already doing on the environment, and we had a nice letter from Hilary Benn. I have to say that we have had relative silence from the Treasury, perhaps in keeping with that Department's track record of enthusiastic defence of a habitable planet. We also had a very nice letter from the Chairman of the Intergovernmental Panel on Climate Change and a tidal wave of interest from around the world, but, as yet, relative silence from the Treasury.

Q57 Chairman: Given that you started all of this before the worst of the credit crunch was apparent, what is your feeling now about how this recession is going to develop?

Mr Simms: I have to say, I am afraid that we have not seen the worst of it yet. We first started thinking about this when an academic publisher, Macmillan, back in 2003 published a book called *The Real World Economic Outlook* in which were the sort of outline and the contours of the current credit crisis, and I know it is kind of a bit of a popular sport these days, saying, "We told you so", but we did actually fairly accurately describe how things were going to go. I think that, because of the continuing unknown unknowns, there is still an enormous amount of potential instability in the system. I think that perhaps the most important thing to say about it is that, in the shape of our responses, we think that the biggest mistake would simply be to try to reboot the economy to where it was before the crash happened. We think that, and this is one of the reasons why we used the language in the framework of the Green New Deal, if we want to achieve the softest landing possible for the economy and we wish to put some sort of zip back into it, then the way to do that will be to try and reboot it to a different way of working. I think the last thing we want to do is to look for signs of recovery through the return of binge consumerism on the high street. I think, if we want to look for signs of recovery, that we want to look for that in the way that we might, for example, begin the wholesale refurbishment of our building stock along the lines of energy efficiency and along the lines of re-imagining the structure and the nature of our energy system, rethinking grids, rethinking sources of energy. I think we might look for it through the training of a whole generation of people who are equipped to implement energy efficiency in homes, implement new renewable energy systems, a wide range of skill bases from low-skilled, medium-skilled, high-skilled, retraining a workforce and that we look to do it in such a way that maximises the social, environmental and economic value in our own communities. I think there is so much low-hanging fruit in that area that we have barely even begun to scratch the surface, and we are in the process of looking at it in more detail, but, even at a cursory glance, looking at what we had in the PBR, we were incredibly disappointed at the missed opportunity. It felt a little bit as if, if I might indulge in a sporting metaphor, the Chancellor was one of those footballers who finds himself in the unusual position of being on the goal line with the ball at his feet and somehow manages to kick it over the bar because there seemed to be so many opportunities and, when you peel away the layers of what has been announced, you are left with, and I would not want to be too definite about these figures yet because we are going to look at them in more detail, but what does not look like a very substantial sum of new and additional spending and the degree to which even that has been brought forward and offset against cuts in future spending makes it look even less impressive. If we end up with a sum of maybe possibly £100 million of new spending and put that into context, well, at a quick look at the workings of one of the other committees of this House, the Committee of Public Accounts, that is about the amount that was lost to the taxpayer through the handling of the privatisation of QinetiQ or, alternatively, a slightly more unusual one perhaps, the cost of obesity to the NHS in Reading on an annual basis, so I feel that we have barely scratched the surface.

Chairman: Well, if you do any more work on the figures, let us know if it is before we conclude our Report. We are probably going to have another look at this whole issue in broader terms later on in the summer actually, so I guess we may want to explore this in a lot more detail in due course, but this is in the context of our annual Pre-Budget Report.

Q58 Mark Lazarowicz: You advocate in your report a proven investment in new energy supply systems of about £50 billion per year. What were your main priorities for that spending and what effects would it have on UK employment and indeed on carbon emissions?

Mr Simms: I think, without doubt, two first priorities are, on the one hand, decarbonising the electricity supply and, on the other hand, improving the energy efficiency of building stock, both domestic and commercial. If one looks at the range, and there have been quite a range of assessments of what it would take to get Britain on a path towards a minimum of 80% cut by 2050, if we look at the work either of the SDC or the Centre for Alternative Technology or IPPR and the assessment that spending upwards of £50 billion a year would be able to set us on that path, without the need for recourse to some of the more controversial suggestions for diversifying the electricity supply, such as nuclear, I think the low-hanging fruit of improving the energy efficiency of the building stock is one of the ones which would probably be most employment-intensive in generating new jobs, and I am also kind of heartened by the fact that the sort of renewable energy technologies that we are looking to are also the most employment-rich and that, pound for pound, investment in renewable technologies does seem to generate significantly more jobs per buck than the old centralised forms of generation.

Q59 Mark Lazarowicz: Are you able to give any kind of broad figures of the kinds of employment creation that could arise from that kind of investment programme? Also, how do you address the issue of trying to make an impact on the economy quickly because I take all you have just said about the need not to return to binge consumer spending as a long-term solution, but there is a problem of course in that there is a perceived need to try and re-inflate the economy quickly before the situation spirals out of control, so how quickly would the employment impacts be felt because I think it is actually quite important in terms of recommendations we might make?

Mr Simms: On the first point on the numbers of jobs, we are also in the process of doing a more specific piece of work on this which we hope to have completed in the next two to three months and, as soon as we have those figures, we will be delighted to send them across. There are some other figures which I can forward to the Committee after this session which give ballpark figures for the kinds of jobs per buck you get in different technologies. Now, obviously where renewables are concerned, they are incredibly site-specific and they are incredibly scale-specific as well, so it will be different for each one, but there are some figures out there and I am very happy to forward those to you. I think that, if you are looking for a quick win in terms of benefiting or softening the descent in the economy at the moment, if you made the resources available, you could put people to work tomorrow working on the kind of rehabilitation of the building stock that we are talking about. I think the effects could be in employment terms and in training terms. Now, where you are talking about implementing some of the different technologies and you are talking about developing different types of grids, that is the sort of short to medium term, but, in terms of the short term, the easy win and one of the most cost-effective ways of tackling the energy and the climate problems as well would be on the building stock, and there is absolutely no reason that we could not start something like that tomorrow.

Q60 Mark Lazarowicz: Do you really think so because I have done a lot of work on this in my local area as well and, technically, yes, you could do it tomorrow, but all the kind of organisational problems of getting it done, even with sometimes small-scale projects, are immense and, in terms of having an impact, are we actually geared up to do that tomorrow or as quickly as we need to proceed within the weeks and months rather than years?
Mr Simms: I think this is a very interesting question and I think it is a very, very political question. I think it is a question of how we set our ambitions. When you look at the fate of certain infrastructure projects in Britain today, obviously we have some sort of fairly sound precedents and our attempts to upgrade some main railway lines have not been covered in glory, they have gone over budget and they have gone wrong. I think this is something where we have an opportunity to learn some lessons from our predecessors. I think that, if some of our Victorian ancestors looked upon what we were trying to achieve today and the energy and ambition with which we approach them, they would be appalled. Just for example, at the height of the railway age in the 19th Century in the space of just six or seven years, and I use that time-frame advisedly because it is the sort of time-frame in which we need to take action on climate change, Britain laid 4,400 miles of railway track. We talk about the sort of decades-long struggle to upgrade a single line, but, if you go back to 1892, over the course of a single weekend, two days, with an army of over 4,000 workers, 177 miles of track of the Great Western route to the South West were upgraded and the line opened on Monday morning on time. I really think we have to learn to walk again on these things. I do think they can be done and I think we have talked ourselves into a bizarre kind of stasis on it. If we look at the scale of any of the problems or all of them together, the need to breathe life back into the economy, to tackle the energy problem, to tackle the climate problem, I think that, unless we can recalibrate the scale of our ambition to the sorts of things that, as a country and as a nation, we know we have historically been capable of, we are not going to solve these problems. With the way that we have been sort of tiptoeing around recently, I think I would agree with you and I would say that the future does not look great, but I think that is not a reason for us not to recalibrate our ambitions.

Q61 Mark Lazarowicz: There are points there which I might pursue, but I will just ask another question which relates to what you have been telling us anyway. Can you tell us something more about your proposals for financing the Green New Deal? I ask you because in your report you refer to "the increase in the Treasury's coffers from rapidly rising carbon taxes and carbon trading", and there are questions about the carbon market, as I am sure you know, and you refer to high energy prices, and again obviously we know what is happening there. You may well say, "Well, we see ups and downs, but the long-term trend for energy prices is upwards", and I accept that, but can you rely, for financing the Green New Deal, on very fluid sources of finance, susceptible-to-high-levels-of-change types of finance to fund the Green New Deal?
Mr Simms: Not entirely, no, and, in the round, we look at a wide range of different potential sources of funding for the Green New Deal, and it is interesting to note having this today that, regardless of the volatility of the oil price, I note that BP have still been able to come in with a fairly cool profit of £18 billion shortly on the heels of Shell who managed £20 billion, so it does seem to be in some cases that, whatever happens to the oil price, the oil companies do very nicely out of it. That is just one particular example of something where one of the things we have called for as a potential source of funding to pay for this transition is what we have called an "oil legacy fund", which is something loosely modelled on what Norway has done by having an additional and specific tax on its fossil fuel industries which, over a period of time and through prudent management of it, have built up a huge pot of money relative to the size of the country. It will be larger now, but it was equivalent, the last time I looked at it which was about a year ago, to about £57,000 for every man, woman and child in Norway. However, you might want to look at it as something like a recurrent windfall tax, but that was just one particular thing. The other way of course, I suppose, one would need to look at this is thinking that, rather than investing in the Green New Deal as being something of a burden on the public purse, we would see it very much as being an investment, and it would have its own multiplier, as all investments of that kind do. We think also there is the possibility for the necessary redirection towards more stable forms of longer-term investment of pension funds. I think it was in one of the national broadsheets quite recently that "safe was the new sexy when it comes to investment", and I think people are going to be looking to long-term investments and in large infrastructure investments perhaps in the green energy side which are safe and which will guarantee a steady and long-term return over a long period of time. One study from one of the European investment banks looked at the ways in which, for example, simply by tightening the rules of existing pension funds in the light of the new vulnerabilities that would create a pool approaching $2 trillion worth of investment that would be looking for new, safer homes. We also look at ways in which we can be innovative with things like local authority bonds, something which is done widely in the United States, and, with the exception of Transport for London, has not been done in this country for a long time, even though there are no legal restraints on it, so we are looking at a range of sources of finance from people with their own personal savings looking for

longer-term, safer, reliable, if not spectacular ways and places to put their money to direct investment from government as well as new and innovative ways of raising funds which can be invested in this kind of long-term and stable infrastructure. We do not just see it being a case, if we are successful, where obviously there should be the returns ultimately to the Treasury through taxes, but we would see that as being only one of a variety of ways in which we would want to see the Green New Deal being funded.

Q62 Mark Lazarowicz: On that theme briefly, it has also been suggested by some groups that the Treasury should somehow seek to "green the bank bail-outs", in other words, link the financial support to some of the banks to requiring in some way investment to be directed more to sustainable businesses and less to carbon-intensive businesses. What is your view on that suggestion? Is that feasible, in your view?
Mr Simms: I think it is absolutely feasible. One of the biggest challenges we have at the moment is getting money out of the old energy industries, the fossil fuel energy industries, and into the energy industries of the future. We know that there is a profound inertia built into the system, there always has been historically, and it takes a jolt to move the system on. If we take the example of RBS which has been one of the biggest fossil fuel-investing banks and obviously their circumstances have changed radically, we think that the Government now has the opportunity to show leadership. It can set the tone of investment priorities, it can change the tone of investment priorities of the bank and we think that it would be bizarre now, having taken on the risks of a large section of the banking sector, not to see the positive opportunities for using leverage to move us in the right direction, so, I would think there is a very profound role for the Government in doing that.

Q63 Joan Walley: It is all very interesting Andrew, and we have heard the response that you have had from different government departments. You have got this vision of Green New Deal, but I do not quite see how the connection is going to be made towards making sure that this vision ties up with the Government's vision and that it can actually get implemented at both national, international and local level. I am just interested in what the missing connections are that would actually mean that the proposals that you have got in your document could actually become a reality.
Mr Simms: Well, I suppose ultimately that would be a question for the Government to answer itself. I do note that there has been something of an upward bidding process about green new deals. At Davos, we know that there was the Prime Minister's contribution in which he spoke about the upcoming Government's Green Industrial Strategy, the details of which are sort of sketchy at the moment, but which appear to include at least some good things, but we note some comments with regard to comparing what we are planning to do as a country with what Barack Obama is planning to do with his Green New Deal in the United States, that we are told that our Green New Deal is going to be bigger than their Green New Deal. I think obviously that, until we actually see some of the detail, we do not know what that is going to look like. All we can do, and I suppose in this case I am really speaking on behalf of the Green New Deal Group rather than the New Economics Foundation that I work for because it was the Green New Deal Group that produced this report, all we can do is put forward a rational policy case and try to make sure that everybody hears it loud and clear and sees that there is an opportunity, an almost unprecedented opportunity in the political sense for a win, win, win. To us, it really is something of a no-brainer that you have a problem of a massive deflationary circumstance coinciding with a very short period of time in which we need to re-engineer a lot of our infrastructure, our energy infrastructure, not to mention a very short period of time in which we need to avert irreversible and potentially catastrophic climate change, and the fact that these three things come together with a range of solutions which can be mutually self-reinforcing, to us, would seem to be a no-brainer. That said, I am fully aware that the political process is not always a rational policy process and that other things need to fall into place, but I honestly do get the feeling that the climate is more strongly in favour of this now than it has been, well, at any other time that I can recall.

Q64 Joan Walley: You say that you are waiting to see the details of what is going to be proposed in the Government's rescue package for where we are, but surely it is those very details which will need to have people working on them who are familiar with this whole agenda, so the question then is: has the Treasury and have government departments actually got those skilled, knowledgeable and visionary people with the detailed knowledge to put into practice, as part of the proposals, what is needed? Also, given that the original New Deal was very much about building roads, building bridges, it was very much an economic thing, whereas now it needs to be matched to the environmental agenda, how is that going to come about in the timescale that is needed to actually get it implemented? How are you going to make sure that the environmental boxes are ticked and that they can actually get done, not just as an idea in somebody's head, but in practical measures and in every part of the UK where we are suffering from the recession?
Mr Simms: Well, this is my deepest fear, I suppose, and darkest worry that there is, or there appears to be at least, for all the talk of joined-up government and I seem to remember that, when the Labour Party came to power in 1997, shortly afterwards one of the announcements from Gordon Brown himself, as Chancellor of the Exchequer, was that from now on we were going to be entering an era of evidence-based policy, and I wonder what on earth they were basing it on before, but it is one of my deepest worries that, where the Treasury is concerned, there seems to be almost a cultural animosity towards the mere idea of an environmental agenda. That puts it

quite strongly, but the evidence of the last 10 years or more does seem to support that, that, where in some other government departments there seems to be an understanding of how things have moved on, an understanding that you can manage an economy in such a way that you can get it to operate within its environmental budget, the language of prudent budgeting is supposed to be synonymous with the Treasury, but that just seems to go out of the window the moment that we start to think about our natural capital and our natural resources, so it is a real worry and I have no illusions about our own power and influence as a group. The Group that produced this is just eight people who produced it with no resources whatsoever other than a very small grant to actually pay for the cost of printing the report, so what we have is the power of an idea and the power of the ability to be able to talk to people. I would say to you that we will carry that as far as we possibly can, but, of all the various projects and initiatives that we have been involved in over the last five, six, seven or eight years, nothing has taken off with the speed, rapidity, depth and spread as this idea. Now, obviously we are quite careful to point out that, even though we drew the historical analogy to the New Deal as being a period of time in which many things were done very quickly and with quite dramatic effect, we are quite clear that a Green New Deal is not about building roads and dams, but the Green New Deal is about something quite different. We now understand far more about the tolerance thresholds of the environment and how this is actually to do with not just a kind of blanket rebooting of the economy, but actually a re-engineering of the economy to a different way of working. All I can say to you is that it seems to have put the cat among the pigeons so far and we will continue to do so as much as we can and we will use what contacts we have with government to get that message across.

Q65 Joan Walley: You suggested that, as fossil fuels become more expensive, it is the cost savings from switching to low-carbon energy use which will fund the repayment of loans made under the Green New Deal. I just really wanted to press you on that because obviously that would, or could, generate savings in years to come, but there will be a requirement to pay back the money that is being borrowed now and invested in energy efficiency work and low-carbon energy projects. I would just like to ask you how you square that circle?
Mr Simms: Obviously, I would just say again that that is not the only way in which we see the Deal being financed, and I would also say that, regardless of what has been happening with the oil price, we do think that the drop in the price will not last forever, but, even regardless of that, just two oil companies alone have reported yearly profits knocking on the door of £40 billion, so I think the money is out there and I think it is a case much more of political will in designing the system. I think one of the problems we have obviously is the volatility of the oil price and the likelihood is that, over a long-term upward curve, it may bounce around a lot more like this and that is a real problem. It is a real problem in terms of sending the right signals to the new energy sectors as well and getting a stable price signal is one of the most important things that we are going to need to have, but, given the volatility of the markets at the moment, that is a real problem and I would not underestimate it.

Q66 Mark Lazarowicz: You mention in your report, in passing really, but there is some reference to it, the Civilian Conservation Corps promoted as part of the New Deal under Roosevelt. Do you think there is any potential to recreate something like that in the UK today and what form might it take?
Mr Simms: I do, yes, yes, I do. With the best will in the world, in the next year or two, there are going to be a lot of people in this country with time on their hands. Even the best-motivated individuals pursuing work in this turbulent time will find that they have periods in which they could be employed in doing things, and I think there is huge potential there. How might one think about it? Well, not very long ago I was walking along, just on the other side of the river from the House here and I was walking behind an American couple who were chatting amongst themselves and I overheard a snatch of conversation in which one, pointing at the new bridge that crosses the river in front of the Royal Festival Hall, said to the other, "Look at that bridge! How far does it go?" I sat there, thinking, "Well, I hope it goes to the other side". When we think about what we have to achieve, I think everything comes down to averting runaway climate change because I think that, even in this time of financial crisis, it is useful, and it is also useful for the Treasury, to remember that the economy is a wholly owned subsidiary of the environment ultimately and that a little bit of humility in the face of that is called for. Our most profound challenge is to avert climate change of the nature that will be possibly impossible to control, so we need to get from A to B, we need to get to this position of not going above the two degree temperature rise threshold, so I think, if one were thinking about what a modern-day equivalent of the Civilian Conservation Corps might be, it is about a group of people providing a bridge to the future, so, whether you might call it the "bridge to the future corps" or something like that, I do not know. Maybe we could have a competition about how we might describe it.

Q67 Mark Lazarowicz: Have you, or anyone else you know, done any work to look at how that might apply in the UK, that kind of idea?
Mr Simms: Well, this is the point at which I humbly have to point out that our organisation is not a core-funded organisation and we would be delighted to do a piece of work like that if we found a nice charitable trust which was prepared to fund us to do it. I think it is begging to be done at the moment and, probably given the size, health and diversity of the voluntary sector in this country, I am quite convinced that there will be plenty of organisations out there, and it is not an entirely new or different idea either. I think that, in some senses, some of the

work, and it is slightly different, but some of the work that Mikhail Gorbachev did with his Green Cross, for example, there have been suggestions and obviously there are things of this nature which are still the legacy of the Civilian Conservation Corps in the environmental movement, and the voluntary sector in the United States is still there and it is still active and I think that probably, if you spoke to a number of the voluntary organisations in this country, a number of them would say that they are trying to fulfil this kind of function already. However, I think again, as with all of these things, what is needed now is to recalibrate the scale of our action so that it is commensurate with the nature of the problem, and that is much, much bigger than anything that is happening at the moment.

Q68 Chairman: Unfortunately, to preserve the integrity of our timetable this morning, that is going to have to be the end of this part of the session. Thank you very much for coming in. Perhaps, if the work you are continuing to do progresses during the period of this inquiry, you might communicate with us again in writing.

Mr Simms: I would be delighted to, and I apologise for being here on my own and having to play the role of the generalist, whereas, if I had been able to drag in more of my colleagues, you may have had more detailed responses on some of the questions, but I am very happy to follow up with further information, and I may leave a few things with the Clerk as well, just some follow-up information.

Chairman: Thank you very much.

Memorandum submitted by the Aldersgate Group

Summary

- Far from presenting a crisis for environmental policy making, the challenges posed by the recession actually reinforce the urgent need to accelerate the transition to a low-carbon, resource efficient economy, and align economic, environmental and societal benefits. The Aldersgate Group believe that:
  - Our long-term economic success depends on a healthy environment and the sustainable use of natural resources.
  - At the company level, good environmental performance translates to tangible economic benefits and is a major source of competitive advantage.
  - Better environmental regulation creates new business and employment opportunities in a fiercely competitive global marketplace.
  - Policy appraisals must accurately assess environmental costs and benefits.
  - The better regulation agenda must not lose sight of the need to maximise outcomes in the drive to reduce unnecessary costs.
- The 2008 Pre-Budget Report was another missed opportunity for the systematic implementation of a green fiscal reform programme involving a significant shift in the overall tax burden from conventional taxes, such as those levied on labour and capital, to environmentally related activities, such as taxes levied on resource use. This is essential for the transition to a low carbon, resource efficient economy, while at the same time helping to stimulate the economy during the economic downturn and ensuring the UK's competitiveness in the short and long term.
- Taxation is one of the main mechanisms, alongside trading and regulation, that must be harnessed to redress severe market failures and externalities such as climate change and resource depletion which threaten long-term growth and competitiveness.
- The VAT tax cut and subsequent rise in National Insurance Contributions was a missed opportunity to apply tax cuts in ways that encourage resource efficiency and employment and reduces future costs of climate change.
- Taxes on energy use can stimulate resource efficiency investments, fostering improvements in competitiveness that reduce costs in the short term and underpin rising levels of prosperity in the long term, while also smoothing out false price signals caused by short term economic pressures (such as the current collapse in the recycling market).
- Substantially greater investment in environmental goods and services would help stimulate the economy and create jobs.
- The government's Home Energy Saving Programme and wider policy framework for tackling the energy performance of the existing housing stock should be more ambitious in scope.

Memorandum

1. The Aldersgate Group's recently published report, *Green Foundations 2009*[1], argues that far from presenting a crisis for environmental policy making, the challenges posed by the credit, resource and energy crunches actually reinforce the urgent need to accelerate the transition to a low-carbon, resource efficient economy, and align economic, environmental and societal benefits. It draws on a rapidly growing body of new evidence and research that substantiates a positive interaction between high environmental standards and economic growth—enabling companies to become more efficient and productive, and creating new opportunities to secure the jobs and wealth of the future.

2. It sets out five key points that justifies this argument. Firstly, it puts forward the case that our long-term economic success depends on a healthy environment and the sustainable use of natural resources. The economic fallout from the financial crisis is an opportunity to reconsider the relationship between business and society, and address the inherent problems of unsustainable growth. The natural capital assets that lay the foundations for our economy and society should not be off-balance sheet items similar to the risk exposures and subsequent heavy losses incurred in the banking sector during the 2008 credit crunch. Rapid resource depletion necessitates the adoption of new business models and requires a range of well-designed environmental measures to smooth the path towards a more sustainable economy—the "green foundations" needed to underpin future growth and jobs.

3. Secondly, at the company level, good environmental performance translates to tangible economic benefits and is a major source of competitive advantage. In response to the upward trend in energy, water, raw material and waste disposal costs, systematically addressing environmental performance is one of the most cost-effective measures businesses can undertake to reduce expenditure. Achieving high environmental standards across the UK would produce significant cost savings and boost competitiveness—which currently lags far behind major trading partners such as Germany, France and Japan. The role of government in providing a clear policy framework is crucial, particularly in the long-term, where competitive advantage will increasingly depend on resource efficiency, innovation and energy security.

4. Thirdly, environmental regulation creates new business and employment opportunities in a fiercely competitive global marketplace. The economic downturn presents a unique opportunity to use public sector investment to fuel the economy with green jobs and growth. Environmental regulation is a key driver in this lucrative market and the government has a critical role to play in setting out an explicit industrial strategy with planned support for particular technologies and establishing the right policy frameworks that will stimulate business innovation through improving environmental performance.

5. Fourthly, policy appraisals must accurately assess environmental costs and benefits. Keystone policy objectives such as increasing resource efficiency and decarbonising the economy will only be achieved if they are adequately reflected in price signals, both in the valuation of policy options and in the market price. The policy appraisal process must allow for the potential of innovation to deliver cheaper solutions and the likelihood of inflated cost estimates emanating from industry. Non-monetarised environmental benefits must not be marginalised, while the government's approach to estimating the long-term costs associated with carbon emissions needs urgent reform.

6. Lastly, the better regulation agenda must not lose sight of the need to maximise outcomes in the drive to reduce unnecessary costs. The current financial crisis has illustrated how light touch regulation that does not adequately address the fundamental long term challenges facing the economy can have devastating economic and social consequences. In the drive to reduce regulatory burdens, there is a risk that the better regulation agenda loses sight of how to most effectively deliver the outcomes it is designed to achieve, and so puts at risk future wealth and prosperity. Increasingly, businesses which take a long-term view of value are demanding more regulation, so that they can address emerging challenges and provide a competitive edge without being undercut in the short-term. The government should aim to deliver high environmental standards providing the maximum stimulus to innovation and the creation of business opportunities, while minimising the administrative burdens of compliance.

7. The report supports the views of the Network of Heads of European Environment Protection Agencies, which finds that good environmental regulation, management and performance assists competitive advantage by reducing costs, creates markets for environmental goods and services, drives innovation, creates and sustains jobs, improves the health of the workforce and the wider public, and protects the natural resources on which business and society depend[2].

8. Maintaining these high environmental standards is even more crucial during an economic downturn, as businesses seek to consolidate, re-structure, reduce costs and exit non-core business activities. The long-term upward trend in fuel and energy prices are an incentive to improve energy efficiency and switch to renewable sources of energy, while a government led investment drive in low carbon goods and services could stimulate the economy and employment.

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1 www.aldersgategroup.org.uk/reports

2 Network of European Environment Protection Agencies (November 2005) *The Contribution of Good Environmental Regulation to Competitiveness.*

9. The report also supports the original Porter hypothesis, as explained by Martin Enevoldsen, Anders Ryelund and Mikael Skou Anderson in the *Competitiveness Effects of Environmental Tax Reform* Final Report to the European Commission (2007), namely:

> High national environmental standards will encourage domestic industries to innovate and hence improve competitiveness, in particular when the regulatory standards anticipate requirements that will spread internationally. The main reason, according to Porter and van der Linde, is that environmental regulation puts a pressure on industry to innovate new and greener products that, in turn, create better demand conditions for the industry. Moreover, environmental standards encourage industries to find less resource intensive ways of production, thereby counteracting the initial rise in production costs caused by the regulatory demands. The earlier such regulatory pressures are introduced within a given country vis-à-vis other countries, the higher the chance that the innovative experiments arising from the pressure will lead to a competitive edge[3].

10. In response to current environmental challenges and the economic downturn, the 2008 Pre-Budget Report was another missed opportunity for the systematic implementation of a green fiscal reform programme that will be the prerequisite for the transition to a low carbon, resource efficient economy. A significant shift in the overall tax burden from conventional taxes, such as those levied on labour and capital, to environmentally related activities, such as taxes levied on resource use, is required. The substantial revenues generated from the auctioning of carbon allowances under the EU ETS, which could be in the region of €4 to €6 billion per year to the UK government under phase III of the scheme according to the Carbon Trust[4], should be used to accelerate green fiscal reform and on measures to tackle climate change and building a low carbon economy.

11. The economic downturn justifies accelerating green fiscal reform. Reducing taxes on incomes would increase disposable income for workers and decrease the cost of labour, thereby incentivising employment, a key government priority. Stefan Speck in the *Competitiveness Effects of Environmental Tax Reform* report to the European Commission (2007) argues that "high taxes on labour have been perceived as a cause for high unemployment rates and as an obstacle for employing additional people at a situation when economic growth was low and economies were in a depression"[5].

12. A shift to environmental taxes would lead to greater internalisation of environmental costs in accordance with the polluter pays principle, so that the polluter pays for more of the environmental damage rather than society as a whole. Taxation is one of the key mechanisms, alongside trading and regulation, that must be harnessed to redress severe market failures and externalities such as climate change and resource depletion which threaten long-term growth and competitiveness.

13. If environmental tax reform is undertaken in an efficient and effective way, Professor Paul Ekins argues that it can result in a win:win:win outcome; "for society, which gets less pollution, climate change or other environmental bad; for non-polluting taxpayers, who get reduced other taxes; and for the Treasury, which is able to rebalance the tax base away from labour and firms, which are becoming more difficult to tax."[6] To gain credibility amongst the general public, it should be revenue neutral or negative and address any concerns over international competition and distributional effects.

14. In relation to specific measures in the 2008 Pre-Budget Report, the announcement that the standard rate of VAT will be reduced to 15% from 1 December 2008 was a missed opportunity to apply tax cuts in a way that encourages resource efficiency. This measure was justified by the Chancellor at the time to "deliver a much-needed extra injection of spending into the economy"[7]. The overall result is a crude reduction in the price of general consumption on a whole range of goods or services, even if part of this consumption actually damages our long-term wellbeing. Environmental reforms to the VAT tax cut would be highly recommended.

15. The subsequent tax rise from April 2011 to increase by half a percent all rates of National Insurance Contributions (for both employees and employers) applies across the board. The effect of this will be to raise the cost of labour (employing people) relative to the cost of other factors of production in the economy. Again it is a missed opportunity, as tax rises in relation to unsustainable resource consumption could have encouraged both resource efficiency and employment (a key social and economic target).

16. The green stimulus package supporting low-carbon growth and jobs by accelerating £535 million of capital spending on energy efficiency, rail transport and adaptation measures is encouraging but falls a long way short of the investment that is required. More recently, Gordon Brown has indicated that the UK would embark on an ambitious programme of public sector investment, specifically targeting the environmental sector, to stimulate wealth and jobs that echoes President Roosevelt's New Deal of the 1930s to help

3 Martin Enevoldsen, Anders Ryelund and Mikael Skou Anderson (2007) *The Impact of Energy Taxes on Competitiveness, Output and Expoerts: a panel regression study of 56 European industry sectors in Competitiveness Effects of Environmental Tax Reform*, Final Report to the European Commission.

4 http://assets.wwf.org.uk/downloads/auctioning_revenues.pdf

5 Speck, Stefan (2007) *Overview of Environmental Tax Reforms in EU Member States in Competitiveness Effects of Environmental Tax Reform*, Final Report to the European Commission, DG Research and DG Taxation and Customer Union.

6 Ekins, Paul (July 2008) *Environmental and Behaviour Taxes* in The Smith Institute (July 2008) *Fair Tax: Towards a Modern Tax System*.

7 www.hm-treasury.gov.uk/prebud_pbr08_speech.htm

America recover from the Great Depression[8]. The Prime Minister claims that the green proposals will be larger in scope relative to the size of Britain's economy than Barack Obama's planned 150 billion dollar programme to create five million new "green collar" jobs in the Unite States[9]. If the UK programme materialises in full, it would help position the UK to capitalise on the huge new opportunities in the environmental sector.

17. Gordon Brown has repeatedly emphasised that job creation from tackling climate change is "the biggest prize of all—the chance to seize an economic future, securing our prosperity as a nation, by reaping the benefits of the global transition to a low carbon clean economy"[10], while David Cameron has outlined a Blue/ Green Charter for profound changes in the way we live our lives[11]. This political consensus strongly supports the need for an explicit industrial strategy with planned support for particular technologies, but as yet no such strategy has been developed and little of the employment created in the manufacture of renewable energy technology has been in the UK. Similarly, the EU requires a major new action plan to make Europe's environmental industry an engine for wealth creation, as proposed by the Environmental Industries Commission[12].

18. Any industrial strategy must focus on the development of the UK skills base to ensure that the UK is fully equipped to meet the challenges posed by climate change and resource depletion and realise the government's ambition to be a world leader in skills. Hence, it is a welcome development that the government will convene a forum on low-carbon skills to identify the action needed to ensure that the right training and vocational qualifications are in place to successfully manage the transition to a low-carbon economy.

19. In regard to the announcement of installing 600,000 insulation measures this winter through the £6.8 billion Home Energy Saving Programme, the Aldersgate Group report *Better Regulation for a Sustainable Built Environment*[13] finds that whilst there is now significant policy and regulatory focus on improving the environmental performance of new buildings, enhancing the performance of existing stock presents a far bigger opportunity. This is crucial if we are to achieve national emissions reductions targets and wider policy objectives on resource efficiency and the reduction of energy bills. The current downturn in the construction of new homes is a golden opportunity to increase investment in the efficiency of the existing stock and maintain jobs in this important sector.

20. In the residential sector, fuel poverty is a major economic and public health issue which is currently being exacerbated by high energy prices and the economic downturn. It has recently been estimated that as many as one in six households are living in fuel poverty, the highest proportion in over 10 years[14]. Paradoxically, those that are most vulnerable to the impacts of increasing energy costs are those least able to access the capital needed to make themselves more resilient to it by making their home more energy efficient.

21. In the *Better Regulation for a Sustainable Built Environment* report, the Aldersgate Group recommends the following financial incentives: Align Stamp Duty Land Tax to asset ratings for energy performance, with a nil rating for A-rated stock; explore the potential for local Business Rates to be aligned to annual changes in the occupational energy rating; extend the current system of Enhanced Capital Allowances to include products and services which deliver improvements to the fabric of existing buildings; introduce a reduction in the VAT rate on refurbishment materials and systems which deliver environmental benefits and improve energy performance; introduce feed-in tariffs to incentivise the introduction of on-site renewable energy generation; and make capital allowances and low-interest loans available to homeowners to improve the energy performance of their dwellings, measured on a whole-house basis, linked to income or local tax rebates for those that improve their domestic energy performance and increased rates for those that take no action.

22. One of the major arguments against green fiscal reform are concerns about the potential competitive impacts on energy intensive producers that are exposed to intense international competition. Where this is a genuine concern, measures should be put in place that mitigate these competitiveness effects.

23. Policy makers must also bear in mind that although these costs can be significant in some cases, often they are exaggerated and the potential economic benefits ignored. For example, a recent Carbon Trust analysis is the "nail in the coffin for the myth that the EU ETS presents a threat to overall business competitiveness" as it finds that carbon costs remain trivial compared to other influences on international competitiveness for more than 90% of UK manufacturing activities[15]. In truth, when businesses decide on a production location, environmental costs tend to be low relative to considerations of the cost of capital, fiscal regime, wage costs, workforce skills, exchange rate fluctuations, infrastructure and proximity to the market.

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8 www.guardian.co.uk/politics/2009/jan/04/gordon-brown-interview
9 www.barackobama.com
10 Brown, Gordon (26 June 2008) *Speech on Creating a Low Carbon Economy*, www. number10.gov.uk/Page16141.
11 Cameron, David (16 June 2008) *Cameron: The choice isn't between economy and environment*, www.conservativeparty.org.uk.
12 Environmental Industries Commission (November 2008) *A Growth Plan for Europe's Environmental Industry*.
13 Aldersgate Group (July 2008) Better Regulation for a Sustainable Built Environment.
14 www.guardian.co.uk/business/2008/jan/20/utilities.householdbills
15 Carbon Trust (January 2008) *Press Release: EU ETS to have marginal impact on competitiveness of EU industry*, www.carbontrust.co.uk/News/presscentre/EU_ETS.htm.

24. Taxes on energy use can stimulate resource efficiency investments, fostering improvements in competitiveness that reduce costs in the short term and underpin rising levels of prosperity in the long term. It will also smooth out false price signals caused by short term economic pressures (such as the current collapse in the international recycling market) against long term energy and resource crunches. A good example is the introduction in the UK in April 2001 of the Climate Change Levy. The levy provided the incentive—especially for high energy users—to look at energy use across their operations. A survey of businesses completed eighteen months after the introduction of the levy, found that it had raised awareness amongst senior managers about the need to address energy use and greenhouse gas emissions; helped change energy management policies; and increased the use of renewables[16]. Crucially the survey found that though these changes had been considered before, it was the financial incentive brought by the levy that provided the immediate stimulus to the improvements.

25. Similarly, Climate Change Agreements (CCAs) have increased awareness and action on carbon emissions and resource efficiency. This in turn has improved UK business competitiveness and economic resilience, in complete contrast to the fear that an additional regulatory burden would damage company performance. CCAs have also enhanced data management techniques and robust measurement systems including sub-metering and software packages. This has been a driver for many high technology innovative products and high value services, which have underpinned a range of activities in understanding energy usage and targeting energy saving opportunities. Additionally, CCAs have been an early platform to demonstrate implementation of carbon savings, underpinning the design of the Carbon Reduction Commitment and providing opportunities to export know how.

26. As a share of the total tax burden, environmental taxes have fallen from 9.1% in 1993 to 7.3% in 2006[17]. To effectively tackle severe market failures such as climate change and resource depletion, it is clear that this proportion has to increase substantially, while a shift away from income tax will help stimulate employment during the economic downturn. While some of the individual measures announced in the Pre-Budget Report were positive, the government must adopt a much more integrated and coherent approach to environmental policy making. The 2009 Budget is an opportunity that the UK cannot afford to miss for the fundamental reform of the tax system, particularly as the first Climate Change Budgets will also be published at the same time. A comprehensive green fiscal reform programme is essential for the transition to a low carbon, resource efficient economy, helping to stimulate the economy during the economic downturn and ensuring the UK's competitiveness in the short and long term.

January 2009

Memorandum submitted by the Environmental Industries Commission

EIC's GREEN JOBS GROWTH STRATEGY: INVESTING FOR THE FUTURE

POLICY RECOMMENDATIONS FOR PROMOTING BRITAIN'S ENVIRONMENTAL INDUSTRY

INTRODUCTION

1. *EIC*

The Environmental Industries Commission (EIC) represents over 300 environmental technology and services (ETS) companies in the UK (making it Europe's largest ETS lobbying group).

2. *The Environmental Industry*

Definitions of the "environmental industry" (and "green jobs") vary, but it is clear there are three key sectors—distinct but interlinked.

(i) The Environmental Technology and Services Industry

The main sectors are:

- Water Pollution Control;
- Air Pollution Control;
- Waste Treatment Technologies and Recycling;
- Environmental Consultancy;

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[16] Ekins, P; Monkhouse, C; Skinner, I and Willis, R (November 2002) *Next Steps for Energy Taxation: A Survey of Business Views*, Green Alliance/Policy Studies Institute.

[17] Ekins, Paul (July 2008) *Environmental and Behaviour Taxes* in The Smith Institute (July 2008) *Fair Tax: Towards a Modern Tax System*, p68.

— Environmental Monitoring and Testing; and
— Contaminated Land Remediation.

Smaller sub-sectors cover Marine Pollution Control; Noise and Vibration Control; etc.

The UK's Environmental Technology and Services Industry has an annual turnover of £23 billion.

(ii) The Carbon Management Industry

The main sectors are:

— Energy Management (inc Energy Efficiency);
— Sustainable Building Technologies;
— Carbon Finance (inc Carbon Trading); and
— Energy Storage Technologies.

Smaller sub-sectors include CCS; Energy Storage; etc.

The UK's Carbon Management Industry has an annual turnover of £33 billion.

(iii) The Renewable Energy Industry

The main sectors are:

— Wind;
— CHP;
— Biomass (inc Biogas);
— Wave and Tidal;
— Solar; and
— Alternative Fuels (inc Biofuels).

Smaller sub-sectors cover Geothermal; Hydro; etc.

The UK's Renewable Energy Industry has an annual turnover of £50 billion.

Overall, the UK's environmental industry exports some £10 billion.

And total employment in the UK's environmental industry now exceeds 800,000 jobs.

Background: The Challenges—The Double Whammy

1. *Economic Troubles (Toxic Financial Time Bombs)*

The world's financial institutions are nursing losses of $2,800,000,000,000 ($2.8 trillion) according to the Bank of England's Financial Stability Report October 2008.

The situation has been described as "possibly the largest financial crisis of its kind in human history" by the Deputy Governor of The Bank of England, and as "a financial storm that comes along once every 100 years" by Japan's Prime Minister, Taro Aso.

Recession is upon us, with unemployment and corporate failures mounting rapidly.

2. *Environmental Troubles (Toxic Ecological Time Bombs)*

Yet the UK and the world face an equally serious challenge from growing pollution and excessive use of natural resources.

Humans are using 30% more resources than the Earth can replenish—an ecological debt of $4,000,000,000,000 ($4 trillion) a year, according to the recent (October 2008) Living Planet Report from WWF.

The latest science on global warming suggests the problem is much worse than generally accepted. Emissions of CO_2 are rising by 3% a year (the Garnaut Report, Australia, October 2008), but the IPPC's worst case scenario assumes 2.5%.

These growing environmental problems have substantial financial impacts too.

Failure to act on climate change will be equivalent to losing at least 5% of global GDP each year, now and forever (and this could rise to 20% of GDP or more) predicts the Stern Review of the Economics of Climate Change.

The Economic Opportunity

1. *A "Green New Deal"*

Politicians around the world have become increasingly aware that environmental protection yields significant economic benefits as well as ecological gains.

A substantial new industry has arisen: the UK's environmental industry, which has a turnover of £106 billion (2007–08) and employs 800,000 workers.

Europe's environmental industry boasts 3.4 million jobs—with 1.8 million people employed in Germany's environmental protection industry alone.

The global market for environmental solutions is already worth £3,046 billion pa (2007–08).

2. *The Good News for the Jobless*

Economists are now beginning to explore the job creation potential of specific environmental policy initiatives. The example of making our housing stock energy efficient (to cut bills and CO_2 emissions) is illuminating.
In the US, The Apollo Institute estimates that every $1 million invested in energy efficiency projects creates 21.5 jobs (compared to 11.5 in new natural gas generation).

In Germany, $5.2 billion of public subsidy leveraging private investment led to the energy efficiency retrofitting of 340,000 apartments, creating or saving 140,000 jobs.

3. *The Good News for Mainstream Industry*

The traditional (but now "out-dated") view in economic ministries has been that environmental protection policies are solely a cost burden on the rest of industry and act as a drag on growth—and so constitute an unaffordable luxury at a time of recession.

In fact, much pollution is the result of inefficiency in manufacturing processes and across commerce generally.

It has been calculated that in the UK, for example, the total value of potential resource efficiency savings to British businesses ranges between £5.6 billion to £7.4 billion. pa.

As the Chief Executive of one of the world's largest retailers recently said "the choice is not 'green or grow'. That is a false choice. You can do both—and you must do both. Reducing emissions does not merely fight climate change, it also cuts costs." (Sir Terry Leahy, Tesco, September 2008).

And of course, many companies in mainstream industry are developing environmental solutions and then selling them on—thereby creating new revenue streams.

Unfortunately, many "polluting" industries have regularly failed to seize such efficiencies and complain to politicians about the short-term costs of pollution control. These are often exaggerated, leading the House of Commons Environmental Audit Committee to label them as "scaremongering" (Pre-Budget 2004 and Budget 2005: Tax, Appraisal, and the Environment, May 2005).

Policy debate needs to focus on the facts, not scaremongering by self-interested parties.

The EU's climate change policies will cost less than 0.5% GDP or €3 a week for everyone according to Commission President Jose Manuel Barroso. Similarly, the CBI's Climate Change TaskForce expects the cost of meeting the UK Government's climate change targets will require an investment of just £100 a year per household (under 1% of GDP) by 2030.

Will Britain Seize the Opportunity In The Face of Growing Competition?

It is encouraging that some leading political figures realise that environmental protection policies should not be put on the backburner as they can be a major part of the solution to our financial and economic crisis.

Gordon Brown, UK Prime Minister, is to be commended when saying that: "some people say that these difficult economic times should or will reduce the Government's commitment to building a low carbon economy. They should not and will not."

But we urgently need actions to follow through on these words of political intent. Or Britain will miss out and allow our international competitors to seize these huge environmental markets. First mover advantage rules.

As the environment is a "market failure" (as Lord Stern so forcefully highlighted), this new green economic opportunity is totally dependent on Governments intervening—and acting ahead of our international competitors.

The USA is once again a major competitive threat for Europe's environmental industries.

In the 1990s, the US Government under Clinton and Gore prioritised the environmental industry for Government support through: The result was world leadership in the global environmental marketplace—and a $9 billion trade surplus.

Despite George Bush's luddite attitude to climate change, some progress has been made on the ground. The USA is, for example, the world leader in wind energy generation—thanks to a federal production tax credit and investment tax credit, combined with local fiscal incentives (ranging from cash grants to sales tax exemptions).

And now the USA has a President who talks of a "planet in peril", and who has a raft of detailed policy proposals to help return the USA to world leadership.

President Obama's environmental policies include, inter alia:

- A pledge to invest £150 billion to create five million new green collar jobs by 2020.
- A plan to convert manufacturing centres into Clean Technology Leaders through a federal investment programme to help them modernise—including support for car companies to retool to create new fuel-efficient cars.
- A Green Jobs Corps for "disconnect youth" to improve energy conservation and efficiency of homes and buildings in local communities.
- Investment in Basic Research by doubling federal science and research funding for clean energy projects.
- Creation of a Clean Technologies Deployment Venture Capital Fund to boost technology development.
- A Grant Program for Early Adopters in implementing new building codes that prioritise energy efficiency.

In addition, various US States are now developing green jobs programmes, including New York, Virginia, Maryland and New Hampshire. The New York Times reports that every Washington Senator and Congressman are talking about green jobs.

The USA is not our only competitor.

Germany, in November 2008, adopted an environmental technology "master plan" aimed at making it a world leader in eco-innovation and boost exports (particularly of water, climate protection and resource efficiency technologies). The plan includes significant increases in government expenditure on R&D.

Germany's January 2009 50 billion euro economic stimulus package includes 14 billion euros for "sustainable" public works, including improving the energy efficiency of public buildings.

The Korean Government in January 2009, announced a $38 billion (over four years) "Green New Deal" to create 960,000 jobs.

The Japanese Government has also announced its intention to expand the "green business market" and create one million new jobs, thereby "taking care of both the environment and the economy."

UK Policy on Green Jobs—The 2008 Pre-Budget Report Et Al

> "Britain must be part of the high-tech manufacturing of the future, and one very important area of that is around green industries…some of our competitors have been better at this than us…America does a huge amount to support some of these new industries" (Ed Miliband MP, Secretary of State, December 2008).

The Government has not been inactive.

In September 2008 the Government launched a "refreshed" Manufacturing Strategy that highlighted "seizing the opportunities of the low carbon economy" and "supporting hundreds of thousands of green collar jobs". It promised, a "Low Carbon Industrial Strategy"—this is eagerly awaited by EIC and the industry.

The December 2008 Pre-Budget Report's £20+ billion fiscal stimulus, talked of a "green stimulus" with, primarily, some £535 million of accelerated capital spending environmentally-targeted (improving energy efficiency in council homes and schools, for example).

But it is NOT enough. It is time for Britain to get serious about ensuring its environmental industry wins the lions share of the global markets.

The holes in UK policy are manifold.

> "Unlike the US, the UK has no comprehensive, integrated strategy for the creation of green technology…no coherent, determined national initiative" (Lord Chris Smith, Chair, The Environment Agency).

Why does BERR have no "Environmental Industry Strategy"?—yet it has a "Defence Industrial Strategy" and one for "creative industries" (whose Minister, Stephen Carter, recently said "the credit crunch makes a digital strategy more critical").

[BERR "Sector Strategies cover key industry needs such as R&D; skills; knowledge transfer; investment; and regulatory policy].

The result: the environmental industry is largely ignored in the corridors of power and lacks a strategic framework for Government support.

Why is there no "coordinating unit" to maximise the activities of the different (relevant) government departments?

The result: the various UK policies and support mechanisms are uncoordinated and fragmented.

Why have the resources (and staffing) of the environmental industry's sponsoring unit in Whitehall been constantly cut back?

The result: traditional/old European industries have a loud voice in the corridors of power in Brussels and the environmental industry has been largely ignored (the recent positive rhetoric has yet to yield any hard government action).

Why has funding of UK Trade and Investment's support for environmental exporters cut by 21% in 2007–08, to under £1 million?

The result: as the majority of UK environmental companies are SMEs they lack the ability to expand into (rapidly growing) overseas markets.

Why does the Treasury levy over £600 million in green taxes, but only give back 2% in green tax breaks?

The result: businesses and consumers still largely avoid green purchases (unless directly required to by regulation).

The following EIC recommendations tackle these and other problems and set out how the Government can make Britain's environmental industry a global success story.

EIC "Green Economy Strategy" Recommendations

Recommendation One: A Fiscal Stimulus for Green Jobs (in the Budget 2009)

- A £10 billion "Green Jobs Investment Fund" with:
  - £6 billion for an infrastructure fund to build 50,000 new (low-carbon) social houses (on brownfield sites) in 2009–10 [creating/protecting in the region of 160,000 jobs].
  - £1.5 billion for extra investment in energy efficiency retrofitting of low-income family homes [creating in the region of 145,000 jobs].
  - £1 billion of extra investment on energy efficiency retrofitting of schools and hospitals [creating in the region of 21,500 jobs].
- Extend the existing limited investment tax breaks/incentives for commercial purchasers to all environmental technologies (and increase from 100% to 150% for the most innovative) to increase the use of state-of-the-art cleaner technologies across the British industry.
- Provide funding for:
  - Cleaning up brownfield sites (for new homes);
  - Retrofitting public sector vehicles (notably buses) with air pollution controls;
  - R&D/Innovation (see 3 below); and
  - Exporting (see 3 below).
- Reverse the recent budget cuts in government support programmes for:
  - Resource efficiency in British companies;
  - Environmental exporters; and
  - (Environmental and Resource Efficiency) Knowledge Transfer Networks.

Recommendation Two: Government Support Policies

The British Government should:

- Use public procurement to trigger the development of domestic environmental markets in advance of future new regulation (eg by rapidly implementing and expanding the Forward Commitment Procurement model across all government departments).
- Increase support for "green jobs" training (eg by urgently launching the National Skills Council for Environmental Industries and ensuring all Skills Councils immediately develop green jobs' skills).
- Establish an Environmental Technology Verification Programme (with sites for testing) for all key technologies (eg Low Emission Zone anti-pollution vehicle technologies).

— Increase funding for environmental R&D to a level that is in line with major international competitors (particularly Germany and Japan).
— Provide export support at a level matching our international competitors (eg by supporting demonstration projects of environmental technologies in overseas countries).

Recommendation Three: A Formal BERR "Environmental Industry Growth Strategy"

The British Government should establish:

— A fully-resourced Sponsoring Unit for the UK's environmental industry.
— An "Environmental Technology Industry Forum" to coordinate the range of policies on:
  — Environmental Industry Support.
  — Environmental Regulation.
  — Technology Diffusion.
  — Innovation.
  — Investment.
  — Skills training.
  — Export support.

Recommendation Four: Long-Term Regulatory Targets to Support Investment and Innovation

The British Government should solve particular regulatory problems, for example:

— Carbon Management: Tighten the new Carbon Reduction Commitment by reducing the threshold from 6,000 Mwh of electricity use pa to 1,000 Mwh.
— Energy Efficiency: Use IPPC Directive implementation to require large industrial sites to implement medium—and long-term energy efficiency plans.
— Sustainable Buildings: Establish mandatory refurbishment standards for both homes and non-domestic buildings (and ensure enforcement).
— Air Pollution: Use the current revision of the IPPC Directive to set minimum emission limits.
— Water Pollution: Ensure the UK meets the requirements of the Water Framework Directive (through adequate investment approved in the next Periodic Review).
— Transport Pollution: Introduce a national framework for Low Emission Zones.
— Contaminated Land: Raise the target for new houses to be built on brownfield sites from 60 to 80%.
— Waste: Establish a price for embedded carbon (across the lifecycle of all materials).
— Renewable Energy: Incentivise individual companies to employ their own inhouse renewables (as part of the process of lowering their carbon footprint).

These EIC policy recommendations can make the UK's environmental industries a new engine of growth that can create hundreds of thousands of jobs.

However, these policies require a sea change in political attitudes—to steer future investment (both public and private) away from financial speculation and into green technologies and green collar jobs.

Many countries around the world now understand this. The German Environment Ministry has calculated that its Meseberg (Climate Change) Programme and its two billion Euros of subsidies will benefit the German economy by:

— Boosting GDP by 20 billion Euros a year (between 2010 and 2030).
— Creating some 200,000 jobs.
— Generating 17 billion Euros of exports of German climate protection technologies.
— Lowering the national debt by 180 billion Euros (by 2030).

A real "win, win" situation.

January 2009

Witnesses: **Mr Adrian Wilkes**, Chairman, Environmental Industries Commission; and **Mr Peter Young**, Chairman, and **Mr Ian Dickie**, Director, Aldersgate Group, gave evidence.

Q69 Chairman: Congratulations on overcoming the terrible hazards this morning! We have half an hour as we have the Minister coming at eleven, so we will have to be quite brisk and disciplined, so I will leave it to you to decide how you want to allocate questions. Do not feel, all three of you, you have got to answer every question from this side. Perhaps, to begin with, you could just give us your impression of how business sees the environmental aspects, such as they were, of the Pre-Budget Report both from the point of view of the environmental industries themselves and perhaps also from the point of view of business as a whole.

Mr Wilkes: Firstly, apologies from my colleague William Averdieck who is stuck in the snows of Norfolk. He runs an air pollution control company who export a lot, so it would have been useful to hear from him. The Environmental Industries Commission of course was set up 15 years ago to represent this growing new industry and we have been interested in the green jobs and the New Green Deal agenda ever since and promoting it widely. To your question, obviously there were some interesting initiatives and some extra funding on energy efficiency which is very welcome in the light of the challenge there and indeed in light of the opportunities, but overall a bit of a damp squib—particularly when I think of what is going on around the world. This month we have seen a major stimulus from the German Government on environmental infrastructure, Korea has announced a green new deal of $38 billion over the next four years with the intention of creating 960,000 jobs over those four years, the size of the Obama "green stimulus" as part of the overall package is unclear, but the reports I get from Washington indicate a figure of about $80/85 billion which would probably be about, if you pro-rata it according to our economy, something like £8 billion over here. So I do not think the Pre-Budget Report or indeed any of the current plans in government meet up to the challenge of the environmental issues that we, as a country and as a world, face, but, more importantly, they do not meet up to the opportunities here. We have got a £3 trillion worldwide industry and this country is in that race to win large market share and we are not grabbing what I have always said is the lion's share of that market. Germany, for instance, currently exports about £50 billion worth of environmental technologies and the latest government figures I have from the UK are about £10 billion worth, so there is a huge disparity there and we are missing out on an opportunity, and Germany has just announced a "masterplan" to make sure it maintains its world dominance in this area. So yes, disappointing.

Mr Young: At Aldersgate, we represent all sorts of big businesses, like BT, Barratts, United Utilities and Tesco as well as quite strong, deep green movements as well, and it is that common ground that we look at, so our members are particularly the leaders and they are looking for some short-term solutions to the short-term competitive disadvantages of being leaders into the green economy, and really they were underwhelmed in the extreme by this. As Adrian said, some of the trailing does give some hope and hopefully there is a lot more to come and this Low Carbon Industrial Strategy, I think, is absolutely crucial to that, but in terms of the joined-up thinking from government that big business is looking for to give more consistency and more compunction regarding the need to invest and to get early-mover advantage, this was a really mixed message. There is a little bit of acceleration, which is good, there are one or two good ideas in there, but it really is not of the standard which business was looking at for that. It is that systematic shift really to moving the tax approach to non-renewable resources, to getting some urgency behind the need to respond to climate change, that did not seem to be there. Just to pick up a personal-level example, the equivocal statement regarding the taxation for vehicle duty with respect to delaying the differentiation there, when you have something like that in there, it is a mixed message and we cannot afford a mixed message at the moment.

Q70 Colin Challen: This recession is certainly giving in to green investment or talk of green investment. After the recession is over, is it going to be back to business as usual or, if not, to what extent can we expect this to become embedded rather than just a quick-fix kind of political discourse?

Mr Wilkes: Well, of course, sadly, the amount of green investment that is coming out of the City's financial institutions over the last six to nine months has been falling off, and I think the level of investment will always be determined by the government policy framework. You have got to remember that environmental issues are essentially a market failure, that no one owns our climate, for instance and therefore, it is quite free to pollute it. We do not have a price on the environment and we do not have a price on our "climate rights", so they are not factored into our economic system. Unless that market failure is addressed, whether that is government regulation in terms of "You must not emit so much carbon" or fiscal policy by putting a tax on carbon, for instance, or putting in place a trading scheme if that is deemed more effective, ultimately you need the government policy framework and, without that, you will not get the investment. That is the underlying reality and I always remember getting that message loud and clear when we organised a meeting with a whole range of City investors 10 years ago; it was very clear.

Mr Dickie: I would say a few things about the recession in this context. As well as obviously being a source of major social problems, it is also a time of economic restructuring, so the economy is not going to go back to the same anyway. The fact that it is a time of restructuring is also an opportunity, so, when you are restructuring anyway, it is easier to put the changes you want to make in place than when you have already set off on a course of action. In the context of the fiscal stimulus package that the Chancellor has designed, you only get that kind of opportunity to use those resources once at best in an economic cycle and you cannot keep doing that all the time, so, if you use those resources to tackle the economic crisis, it stops you being able to use them to tackle the climate crisis and, as the previous witness was saying, we urgently need to tackle both.

Q71 Martin Horwood: Can I just ask a sort of devil's advocate question to Adrian, in particular. Is there a slight risk that we have missed the boat already, that actually economies like China's and Germany's are so far ahead in photovoltaics and carbon capture and the Danes are so far ahead in wind power that actually we are not going to catch up now and that that great green global economy is not really available to us anymore?

Mr Wilkes: Well, in certain areas that is certainly the case, but, when you look at the growth projections, basically the whole world does face not just a climate challenge, but there are water and air pollution issues as well all around the world, and they rise up the public's agenda and the politicians' agenda as a result as people get wealthier and care about these things. We have got this £3 trillion worldwide market, as some figures out from the British Government suggest it is currently, and that could well double over the next 10 years, so you have got large new market opportunities. And, you have got, in many areas, novel technologies that are innovated and coming to market. So the game is still on, absolutely, but that is why it is so important to move now, as Peter mentioned, to get the first-mover advantage.

Mr Young: I would just like to reinforce that. I think there is a lot more to be had there, but we should also turn and look at where our competitive advantages can come from and there are three things that I would highlight. One, in terms of the renewable side, is that we have got some exceptionally good renewable resources and we must exploit those in a way whereby the jobs are captured within the UK economy and that we look at the whole supply chain and the whole skill base needed to do that rather than come at the opportunity to generate the energy after other countries have already invested in the RD&D to provide and sell us, effectively, a black box that does the trick. I think a second area which is really important for us is to look at our innovation ability and drive that through regulation. There is no doubt about it, as has been said, that the market failures here do need some government intervention and that we should be able to see clear enough regarding the global need to address some of these areas and actually put in sufficient regulations and sufficient activities now to ensure that we create the early markets that people can move into. I think the third area is to not expect to pick single winners, but to recognise that we have to have the ambition to have a whole number of alternative technologies supported and encouraged so that we definitely pick those which make the global markets and we do not find that we have picked the wrong horse. If I give one example of that in carbon capture and storage, carbon capture and storage technology is very, very early on at the moment and we actually have the opportunity and we have the right engineering and science base to demonstrate all the potential runners on that and prove that we were there first, whatever they may be, and probably a number of different technologies will succeed in different parts of the globe. There is a real risk that we will sit there with only one chip on the table and it might not actually be the one that wins the bet and that is a real risk for us in terms of some of those future markets.

Q72 Martin Horwood: In terms of resource advantage, you basically mean wind, wave and tidal, do you?

Mr Young: Yes, I think those are the principal ones, but I think also we need to look at some of the other things, like we are a very population-dense country, we have a high intensity of infrastructure, so some of the issues around creating a devolved electricity network, effectively an internet for electricity, we are also actually very well-placed for that because we have not got huge distances, like America, for example, where it is not going to be possible to do that over the whole country.

Mr Wilkes: May I just add a supplementary to that because Peter talked about comparative advantage and one of the things that has disappointed me is that, for several years now, I have been asking different bits of government, "Have you done studies into where the UK has comparative advantage?" and, if I could humbly suggest, it would be an ideal question to throw at the departmental witnesses you have. A friendly MP is now taking this question around this issue to the Treasury, DBERR and Defra for EIC. This lack of thinking in government reflects what the previous witness mentioned, an antagonism towards environmental protection and, therefore, indirectly towards the UK's environmental industries. There is not enough strategic thinking going on within government. I always recall when EIC launched in 1995, Gore and Clinton in America had announced, "Right, this is a big industry", and they were right, the environmental industry has been growing ever since, "We are going to dominate it", "We, America, are going to put in place a strategy, we're going to pull together all the different bits of government, the export arm and even the Ministry of Defense", where large amounts of money are spent on cleaning up land and talking about the development there of remediation technologies. What we are calling for, we the Environmental Industries Commission, is for the Government to put in place an environmental industries strategy. DBERR have industry strategies for the marine industries, for the defence industries, but they do not have one for this very rapidly growing industry, and part of having a strategy would be to look at those areas where we have comparative advantage and where we have lost out, going back to your original question.

Q73 Dr Turner: You have put the £535 million package into some sort of international context and clearly are fairly unimpressed by its scale. Having said that, do you think that there is enough there to

make any difference both to environmental protection and to competitiveness of the UK? If it is intelligently used, can it make a difference?
Mr Wilkes: Well, last week when we launched our Green Jobs Growth Strategy, we called for a £10 billion green jobs investment fund and we were calling for an increase in low-carbon social housing and energy efficiency combined with increased tax breaks. The UK has got something called the "Enhanced Capital Allowance Scheme" which has been in place for 10 years now, but it is quite narrow in its application and our industry and our members would like to see that increased from 100% to 150% to provide a real stimulus to the rest of industry out there, the problem-holders, to employ new environmental protection technologies. If we went at it seriously enough, yes, we would have an impact and that is what is going on around the world. I was shocked when I heard what Korea are planning. Korea is a much smaller economy, it does not have an environmental industry the size of ours. As to your point about whether we can grab future opportunities, yes we are better placed, but we are in danger of falling behind. We think, one, you need joined-up government thinking in terms of a strategy to promote this industry and, two, you need some funding which is, in our view, a kind of investment for the future. This investment and where we would like to see money spent is on what I call "green infrastructure investment".

Q74 Dr Turner: Am I right in thinking that the sort of money which you think should be spent is going to be to the order of £8–10 billion rather than £½ billion? Am I right in thinking that, from what you have said already?
Mr Wilkes: Yes, and it is not all going to flow to the environmental industry. We are calling for £6 billion for investing in low-carbon social housing to put the housing workers back to work.

Q75 Dr Turner: You seem to regard environmental industries as having a rather limited scope and you do not seem to show great interest in, for instance, low-carbon energy amongst your industrial group. How would you spend it? If you had £10 billion at your disposal, how would you spend it to greatest effect in saving carbon and providing jobs at the same time?
Mr Wilkes: Well, you already have support mechanisms in place to support the renewable energies industry.

Q76 Dr Turner: But the renewable energies industry would question the effectiveness of those measures very seriously.
Mr Wilkes: Are they calling for big chunks of further public direct investment?

Q77 Dr Turner: In a sense, yes.
Mr Wilkes: Well, our focus is in the other areas because actually, if you look at what is the cost-effective way of saving carbon, it is to use energy more efficiently, so that is why we are focusing on investments in energy efficiency and investments that combine with the social need to put the house workers back to work and help people in low-income housing.
Mr Young: Can I add, from Aldersgate's perspective, on that question just to broaden it. I think it is important not to get too distracted by a definition of where this sort of woolly boundary of the environmental industries is. From a bigger point of view, to answer your question, where money would be well-spent right at the moment, from the Aldersgate point of view, when we produced our Better Regulation for the Sustainable Built Environment, we highlighted the fact that within the existing built environment that is where the biggest immediate opportunities are. If you look at any cost abatement curve, you get a better return for that side, it is construction industry jobs, it actually is something where we have to raise our ambition so that we are not talking the scale that was in the Pre-Budget Report, but probably an order of magnitude bigger, making the availability of support for that much more universal. One of the examples in our *Green Foundations* 2009 report was Kirklees Borough Council where they actually adopted that approach and got a far higher take-up through that because, for an immediate fiscal and job stimulus, there is an immediate benefit and it actually is improving all of our results going forward in terms of our impact on climate change and reducing costs to households and allowing them as well to be more resilient in difficult economic times, so that would be just one example to answer the question. Until that job is done, the more money that can be found to do that, actually the better the return will be, even in the medium term, so perhaps two or three years, that is all it will take to recover that cost.
Mr Dickie: If I could quickly go back to something else you said, you said assuming that this money is intelligently used, but, to me, it is not being intelligently used because the changes to the tax system are working in an opposite direction to the green fiscal stimulus, so the two are working at crossed purposes inevitably and not using the resources efficiently.

Q78 Joan Walley: You have argued that regulation is a real driver of the stability for the long-term investment for the green environmental technologies and yet, particularly at a time of recession, there is also the case you are arguing that, if you sort out the fiscal stuff, why not sort out the green stuff at the same time, but up and down the country chambers of commerce are saying that they do not like all this regulation and that is a cost to industry. Basically, the question really is, playing devil's advocate: what is the answer to all the businesses up and down the country who are just saying, "We just want to be able to stay afloat and survive this recession"? I am just wondering what your answer is to them, and I am also wondering what interest you have had from the Secretary of State at DBERR and how much he has engaged with you on this agenda that you are putting forward.

Mr Wilkes: Well, in reverse order I have to commend Lord Mandelson for various speeches he has made over the last few months about his intent to make, I think I am right in quoting him as saying, "Britain and Europe the hub for green jobs worldwide". Of course, we are in contact with his officials about the Low Carbon Industrial Strategy which is about to be consulted on and the Conservative Party have also published some detailed proposals. All of that thinking is very welcome. I understand that the Government's Strategy will be consulted on in the very near future and it is due to be finalised and launched some time in the summer, and that will be about a low carbon industrial strategy for the whole economy. When I was calling earlier for a strategy for the environmental industries, I was thinking of a dedicated strategy as part of that overall picture. Going back to the issue of costs, well, firstly, I guess we need to think long-term where is our economy going to end up, and it is going to have to be an eco-friendly economy in the future, there are no two ways about that, I think, and, therefore, it is all about how we make the transition there. And, yes, there are short-term costs, so I think it is up to society and the Government to think about who bears those costs. One of our proposals, and it has been ever since we launched 15 years ago, is for the Government to provide fiscal incentives to help, what I would call, "polluting industry" to buy environmental technologies to clean up. You have touched on a very difficult issue, which is who actually pays for all this, and I think we, as a society, have to address that and I would propose this one mechanism as one option, But then I must go back to the key point which has been mentioned many times, winning early-mover advantage. The future is going to have to be a kind of ecologically sound economy and, if we, the UK, move ahead of the other countries around the world, then we can win large amounts of exports and, therefore, jobs.

Mr Young: I would just like to add, from the sort of macroeconomy point of view, looking at the big early-mover companies, again one of the most important things in those chambers of commerce is talking about the supply chains in which many of those companies are involved in providing services, and what we have at the moment is an opportunity to adjust those supply chains towards a much more resource-efficient economy. I will give one example at the moment which is taxing a lot of people, the automotive industry. Now, I have just been talking to a very major business which is looking seriously at the gap between the business case for electrifying a huge fleet of vehicles which ultimately is the only way they are going to decarbonise the transport impacts which is a huge part of what that business does. Now, through the electric vehicle network with top-up places, the design and construction of that, there is a real opportunity to build a whole new supply chain using our extremely strong automotive skills and capabilities. What is necessary is something which, in the short term, bridges that gap so that, for all of those people further down the supply chain who are currently worried about their existing demand dropping off, we will not return back to the same scenario we were in before, but we will return to a different scenario with a different compunction within transport and we have to make sure that we capture the jobs here so that those suppliers and those micro and SMEs that are involved in that business, and there is a huge number, there are thousands and thousands of them, as we are discovering through the Reach Directive, that they are actually aligned to that new market which, as Adrian has said, is where the export potential is for us in the longer term by being actually one of the first countries to be able to develop that approach. We have some companies who are willing to lead on that once they can make the business case and that is where the fiscal support is needed in order to leverage that willingness to take first-mover advantage.

Q79 Joan Walley: So you are actually talking about a fiscal case, you are talking about getting presumably something through the Pre-Budget Report which would actually help to meet that gap and bridge this transitional funding so that it does then become long-term competitive. I am just wondering what contact you have got with the Treasury and how you are looking at the detail of all of this with the Treasury and whether or not they are as in favour as you are of the tighter regulations or whether or not there seems to be an attitude that it has been watered down at this time of recession. That then brings me on to the way in which the Treasury is, or is not, in your view, connected with the other departments, so whether or not you have got an ally, for example, with what is being done in DBERR and how DBERR is engaging with you on this.

Mr Young: As a former commissioner of the Commission of Environmental Markets and Economic Performance, I think one of the key things that we were saying there that led to the low-carbon economy idea is that we have to get the government departments working together, and I think you have touched upon the key problem that is still there.

Q80 Joan Walley: But are they?

Mr Young: No. If we just take those specific recommendations which are in there which, if you go round, you will find civil servants who actually own even now, although it is not known outside, those recommendations and how they are implemented, they are being diced and sliced to such a degree that you have a number of independent initiatives which often actually act against one another. Just one immediate thing at the moment that we are trying to tackle with respect to carbon, we have the Climate Change Act, absolutely excellent, setting long-term targets, exactly the kind of long, loud, legal signal that we were looking for, but the reporting elements of that are being wrestled with by a group of people in Defra within DECC, we have the people who are looking at the Carbon Reduction Commitment and how to design that, which is creating unintended conflicts, and we have within DBERR a group of people looking at how to stimulate the renewables industry largely which is built on how we design that carbon reporting and the various instruments that we have got, like the Carbon Reduction Commitment and the Climate Change Agreements. Just achieving that in one simple area it seems that, as an outsider, our group is having to engage within a number of independent groups and try and get them to understand one another's position, and the Treasury is really just another example of that. I am prepared to be optimistic with respect to the Treasury in the sense that I think they do hear these arguments, but, until we have a higher-level commitment, whether or not it is like we saw historically 10 or 20 years ago when the Cabinet Office was sort of feared much more and came on and banged heads together or whether it is actually through some of the new vehicles we have got with the Climate Change Act and the like, I do not know, I do not care, but there has to be some compunction which means that this collective good, if you like, overrides the individual departmental priorities, and I think the Treasury is as affected by that as any other department.

Q81 Joan Walley: How much does the decline in prices for energy and raw materials destroy your arguments and undermine your case and, so far as investment in energy efficiency is concerned, will it perhaps not be as rewarding as it might have been?
Mr Young: Again, the comment I would make is that it is the difference between those who have some vision and are looking at actually having sustainable business and economic models going forward where this is a really unwelcome distraction, it is causing difficulties. It causes difficulties in discussions with the banks and with the boards, but it can be overcome compared with the shorter-term business outlook where this is completely distracting and merely causing us to delay even further from recognising the ultimate truth which is that we are on a resource-constrained planet, we are in a resource-constrained economy and we are on a pathway where climate change is going to come back and cost us more every year that we delay in taking action.

Q82 Chairman: Adrian, do you want to come in on that?
Mr Wilkes: Just very quickly, just to reiterate the point that as environment is a market failure, the Government have to intervene one way or another, whether that is through prices or trading schemes or straight regulation. So leaving the environmental investments to a free-floating market price around, for example, energy, will not work and it will not leverage in the investment, as we were talking about earlier.

Q83 Chairman: Well, I am afraid, we invited the Minister for eleven and I have just been told that she is waiting, so we will have to leave it there. Thank you very much for coming in. There may be one or two more points we would like to put to you in writing which we were not able to cover, so we will write to you, if we may.
Mr Wilkes: We will be very pleased to help.
Mr Young: Thank you for inviting us.

Witnesses: **Angela Eagle MP**, Exchequer Secretary to the Treasury, gave evidence.

Q84 Chairman: Minister, good morning and thank you very much for coming. As you know, this is an annual event for us. We are grateful to you for coming to see us in this parliamentary way. I do not think we need introductions. We know you and therefore we know who the officials are. Could I start by asking you this? There have been quite a lot of criticisms of the Pre-Budget Report about the fact that the scale of green investment was much too small. We have heard some of that repeated in the evidence we heard this morning. How do you respond to that?
Angela Eagle: I think the first thing I would say is that the green fiscal stimulus part of the Pre-Budget Report is only a very small part of the overall plan and approach that the Government is taking in this whole area, so it would be wrong to mix up the £535 million of green stimulus that was in the Pre-Budget Report with the £50 billion that we think is a conservative estimate of future investment we are putting into greening our economy as a whole. I would probably also say that the £535 million is effectively part of the £3 billion of investment brought forward. By definition, that has to be an investment that was planned for in the CSR period, brought forward in order to be part of a fiscal stimulus, not extra investment, although there are small amounts of that that are extra, such as £100 million of new funding for Warm Front to do more insulation.

Q85 Chairman: We will look at some of the specifics in a moment. We heard last week from Professor Tim Jackson from the Sustainable Development Commission, which is a government watch-dog. He was very outspoken in his criticisms, and he also said that there had been no response from the Treasury to what he had said. Does that mean you do not pay much attention to the work that the SDC does on economic issues?
Angela Eagle: No. We do pay attention. I have not seen the evidence that he gave last week but I am quite happy to give you a written response if you want me to respond to it.[1] We are used to people being impatient, I suppose, about progress in these areas, and understandably, given the urgency of the problem, we have to have appropriate responses. I think quite a lot of the approach to this underestimates or discounts the major changes that we are making. We have the basic infrastructure of

[1] See PBR16

law in place now with the Climate Change Act; we have changes forthcoming in the Planning and Energy Act; we have the work we are doing with the European Union to meet the targets that have been agreed there, specifically obviously the renewables target, which is extremely challenging, the shift from where we would be without any action, about 5% to 15% of renewables by 2020. The Department for Climate Change (DECC) is doing a series of publications with BERR on some of the implications of that with a forthcoming Strategy for Heat. There is a great deal of work going on. I think sometimes people miss the shifts that are actually being made, not only in legislation but in the way Government is gearing up to make the re-engineering of our economy, which we clearly need to tackle—the threat of uncontrollable climate change. I suppose I would be rather worried if there was not impatience and outspoken criticism of the Government from this sector. That is partially why they are there, but I think it is slightly unfair to discount some of the changes we have made already and the plans already in train.

Q86 Chairman: I do not think you need have any anxiety about the impatience or criticisms.
Angela Eagle: I understand it.

Q87 Chairman: You mentioned the £535 million package and I think you said that £100 million of that was new money. Is that right?
Angela Eagle: That is right; that was the new funding for Warm Front. We brought £50 million of extra funding forwards but we included £100 million of new funding for the insulation and improved energy efficiency in houses.

Q88 Chairman: Part of that package was to pay for 200 new rail carriages. Do you know where they are going to be manufactured?
Angela Eagle: That is still in procurement and so it would be quite wrong of me to speculate on that, but I can tell you that the contracts are due to be awarded by April. With a little bit of patience, we will all be able to see in due course.

Q89 Chairman: Should we find that it was not possible for them to be manufactured in Britain, it would not be a very big stimulus to our economy, would it?
Angela Eagle: I accept that argument but I have to be very careful as a Minister for Procurement not to make it look like we have a view ahead of the procurement contract itself as to who is going to win the business. It has to be won in a competitive environment, but I hear what you say.

Q90 Chairman: It will not be a case of British jobs for British workers?
Angela Eagle: I think that you will have to wait and see what happens with the contract. I am not going to rise to that kind of provocation, Mr Chairman.

Q91 Chairman: Quite a bit of the £535 million is capital spending, which has just been shifted from future years forward a bit. What is going to happen after the earlier years? Does that mean we are going to have a collapse in capital spending?
Angela Eagle: By definition, that is money that has been shifted forward from already allocated monies from the Comprehensive Spending Review, which was announced prior to the economic circumstances we now find ourselves in. I think if you look at some of the latest developments you will see that there was extra money allocated that was unallocated at Comprehensive Spending Review time; for example, the £1 billion of loans to the automotive industry to fund investment in fuel-efficient vehicles, which is entirely new; and the £250 million package for ultra low carbon vehicles, which the Department for Transport announced as part of—what I know is controversial, and perhaps more so in this Committee—the Heathrow expansion.

Q92 Chairman: We will come back to that as well.
Angela Eagle: I am sure you will.

Q93 Chairman: Are you anxious at all about the financial difficulties in PFI schemes, that that might have an impact on environmental programmes; for example, on recycling programmes?
Angela Eagle: Clearly, we are in the circumstances of the credit crunch where conditions in the financial sector are not what they were. There are difficulties in world financial markets, but the Treasury is working closely with departments and contracting authorities to ensure that those projects which are in procurement at the moment can reach financial closure. We are keeping a very close eye on it. I can say that certainly in waste, with the investment we have made already at CSR, we will meet our 2010 target. We have 14 projects on waste and recycling delivered already; there are 13 more in procurement, and obviously we are working closely with the relevant departments and areas to ensure that we can bring those to an effective close.

Q94 Chairman: The PBR referred to the investment of £50 billion in the low carbon economy. In fact, you have mentioned that yourself earlier this morning. Is that just a summary of ongoing programmes or does it include some new investment?
Angela Eagle: It is a summary of some ongoing programmes, but it is also interesting what it does not include. We actually think it is quite a conservative estimate of the investment we will see going forwards to transform our economy. For example, it does not include the value of EU ETS allowances or R&D tax credits for low carbon technologies; it does not include any investment in the gas distribution grid, enterprise investment schemes, venture capital trusts or the UK's fund on low carbon technologies in developing countries. It does include all of our aspects of technology support through the Technology Strategy Board, the Carbon Trust, and enhanced capital allowances; it includes renewables support, energy efficiency, the municipal

waste PFIs we were just talking about, transmission and electricity distribution infrastructure and public transport. The £50 billion we think is a conservative estimate. You could say that we are spending a lot more if you look at things like EU ETS allowances.

Q95 Colin Challen: Lord Stern has recently suggested that the percentage of GDP spent on tackling climate change should be 2%. Does the Treasury accept that figure and would that be new money?
Angela Eagle: I think that we are in a circumstance which changes constantly here as the science shifts. We have certainly accepted Lord Stern's analysis in his report. Obviously, we are understanding the science more. We have just recently I think come to realise that we need larger cuts in greenhouse gas emissions than were originally in play when Lord Stern wrote his report than we thought we did, which is why we have increased our target to 80%, and the Committee on Climate Change has just reported on how we should be dealing with that. So clearly, this is a rolling analysis, and we have to look to see, as progress goes on, whether the percentages of GDP go up. I am not going to sit here and say Lord Stern is wrong at all. I think it is important that we take action as timely as possible. The more we spend now, the cheaper it will be in terms of GDP allocated, and we will know also that we have to get international agreement in order to make that a reality in terms of preventing catastrophic climate change, simply because we are only 2% of the world's emissions. So we have to get international agreement. I think all of us agree that doing nothing is the far more expensive option.

Q96 Colin Challen: If we did accept the 2% figure and we did accept it was new money, which is worth between £26 billion and £30 billion a year at the moment, how long would it take us to ramp up to that level of effort?
Angela Eagle: Obviously, it takes an amount of time by definition to ramp up, as you put it. If we take, for example, the issues around renewables and the shift we have to make into renewables energy, if you look at the BERR analysis, which was published late last year, it is a great stretch for us to make 15% by 2020. As we have all said before, and I think the Committee on Climate Change has confirmed, the more investment we make now, the cheaper it is in the long run. We can ramp up but there are practical constraints. Since we are such a small percentage of current world carbon emissions, we also have to remember that we have to get agreement and use credits elsewhere to try and help other countries also to reduce their emissions. In the end, it is overall global carbon emissions that matter. The ones we produce are important but that is not the only solution to the problem.

Q97 Dr Turner: You have given a £2.3 billion loan package to car manufacturers. Will this act as a green stimulus, do you think? Will it do anything to promote the production of greener cars?
Angela Eagle: The extra £1 billion that was announced by the Business Secretary is specifically for encouraging investment in low carbon technologies and speeding them along. In fact, one of the ways of assessing whether these loans should be given is not only that they should offer value for taxpayers' money but they should also enable Britain to further its objectives of low carbon or green technologies in engines. It is one of the explicit things that has to be met before this £1 billion of loans are made available to the automotive industry.

Q98 Dr Turner: Can you tell us how those loans are structured? Is the Government actually lending like a bank or is it underwriting loans?
Angela Eagle: You will have to discuss the work on the detail of that with BERR because that is the department that is putting together the process to deliver these loans. I know that they are in contact with the European Union as well to get the appropriate approvals on state aid grounds. I suspect that you will probably have to ask them the details of precisely how it is going to work but I know that they are working on all of those details now.

Q99 Dr Turner: Over what sort of timescale?
Angela Eagle: As quickly as possible, clearly. I know that they are trying to get the European Union permission to have a look on state aid grounds and give its approval as quickly as possible.

Q100 Dr Turner: Last summer we recommended that the Government introduce a car scrappage scheme because there are an awful lot of old, highly polluting cars out there. People are paying them to trade in their cars for greener models. The French have in fact introduced such a scheme. The Germans have announced that they will do so, too. Treasury did not rule it out last year but told us they were monitoring the situation, and this is what Ministers were saying last week. What exactly are you monitoring and what test does it need to pass before you will adopt the measure?
Angela Eagle: We are a bit sceptical about its value for money, so we are continuing to monitor it. When the French scheme was introduced initially it was actually thought to be revenue-neutral. It is now costing up to €200 million a year and being far more expensive than they originally estimated. Interestingly, they have just extended it to cars which emit up to 160 grams of carbon per kilometre. You are quite right; the Germans are looking at a scrappage scheme, and Austria has announced that it is thinking of a scrappage scheme, but there is widespread scepticism in other parts of the European Union as to whether it is good value for money. Not everybody can afford to buy a new car, even if they have a government grant for scrapping their old one. That is one of the difficulties. We are not ruling it out at all but we are still quite sceptical that it is a good use of taxpayers' money.

Q101 Joan Walley: On that point, can I ask what value you are putting on the environmental benefits of that when making this assessment?
Angela Eagle: I do not know whether we are measuring it in that way, but I am certainly happy to send you a note about how we are assessing scrappage schemes.

Q102 Joan Walley: I return to the questions about the £535 million, which included the money that is spent on the rail carriages, that being part of a bigger £3 billion stimulus package and obviously a £1 billion investment package announced by the Department for Transport. Can I ask you about all the projects that will then be funded and what assessment the Treasury has made of the net impact on carbon emissions for this whole fiscal stimulus package?
Angela Eagle: Because the green stimulus part of the Pre-Budget Report is money brought forward, with the exclusion of the £100 million from Warm Front which we can measure and there will be certain carbon savings from that, we can let you know, again in a note, about the loans to the automotive industry and the package for ultra low carbon vehicles, which is extra money that has been announced since the Pre-Budget Report. By definition, money that is brought forward will not add, except at the margins, to carbon savings because it will just mean that homes are insulated a year or two earlier than they would have been without the extra money, and so that will be quite minor. In terms of jobs and supporting the economy when that is needed, we believe that because of where we are in the economic cycle, having a green part of the fiscal stimulus was a good and timely thing to do. We believe that the recession gives us a great number of challenges economically. One of the ways of actually dealing with the challenges economically is to keep in mind and certainly not forget that we need to transform our economy from a green point of view as well and to take every opportunity that we can to try to arrange that in these circumstances; it gives us benefit in the future. That is what the green stimulus was about.

Q103 Joan Walley: Is not the crux of all of this that we have measures being taken by Government, measures being proposed by the Treasury—the Pre-Budget Report is a part of all that—but that needs to go hand-in-hand with the new green deal ideas. Therefore, is this not exactly the time, if Government is bringing forward capital investments now to help us through these difficult times of recession, that the Government should now be accepting that this is a transformational time and the green aspects of this need to be superimposed on the new arrangements? It is no good having, for example, road widening or new contracts for cars if we have an opportunity to do green transport, an opportunity to do low carbon cars? Why is it not a requirement that everything has to pass this green test? This is a once-in-a-lifetime opportunity, surely?
Angela Eagle: I think it is important that we separate out some of the money that has been brought forward, the £535 million, which is already allocated in the Comprehensive Spending Review to be spent slightly earlier, a year or two earlier than it would have been in normal circumstances, from the transformational monies that are being spent anyway, the £50 billion I was talking about earlier, and the new legal structures that we have put in place, the carbon budgets, with the renewable strategies and all of those things. The fiscal stimulus is merely moving forward monies that had already been allocated. The transformation is happening I think all around us. If you look at the extra money that has been announced for ultra low carbon vehicles and the extra £1 billion of loans to the automotive industry, those do bring forward and hopefully speed up and pull through new technologies and enable them to be applied in this country and used earlier.

Q104 Joan Walley: Given what you have said earlier, that the Government has changed the response and now has an 80% carbon target, and that has come about relatively recently, is there not a case to have a similar shift in terms of looking from a different perspective at these capital projects brought forward? We have already heard in evidence in the previous session that, for example, some of the contracts for the new low carbon cars involving new environmental technologies are not being connected up across different government departments. There does not seem to be a mechanism for that to happen.
Angela Eagle: I think that you are right that this is a transformational time. Some of the work that is being done to tackle the problems that have been caused by recession will put us in a better position than we would have been without these challenges to transform a range of our infrastructures. If you are saying we should prevent all investment unless it is absolutely green, I think the paradoxical result of that might be less expenditure and cuts in public spending, which would have the opposite effect on the recession. We have to be pragmatic and pull forward those things that we can; we also have to recognise that many green technologies are at an earlier stage of development. We have to support them and certainly ensure that they can carry on being supported in their early stages and not let down by the lack of venture capital funds, for example, and we are taking a close look at how to do that. We have to protect our future green industries in that way. It would be a mistake to assume that we are ready to go with many of these things immediately. We are trying to do this in an appropriate sequence.

Q105 Joan Walley: May I put three questions on the Warm Front Scheme or the Home Energy Saving Programme. May I turn to that? There is £6.8 billion in this programme. Could you perhaps say how many jobs in the UK are being sustained by this spending?

Angela Eagle: I do not know whether I have the exact numbers of jobs in the UK that are being sustained by the funding. You can see how that is made up: we have the CERT (Carbon Emission Reduction Targets) monies, which is £2.8 billion of spending over three years on energy efficiency issues in households, ranging from boilers and more efficient heating and insulation; the spending of a 20% increase in that target as part of our response to the current conditions; a Community Energy Saving Programme, which taken together with the 20% increase is nearly £1 billion of extra expenditure; nearly £900,000 of Warm Front expenditure[2]; and £2.2 billion of expenditure on energy efficiency issues within the Decent Homes monies. All of that is to be spent in households in the UK to put in energy efficiency measures. I cannot imagine that that would be anything other than very job-intensive in this country. If you are asking me for an exact figure of jobs that that creates, I do not think I have that. I do not know whether we have an estimate: 350,000 people are already employed in the UK low carbon goods and services sector. We cannot put a figure on this package but we estimate that the number of jobs could rise to one million in the next 20 years. Clearly, the thing about packages like this is that they have to be delivered in the UK in the houses of everybody, so it is very domestically based.

Q106 Joan Walley: In respect of the funding that goes into the Home Energy Saving Programme, how much of the money is spent on energy efficiency measures and how much is helping people pay winter fuel bills? It is a programme that was originally a fuel poverty programme but has somehow been married with an environmental programme. It would be useful to have a breakdown of the costs there.

Angela Eagle: The £6.8 billion figure that I have mentioned today is all about the actual programmes for improving energy efficiency. None of that involves any of the monies that are spent on winter fuel payments; that is separate. There is £2 billion a year extra spent on winter fuel payments; and about £150 million, there or thereabouts, on the cold weather payments, although I suspect that will have gone up after this week in terms of the way we think it is going.

Q107 Joan Walley: To clarify that, none of the money in that figure you have given us is going towards the money that the energy companies spend on helping vulnerable people who have difficulty paying bills? That is separate from the winter fuel payments.

Angela Eagle: Yes.

Q108 Joan Walley: In terms of the money that has been spent by the energy companies, presumably they are having to charge higher bills in order to recoup their money. How are you making sure that that responsibility on the energy companies is not pushing their people into fuel poverty?

Angela Eagle: Clearly, the issue with the numbers of people in fuel poverty is very sensitive to the price of energy, and the price of energy can be very volatile, as we have seen in recent times. Obviously, the measures that have been taken have been concentrated particularly on those who are vulnerable and fuel poor to begin with. We monitor energy prices to make certain that if any of the costs of CERT are passed on, we know exactly how. Again, I can get you more information about that if you want it.[3]

Q109 Mark Lazarowicz: I have some questions about Heathrow Airport expansion, which was mentioned briefly. This relates very much to the economic issues rather than perhaps the wider issues. One of the things that the Secretary of State for Transport said in his statement when he announced approval of the expansion was that the decision to expand Heathrow would "help secure jobs now and in the future". When does the Government expect the construction work on the new runway and terminal actually to begin? How does that relate to the economic stimulus package at the present time?

Angela Eagle: It clearly does not relate to the fiscal stimulus package. This is an ongoing circumstance that has been contemplated for many years. I think 2003 was the appropriate Transport White Paper that dealt with this issue. A process has been going on since then. I do not think anybody on either side of the argument has tried to claim that building a third runway at Heathrow would be anything to do with the fiscal stimulus package that the Pre-Budget Report dealt with. There is a huge planning process to go through before anything happens with the third runway at Heathrow. That all has to be done and clearly that will not be happening in the next couple of months; it is an ongoing process. There was an economic assessment of the proposals, as you will know. I can give you some Treasury views on that, but if you want practical detail of how the Department for Transport are going to go ahead, I think you had better get them in here and ask them,

Q110 Mark Lazarowicz: I understand that and I appreciate there are many aspects on the issue. The Secretary of State did specifically say that the decision would help secure jobs now and in the future. Could I get some indication now and for the future what form this will take.

Angela Eagle: Today Heathrow directly employs 70,000 people; indirectly it employees 30,000 people. My understanding of the impact assessment of the additional jobs created as a result of a proposed third runway would be 10,000 jobs directly, 15,000 indirectly, and 60,000 temporary construction jobs, but I do not think that anybody would want to stand up and claim that these jobs are going to come into existence this month or next month to deal with the economic downturn that we have now.

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[2] *Note by Witness:* Warm Front expenditure is, in fact, £900million, not £900,000.

[3] Ev 46

Q111 Mark Lazarowicz: Do the figures you have give any indication of when they might start having an effect?
Angela Eagle: They are not going to start having an effect until after planning permission is applied for and granted by the authorities. Clearly, apart from a few jobs in design and engineering, I do not think you are going to see jobs on the site imminently until those processes are over.

Q112 Mark Lazarowicz: Can I ask a specific question about the air passenger duty receipts aspect of the decision? The controversy relates very much to your responsibilities in the Treasury. As I understand it, the Government has counted the projected increase in receipts from APD at Heathrow towards the calculation of economic benefit to the country, but surely that could be to some extent at least counterbalanced by the fact that UK residents will be paying APD which will be set against the benefits received by the Treasury if we are going to have a correct calculation?
Angela Eagle: There is an economic impact assessment that has been done on the entire proposals, and I know they are controversial, to create a third runway at Heathrow. That has been peer reviewed by Michael Spackman, who agrees that the Department for Transport's methodology for assessing economic and environmental impact is in line with Treasury guidance. We agree it is in line with the guidance. I do not think it is very helpful for me to go into great detail about how that impact assessment was decided. It is completely and perfectly up to you to disagree with all aspects of it or particular aspects of it. The impact assessment came to the conclusions it did. Its methodology was peer reviewed and approved as a sensible and appropriate methodology. Clearly, if there are arguments about the detail of that, then they have to be had, but that is the context in which the Treasury reviews the decision.

Q113 Mark Lazarowicz: Can I ask a specific question which is not about the methodology but about one particular way in which the methodology was applied, returning to the APD question. If you cannot provide an answer today, maybe you can provide one at a later stage. Did the Treasury, in calculating the economic benefit of the APD receipts, take into account the extent to which the APD would be paid for by British taxpayers?
Angela Eagle: I think I am happy to write to you about that.[4] That is probably the best way of dealing with a point as specific as that in a vast and very large impact assessment. I merely make the point that the approach that the Department for Transport made in the impact assessment has been peer reviewed independently and agreed as appropriate. I accept that you have a different view, and I am happy to write to you about the specific point on APD that you make.[5]

Q114 Mark Lazarowicz: I have one even more technical question on APD, which you may wish to write about. As I understand it, transit passengers or those catching connecting flights that have not originated in the UK do not pay APD. Do you know how many of the projected additional passengers resulting from a third runway will fall into that category? If you cannot find the answer today, perhaps you could write to us?[6]
Angela Eagle: I know that the impact assessment assumed that those who are transit passengers did not add to positive economic impact; and it assumed that whether they were UK citizens or foreign born citizens, those that do travel to or from UK destinations do add to economic wellbeing, presumably because it is assumed that they are going to involve themselves in some economic or leisure activity that would benefit our economy. Apart from that general observation, again I am happy to write to you.[7]

Q115 Mark Lazarowicz: Would it not make sense perhaps to try to charge APD on those who fall into that category, precisely because they are not having an impact on the UK economy otherwise?
Angela Eagle: There are any number of assumptions you can make in economic impact assessments in great detail. This economic impact assessment has been done in line with Treasury methodology by the Department for Transport. It has been peer reviewed by independent economic consultants who agree that it is an appropriate way of appraising policy which accords with Treasury guidance. Again, it is up to you obviously to object to any particular part of that. The only thing I can do is to make the general point that it has been regarded and judged to be an appropriate way of doing an economic assessment. It came to the conclusion that there were economic benefits that outweighed the environmental costs of developing a third runway. I know that is controversial. That is the approach that was taken. That is the decision that was announced, but I accept that you have difficulties with individual aspects of it. Rather than having particular views about assumptions, all I can do is make the general observations that I have made about the appropriate nature of the economic impact assessment that was made and published by the Department for Transport.

Q116 Mark Lazarowicz: My question was not actually challenging the economic impact assessment. All I was doing was asking if you have any plans to levy a tax on those transit passengers or others who currently will not pay APD because of the way APD was defined?
Angela Eagle: I think the important thing about developments in aviation taxation is the successful agreement that aviation will enter EU ETS, the emissions trading scheme, in 2012, which will mean that we can cap aviation emissions thereafter and ensure that we can keep them at a set level and then bear down on them. I think that is probably the most

[4] Ev 46
[5] Ev 46
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important decision with respect to aviation that we have been able to come to in a very long time. Therefore, we can ensure that the carbon emissions that come from aviation can be capped and thereafter reduced over time. Issues on how we apply taxation are looked at in every budget process. I do not think it would be appropriate for me to speculate on what we might do with such taxes in the future.

Q117 Chairman: Just so that we are clear, transit passengers do not, in your judgment, confer an economic benefit on this country. We know they do not pay air passenger duty. They do of course add to carbon emissions. Why are we using the existence of transit passengers as one of the justifications for expanding in the UK?
Angela Eagle: Firstly, I did not say that that was my opinion. I said that that was an opinion and a judgment that was made in the impact assessment.

Q118 Chairman: So you disagree with it?
Angela Eagle: No, I am not going to say I disagree with it. I am not an expert on the technicalities of impact assessments. I make the point that I have made quite clearly about the policy appraisal and the appropriate methodology according to Treasury guidelines, which informed the Department for Transport's economic impact assessment, and they were peer reviewed. I know it is controversial. I expect that many people will disagree with aspects of it. All I have said today is that it is being judged by independent appraisal to be an appropriate methodology for doing this kind of assessment, and it has come up with the results that it has come up with. It is incumbent on all of you, if you wish, to object to different aspects of it. That is fine. All I am saying is that it has been judged to be an appropriate approach to try to measure an economic impact assessment and try to see whether the environmental costs of this development outweigh the economic costs. The judgment has been made that they do not, as those of you who listened to the Secretary of State for Transport in his statement will have realised.

Q119 Martin Horwood: I have one last question about the technicalities of the impact assessment, I am afraid. You factored in the future cost of climate change using the so-called shadow costs of carbon. The person who did the evaluation, Michael Spackman, said it was in line with Treasury guidelines. It may well have been. That does not necessarily mean it is appropriate, as you have just claimed, because it used a very different calculation to Lord Stern's recommendation, did it not, because it used a discount rate that was more in line with traditional economics rather than the almost negligible discount rate that Stern recommended, which was 0.1% or something, thereby effectively valuing our grandchildren's lives almost equally to our own. Have you rejected Lord Stern's advice in that case?
Angela Eagle: No. Lord Stern's price of carbon in his analysis was making the assumption that there would be business as usual, a scenario that there would be no attempt to deal with climate change in a business as usual environment which would put that cost on carbon. The shadow price of carbon is a price which has been developed to deal with policy appraisals and the cost policy appraisals in a different environment, which is where we are fighting to ensure that we mitigate the costs of climate change. That is why there is a difference between the discount rate that Lord Stern used in his report and what is known as the shadow price of carbon, which is used for policy assessments in the environment we are in now.

Q120 Martin Horwood: Is that not a completely self-defeating strategy because if you use a discount rate and a shadow price for carbon which assumes everything is going to succeed, thereby you give yourself permission to do the very things that will actually undermine it?
Angela Eagle: You have to look at the overall cost of emissions and mitigating emissions overall in a global context. I do not think there would be much support for work to deal with climate change if we said that particular sectors somehow could not change or expand. Clearly, the overall level of emissions is what is important. I think that if you look at global emissions, you have to look at all sectors together and not particularly say that you cannot have any expansion in airport capacity or aviation going into the future.

Q121 Martin Horwood: I was not thinking about aviation at all. Are you going to use this shadow price of carbon for all sectors?
Angela Eagle: The shadow price for carbon is what is used for policy appraisal across government. The Stern analysis was about imagining a scenario and trying to cost in a business-as-usual, no mitigation scenario. That is why there is a difference between them,

Q122 Martin Horwood: He was recommending a methodology, was he not, for us to use in policy? That was the whole point of the analysis.
Angela Eagle: He had a methodology in which he was trying to price the cost of no action and then price the cost of mitigation to demonstrate, I think, that the price of doing nothing is greater than the price of taking action in terms of costs of GDP, as Mr Challen was talking about earlier, if we take action now. His analysis enabled us to come to the conclusion that the faster and the sooner we take action, the cheaper it would be. I know there was again controversy about how we calculated this cost of carbon but he justified his methodology in the piece of work he did.
Martin Horwood: It was controversial amongst traditional economists because it took a long-term view.

Q123 Joan Walley: Given that exchange, may I ask what steps you have taken as Exchequer Secretary to the Treasury to satisfy yourself that the Treasury guidance which relates to this, and which relates to the economic impact assessments that have been carried out, are actually fit for purpose and take

account of the environmental imperatives that are subsequent to the 2003 Aviation Transport Paper and come about as a result of the Stern Report and the Government's response to it?
Angela Eagle: These are very technical issues as indeed are—

Q124 Joan Walley: They are technical but they matter.
Angela Eagle: I understand that they matter. I met regularly with Lord Stern to talk about how we proceed in this entire environment. I am satisfied that we have the approach right, but clearly we are in a circumstance where times are changing quickly and analyses may have to shift too, especially as the requirement for even more carbon abatement gets stronger and stronger.

Q125 Joan Walley: It is too late now, is it not, because the Government has already made the decision on Heathrow?
Angela Eagle: The Government clearly has made the decision on Heathrow that is obviously controversial and of which some people do not approve. Again, I am not one of those who thinks that the battle against climate change means that we should artificially restrict air travel. We need to ensure that we develop better, greener aircraft. I think that part of the answer to this would hopefully be a worldwide agreement of the EU ETS type for aviation, which would mean that we could cap global aviation emissions. I am extremely happy that we have managed to negotiate aviation as a sector into the EU Emissions Trading Scheme, and I think that approach is the one that we probably—

Q126 Joan Walley: My question is about the Treasury guidance.
Angela Eagle: All right. I am satisfied that the Treasury guidance is fit for the purpose that it was intended but, as with all of these things, we keep it under review.

Q127 Martin Horwood: May I ask one last supplementary on this theme, since we are on it. Based on your discussions that you have just said you had with Lord Stern, if we invited him back here to ask him whether he agrees with your use of the discount rate so much higher than the one he recommended, do you think he would say you were right or wrong?
Angela Eagle: You would have to ask him. I am not going to second-guess what Lord Stern may wish to say to you about these things.

Q128 Martin Horwood: Can I move on to green taxation? The basket of broadly defined green taxes as a percentage of tax in 1999 was about 9.7%. In 2007 that had fallen overall to 7.4%, almost consistently fallen each year. If you look at it as a percentage of GDP, in 2007 it was only 2.7%, which is the equal lowest figure since 1993. There was an original policy statement I think to try to shift the burden of taxation away from "goods" such as employment to "bads" such as pollution. Is that strategy abandoned now?
Angela Eagle: We have our green taxes still in place doing that job. I think that the decline that you are talking about is almost completely due to the fact that we have not kept the fuel escalator that was in place when the previous government left office in place in terms of fuel duty. I think it is important with respect to that that we balance costs and practicalities as rising petrol prices, as we saw last year for example, do cause hardship. We have to balance that out. I think you will find that the difference in those percentages is caused by the fuel duty policy.

Q129 Martin Horwood: I think there were other contributors. Air passenger duty was one; a freeze in the climate change levy rates was another. Is it still government policy to increase that percentage again? Are you committed to reversing that downward trend?
Angela Eagle: The important thing about green taxes is that they help us change behaviour. It is not always the most important aspect of green taxation that we have large amounts of money coming into the Treasury coffers from green taxes. Some of the best green taxes work when they change behaviour to such an extent that you do not get income from them. So there is a paradoxical element here. When you are trying to shift behaviour so people do not pollute, so people recycle and they change their behaviour in that way, if you tax the bad behaviour and they change their behaviour, your revenues from those taxes by definition go down. It is not always the best way of looking at whether you are making progress in these issues to look at the income that you are getting from green taxation. I suppose that is what I am saying to you.

Q130 Martin Horwood: We are not talking about the absolute income. We are talking about the proportion of taxation that comes from this kind of taxation as opposed to the kinds of things that tax jobs like National Insurance. It was your Government's commitment in 1997 to shift that burden more towards things like green taxation. I am just trying to tease out whether that policy still stands.
Angela Eagle: As I say, I think the reasons for the decline have been pragmatic ones. You are arguing essentially that we should have kept the fuel escalator. If we had done that, then I think your constituents might have had something to say about it. You have to ensure that when you are taxing things like fuel, which people do need to get about their daily business, that you take a sensitive approach to that. I think you have to remember as well that there are other ways of ensuring that transport can be greened rather than just fuel duty. These things shift around.

Q131 Martin Horwood: I was not particularly identifying one green tax, but if we shift forward then to the Pre-Budget Report, is your impression that the overall package of tax measures will shift that burden again towards green taxation or not?
Angela Eagle: The way that we define green taxation in the Treasury is by things like the Climate Change Levy where we actually recycle the income. We have changed behaviour that way. I suppose you could say that we could make major structural changes to taxation, which would be very much larger than the changes we have made—for example, the way the Liberal Democrats say they can shift to green taxes away from income taxes. It has not been the Government's view that we should shift our structure to that extent. You can take radical or pragmatic approaches to this. We have taken a pragmatic approach.

Q132 Martin Horwood: I think the radical approach might turn out to be more pragmatic than your approach.
Angela Eagle: Time will tell.

Q133 Joan Walley: Could I turn to air passenger duty and ask why, when the 2008 budget said that the replacement of air passenger duty with a duty payable per plane would send "better environmental signals and ensure that aviation duty better reflects environmental costs" that has been scrapped in favour of a charge per plane?
Angela Eagle: We did an extensive consultation about the announcements that we made and we also did analysis about the extra carbon that it would save. It was marginal and there were significant difficulties with freight and the potential effects on regional airports of the shift, particularly since we could not do it in a European context, There were potential problems as well of losing particularly freight but not only, sometimes hubbed passengers as well, to other European Union airports. There were some issues around that that gave us pause for thought. Given then the shift in the economic cycle and the approaching economic downturn, we felt that it was better to improve the environmental signal of the existing tax, the APD, and maintain as far as we could a stable environment for the aviation industry in the economic circumstances we were in. Our view was also assisted by the welcome agreement for aviation to go into EU ETS by 2012.

Q134 Joan Walley: As for the detail of that, as I understand it, the rate for short haul economy flights to APD in 1997 was £10 but under the new rates that have come in it would be £12 in 2010–11. I wonder how what effectively is a reduction helps change behaviour, given the importance that you attached earlier on to green taxes changing behaviour.
Angela Eagle: I think that the changes were to introduce two new bands and to have them based on distance travelled as the best proxy that we can get for environmental attempts. If you look at the changes to the costs of the more long haul flights, you will see that is where the tax is. If you are saying that you want us to prevent domestic flights happening, then the changes in APD would have been much greater for short haul rather than long haul flights, but we have chosen to set the rate as a proxy for distance travelled and emissions in that sense, rather than say people should not use short haul flights.

Q135 Joan Walley: That is very much a decision that is linked with a long-term transport infrastructure planning in respect of rail and so on. We had evidence earlier from the Campaign for Better Transport and the Director, Stephen Joseph, indicated that he had written to the Chancellor urging him to open talks with President Obama on revising the Chicago Convention so that governments could tax international flights in terms of fuel. I am curious to know whether or not the Chancellor will be doing this.
Angela Eagle: We have certainly been pushing as the UK for a renegotiation of the Chicago Convention, which is plainly anachronistic and prevents the appropriate taxation of fuel for aviation on a worldwide basis in what is clearly a global industry. I do not know whether the Chancellor has penned this letter yet, but certainly the UK has been a longstanding proponent of renegotiation of the Chicago Convention. I have to say that there has not been a lot of enthusiasm for it across the Atlantic. Perhaps the new Administration will take a different view.

Q136 Chairman: The collapse in the oil price of course is a particularly good moment to try to raise this issue.
Angela Eagle: Yes. We are aware of that.

Q137 Chairman: Can we go back to vehicle excise duty? The Pre-Budget Report greatly watered down some quite bold proposals that were announced in the budget last year. Why was that?
Angela Eagle: We have not changed the structure of the way that VED is being restructured at all. We will still have first year allowances or rates. I think that we felt, given where we were with the economic downturn and the price of petrol as was then, that we had to ease this change in perhaps over a longer period of time than we had originally wished to do.

Q138 Chairman: Let us just separate new cars from second-hand cars here. First of all on new cars where there is clearly a collapse in sales currently that has been emerging in the last three months or so, are you going to lose your nerve on new cars as well? We have the budget watering down the proposals for new cars and VED?
Angela Eagle: My best response to you on that is to say that it is not my job to come here and speculate about what is going to be in the budget.

Q139 Chairman: Go on, do it?
Angela Eagle: It might get me into some difficulties.

Q140 Chairman: Not with the Committee.
Angela Eagle: Not with the Committee, no, that is true. I think that we have demonstrated in the way we have restructured VED in both of those ways that we wish people to take account of the emissions of the cars they may buy, so that we wish people to buy more fuel-efficient, lower emitting cars. Despite staggering these changes over a longer period of time, of which I know the Committee will disapprove, all I would say in mitigation to you is that we have kept the structure.

Q141 Chairman: A majority of the Committee warmly welcomed the fact that the budget last year recognised that most car purchases are actually not new cars but second-hand cars. What those proposals do is quote real incentives for people to choose more fuel-efficient models within any particular category. Given that that has now been substantially taken back and largely removed from the proposals, what do you think is going to encourage the purchaser of a second-hand car now to choose a fuel-efficient model?
Angela Eagle: I think that is slightly unfair. We will still move to the 14 new bands[8] and, over time, that will create a circumstance to make bigger differences between those bands with more advance notice, so that we do not get into the circumstances that we were in. I thought at one stage last year that the Committee were probably the only friends I had in the world. I now see that I have alienated you, too. This is just the way things go. The important thing is that we have kept the environmental-based structures of these taxes and we will have an instrument going forward to ensure that we can signal to those in the second-hand market, with plenty of advance notice, as well as those buying new cars that we really do want you to think about the emissions of the cars that you put on the road.

Q142 Chairman: It sounds a bit as though you are hoping for the emergence of a bolder and greener government after the inconvenient matter of a general election has taken place.
Angela Eagle: That would be putting terrible words in my mouth and I could not disagree with you more from that point of view, Mr Chairman. I think you also need to remember that in parallel, as you know, to this process of changing the VED structures, we are also in a circumstance where EU regulations will mandate, over time, the continuing improvement of the emissions of cars. I know that you will have read in great detail the King Report that came out with the budget last year, which also maps out the likely approach that we can take to encourage the emergence of entirely new engine technologies. I hope that, even though you will have noted the Heathrow decision with disapproval, you will have noted the £250,000 million of new money allocated to encourage the emergence in the UK of state-of-the-art, low emissions technologies for cars.

Q143 Chairman: You mention the EU. Such is the power of the south German motor industry that those proposals for mandatory improvements have again themselves been greatly watered down. Do we take what you say as an assurance that the British Government will be fighting very hard within the EU for much tougher standards to be introduced faster than the Germans currently want?
Angela Eagle: Clearly in an EU context one has to get a qualified majority of the Environment Council to come to an agreement and therefore one has to build appropriate alliances to do that. You have rightly noticed that there are various vested interests around that have an opinion on these things. I think you will also have noticed that car manufacture is having to look to government all across the world for assistance in the current climate. That means that we can begin to mandate much faster, I hope, technological shifts in this area than perhaps would have happened naturally and without the circumstances in which we find ourselves. I am quite optimistic that we can make good progress in this area at EU level and also in our home-grown industry.
Chairman: Certainly this Committee will be fascinated to see the detail of how the package of help for the motor industry is actually worked out because there is clearly an option there to use that to accelerate a switch to greener vehicles.

Q144 Mr Chaytor: Minister, does the Treasury have a view on the oil price over the next three years?
Angela Eagle: We do not forecast the oil price. We look at independent forecasts of the oil price to help inform our decisions.

Q145 Mr Chaytor: What do these independent forecasts of oil prices tell you at the moment?
Angela Eagle: We certainly would not have a view either way on what should be happening to the oil price. If you are asking me what my view of what the oil price will be in the next couple of years, I do not think it is useful for me to speculate.

Q146 Mr Chaytor: Do you accept the view of the International Energy Agency in their report of late last year which predicted a major global fossil fuel price problem in 2012?
Angela Eagle: It is clearly the case that as the global economy expanded, there were pressures on what is obviously a finite fuel, and that is why we saw the oil price spike that caused such hardship in the middle of last year. It is also clearly sensible that developed economies should be looking to see how they can replace those energy supplies as finite fossil fuels approach the end of their supply. I do not think I want to go into any greater detail than that.

Q147 Mr Chaytor: Minister, I think we want you to go into greater detail because that is why you are here.

[8] *Note by Witness:* There will be 13 new bands, not 14, as indicated during the evidence session.

Angela Eagle: Treasury Ministers pontificating about the price of oil is not usually a very sensible place for me to be.

Q148 Mr Chaytor: I am asking you what the Treasury as an institution thinks about this and does the Treasury accept that there will come a point in the not too distant future when we reach what is commonly called peak oil? Are you preparing for this and if so, why are you not more up-front about the evidence of peak oil?
Angela Eagle: I think that there are different views about when peak oil is going to arrive.

Q149 Mr Chaytor: What is the Treasury's view about when it will arrive?
Angela Eagle: The Treasury's view of when it will arrive can be shifted by sudden new oil finds that happen that nobody assumed would happen. It is also important to realise that there are technologies which mean that oil that would not have been extracted in certain circumstances can be economic to extract if the price goes up. The price spike for example last year in petrol made a range of deposits in the North Sea economic to extract. They are now back to being uneconomic to extract. There is a circumstance here that responds to price. What is absolutely the case is that all economies are going to have to re-engineer and plan for peak oil, as you say, whenever it arrives, and look to other forms of energy to bridge the gaps that will be created. That is why we worked closely with BERR when they were developing their recent report on the switch to renewable energy sources. That is why we are extremely enthusiastic about some of the very innovative work that is being done developing wave power. That is why we wish to see those kinds of new technologies, first of all the science done and brought to demonstration, and hopefully then exploited as viable and economic sources of energy in the future.

Q150 Mr Chaytor: In terms of the public rhetoric of the Treasury and the way the Treasury tends to project policies to the general public in budgets and pre-budget reports, is it not true to say that there is still an assumption that cheap energy will stay forever and that cheap energy should be the goal of public policy? Indeed, this is what you have down with the fuel duty issue in the Pre-Budget Report because the VAT cut will make a nil effect and you have projected that as something positive. Is there not a problem for the Treasury in the fact that you are not prepared to engage the public as a whole in the reality of rising fossil fuel prices?
Angela Eagle: The important thing that the Treasury needs to do is ensure that there is a diversified enough energy supply going forward to make it possible for our economy to work and develop. I think we have been neutral about whether that was fossil fuels or any other kind of energy but clearly, given the challenges that we are facing with respect to climate change, we need to develop energy generation in places that would, in the past, have been regarded as economically inefficient because they were too expensive to develop, such as wind and wave. There will be a range of new issues and problems that come with having a grid supplied by that, not least the intermittent nature of that kind of energy supply. There is a range of issues about that, that the Treasury is very engaged with. Clearly, if fossil fuels are used, we have to mitigate the climate change effects, the carbon emissions effects, of that, which is why we made the announcements we made on carbon capture and storage.

Q151 Mr Chaytor: If I can bring you back to fuel duty policy, the budget last year in the commentary is claiming as a virtue that by 2010–11 fuel duty rates will still be 11% lower than they were in 1999. If the Government wants to embark on a Dutch auction of the fuel duty with the Opposition, that is not consistent with a policy that is trying to inform the public about the imminence of a fossil fuel crisis, is it?
Angela Eagle: I do not think it is the Treasury's role to inform the public about the imminence of the fossil fuel crisis. I think we have a general issue to debate these things in democracies. We also have to ensure that in our taxation policy we do not get to the stage where we prevent people, via the costs of travel, being able to get to work and perform as economic actors. I think it is always a balance. We try to put forward these observations in a neutral way. I would not say that we were boasting about the cost of fuel being 11% cheaper in real terms. I think on those kinds of figures, you also have to remember that because engines are more efficient, people will travel far more miles with the fuel that they put in their car than they used to. There are gains in efficiency as well as changes in price that are accounted for in some of those calculations.

Q152 Mr Chaytor: Can I come back to the Treasury's role as an institution. We are now told that nobody in the Treasury could have foreseen the impact of weak regulation of the financial services industry and no-one in the Treasury foresaw the impact of the American sub-prime crisis on the British economy. Is there not a danger that because the Treasury has not grappled more with issues of peak oil, we might get to 2012, find ourselves in this oil and gas price crisis that the IEA predicted, and the Treasury deciding that it did not see it coming?
Angela Eagle: I do not think we have a crystal ball and I do not think our role is to produce reports about what might happen. We have structures where we look at threats to stability. We have structures where we look at the way that the economy can demonstrate resilience in particular scenarios, but we do not see it as our role, I do not think, other than looking at academic treatises and analyses of the kind that you have quoted, to take account of that in our policy making but not to have some kind of national running commentary about it in our budget reports.

Q153 Mr Chaytor: Minister, would you accept that this may well be part of a major problem for government and the country because, in terms of

influencing the perceptions of business, for example the Stern Report was very powerful in winning the economic argument, but in terms of influencing the perception of 20 million motorists or 15 million tabloid newspaper readers, then there has been a complete absence of success? This is a problem for government and you and the Treasury are part of this. The question is: should the Treasury not be more proactive in triggering a national debate, not only about climate change but also about the evidence of peak oil?
Angela Eagle: There may well be people in the Treasury who think an expansion of our already broad remit would be a desirable thing. I am certainly happy to take it away and think about it. We do a lot of this kind of work in the conferences we have, in the reports that we produce, and you have mentioned the Stern Report as one example of that. But I am not sure it is the role of the Treasury alone to analyse this and have a debate with the 15 million readers of tabloid newspapers. That is something that the whole of our political structure needs to do. I am not sure it is particularly a Treasury core function.

Q154 Mr Chaytor: Would you accept that if it is the responsibility of the whole of the political structure, then their efforts so far have been a complete failure?
Angela Eagle: I think that we have to have a far more grown up, sensible discourse in our political structures about some of the major structural challenges that we will face in the future than perhaps we have managed in the past. I like to think that rather dry technical economic treatises like the Stern Report inform that but the way that it then gets out and diffused into the debates that we have in wider society is not only a matter for the Treasury; it is a matter for the whole of our civil society.

Q155 Mark Lazarowicz: I have one very specific question. Some groups have suggested that the financial support given by the Treasury to banks, particularly in terms of taking equity holdings, should be linked in some way to encouraging a sustainable approach by those banks to the way they provide support for business members, encouraging a more sustainable business rather than a carbon-intensive business. What is your view on that suggestion?
Angela Eagle: We took the action we did first of all to stabilise the banks to prevent them from collapsing. We have taken subsequent action to try to unfreeze the credit markets and ensure that credit flows to business that needs it. I think it would have been quite difficult to say, "But we only want credit to flow to businesses that we approve of" in that sense. We know that part of the results of the work we have done in trying to unfreeze credit will be to support those businesses, but I am not sure that we could have got ourselves into a circumstance where we were somehow saying to banks, "But you cannot lend to those that are not green enough".

Q156 Mark Lazarowicz: I do not think we are saying that you should give that kind of specific direction but can you not, for example, say to the people who are UK FI appointed to look at a bank's board that one of your objectives should be to try to ensure as far as possible a green approach to the investment policies of a bank? Is that not quite sensible, given the long-term trends in the economy?
Angela Eagle: Once we have got ourselves into a position where we have stabilised the banks and got lending working again, we will be in a position to look to see during our stewardship of these institutions whether there are any other parameters that we might wish to put before them. I think at the moment the important thing is that we end up with a financial system where credit is flowing again, and that is the overriding aim of the work we have done. I am not saying absolutely not in the future but at the moment we have to be able to ensure that credit begins to flow again to all business so that we can try to deal with and mitigate some of the effects on the real economy that have been caused by the global credit crunch.
Chairman: Thank you very much indeed, Minister. We have covered a reasonable amount of ground this morning and we are very grateful to you for coming.

Supplementary memorandum submitted by Angela Eagle MP, Exchequer Secretary, HM Treasury

Annex

1. *The Committee asked (Q56) whether the Treasury, in calculating the economic benefit of APD receipts in the Impact Assessment accompanying the decision on the adding capacity at Heathrow airport, took into account the extent to which the APD would be paid by British taxpayers*

The Impact Assessment which accompanies the Secretary of State for Transport's 15 January decision on adding capacity at Heathrow was conducted by the Department for Transport, in line with best practice set out in HM Treasury's "Green Book: *Appraisal and Evaluation in Central Government*". The Department's approach to valuing benefits from additional capacity is set out in "Adding Capacity at Heathrow Airport—Impact Assessment". This is available at:

http://www.dft.gov.uk/pgr/aviation/heathrowconsultations/heathrowdecision/impactassessment/

Paragraphs C17–G19, page 108 of the Impact Assessment explain the treatment of APD revenue. The Department counts the change in APD revenue that additional capacity brings through additional non-transfer passengers. This revenue accrues to government, but it is a benefit to society, to be passed on through lower taxation or increased spending in other sectors. This approach has been cleared with the Peer Reviewer, Michael Spackman from NERA Economic Consultancy (whose report is also available at the website above), and HM Treasury.

The total APD revenue derived from additional capacity, when applied at the national level is estimated at £3.74 billion. Of this, £3.45 billion (92%) is estimated to be paid by UK residents.

2. *The Committee asked (Q57) how many of the projected additional passengers resulting from a third runway will be transit passengers, and will therefore not pay APD*

Additional capacity at Heathrow would lead to 21 million more passengers nationally by 2030, of which 8.1 million (38%) would be transferring between international flights—therefore neither commencing nor ending their journey in the UK.

For *Heathrow only*, additional capacity would lead to about 44.4 million more passengers, of which 11.5 million (26%) would be transferring between international flights at the airport—therefore neither commencing nor ending their journey at Heathrow.

Further information on passenger demand forecasts are set out in "UK Air Passenger Demand and CO_2 Forecasts (2009)". This is available at: http://www.dft.gov.uk/pgr/aviation/atf/co2forecasts09/

Further to the comments I made when I appeared before the Committee, I am now able to offer some further detail of the Government's treatment of international to international transfer passengers.

The Government's approach to measuring benefits is set out in the Heathrow Impact Assessment, available at the link above. Paragraph 1.5, page 11 explains the scope of benefits covered in the Impact Assessment.

The Impact Assessment restricts itself to impacts that fall within the physical geography of the United Kingdom, except where those impacts form part of the UK's international responsibilities. For this reason the Department excludes benefits accruing to international-to-international transfer passengers as their benefits occur outside the physical geography of the United Kingdom.

However, the monetized benefits partly reflect the benefits international to international transfer passengers convey on other passengers through increasing the viability of a wider route network and more frequent flights ie that demand from international-to-international transfer passengers increases the number of destinations served from Heathrow and greater frequencies, and which are therefore available as direct destinations for passengers from within the UK.

In addition, the Department does take into account the additional climate change and local environmental emissions resulting from departing international-to-international transfer passengers as well as all other passengers. This is consistent with best practice.]

3. *The committee asked (Q101) how the Government is assessing the merits of a proposed "car scrappage" scheme, similar to the one that currently exists in France, and that which has been proposed in Germany?*

The Government is aware that versions of such schemes have been introduced in other countries.

Environmental benefits

- The Government understands that in theory scrappage could help promote the purchase of lower-emitting cars—but there are questions over how effective this would be in practice.
- It is important to balance out the environmental benefit of encouraging the purchase of new, low-emitting cars versus the environmental and economic cost associated with the act of scrapping vehicles.
- DfT analysis is underway to analyse the costs and carbon abatement potential of different scrappage options. Initial analysis demonstrates that the costs outweigh the benefits even when the replacement vehicle has better than average fuel efficiency.

Value for money of scrappage

- The value for money of the French and German schemes is questionable. The French originally said that the scheme would pay for itself—costs have in fact increased from €40 million to over €200 million per year. The German scheme is expected to cost around €1.5 billion and will run until 2009.

- Those who are able to purchase new cars, after scrapping an old car, may have planned to do so anyway. A scrappage scheme is likely to have a large deadweight cost.
- At the present time the Government is focusing its efforts on measures where we can be more sure of targeting the production and sail of low emitting vehicles, for example by developing the VED system and providing loan support to manufacturers.

4. *The committee asked (Q102) what assessment the Treasury has made of the net impact on carbon emissions of the whole fiscal stimulus package*

Overall

The capital spending element of the green stimulus consists of planned expenditure brought forward from 2010–11 into 2008–09 and 2009–10. We have not therefore made a detailed assessment of the emissions savings which will result. However, the Department of Energy and Climate Change's updated energy and carbon emission projections, published in November 2008, provide a breakdown of the emissions savings expected from announced Government policy.

£100 million additional resources for Warm Front

As part of the fiscal stimulus an additional £100 million was allocated to the Warm Front scheme over 2008–09 and 2009–10. Assuming similar outcomes to those delivered under the current scheme, this should deliver emissions reductions of approximately 66,000 tonnes CO_2, per year for the lifetime of the measures installed.

Support for automotive industry

New green investment is vital to ensure that the automotive industry emerges from the current downturn with the skills and technology base needed to be competitive in the global automotive market. The detail of the scheme will need to be agreed with the European Commission, and once underway the Government will consider applications on a case-by-case basis. Therein, assessments will be possible on the impact of the scheme in delivering a greener automotive industry. The Government is committed to ensuring that anything backed by the scheme:

- Offers value for taxpayer's money.
- Delivers innovation in environmental processes or technologies for the long-term.
- Supports jobs, skills and R&D in Britain.

Ultra low carbon vehicles

It is imperative that the Government considers rigorously all options for encouraging the development and use of ultra low carbon vehicles, and in this context HM Treasury is working closely with DfT to increase the take up of ultra low carbon vehicles. DfT are analysing the various options for an effective scheme design to use this increase in funding as effectively as possible.

More details of this should be available at Budget and will include initial analysis of the likely take-up trajectory of these vehicles, enabling us to begin calculating the exact carbon abatement potential.

5. *The committee asked (Q108) how the Government is making sure that the obligations on energy companies are not pushing people into fuel poverty*

Great Britain's six largest energy suppliers have agreed with the Government to increase their collective annual spend on social assistance to £150 million by 2011.

Any impact on overall energy prices of the provision of such assistance will be very substantially less significant than general energy price movements. Retail gas and electricity prices increased in 2008 in response to very significant rises in wholesale prices. Wholesale gas and electricity prices have now fallen by about 40% from their peaks. The Government wants the benefits of any falls in international and wholesale energy costs to feed through fairly to individuals who have to pay their bills, and as a boost to the economy as whole. Energy companies are now starting to reduce prices. The Chancellor and the Secretary of State for Energy and Climate Change have also asked Ofgem to publish quarterly reports on wholesale and retail prices. This will deliver greater transparency over future price changes.

The Government has a range of policies in place to enhance the energy efficiency of the homes of low-income households, tackle fuel poverty, and provide financial support to vulnerable groups with the cost of energy bills. These include the Warm Front scheme, the Carbon Emissions Reduction Target, Winter Fuel Payments and Cold Weather Payments. A number of these policies have been enhanced or expanded in recent months.

10 February 2009

Written evidence

Memorandum submitted by Keith Buchan

Climate Change, Employment and the UK Recovery

Introduction

While the credit crunch and the recession have drawn attention away from climate change, there are very important reasons why addressing the problems of the UK economy and its carbon emissions must be done together. In fact, the stability of any recovery will depend on the achievement of climate change goals.

This is because the UK has been suffering from a severe deficit in its balance of payments, and fuel imports are a major part. The UK ceased to be a net exporter of oil in 2004/5 and thus reducing carbon emissions will directly reduce imports. The final challenge in the new economic context is to lower emissions in ways which support and create employment (rather than general consumer spending) as quickly as possible.

How much are carbon reductions worth to the balance of payments?

The UK is experiencing a period of high deficits on its balance payments. This is explored in a little more detail below. In 2007 this amounted to about £39 billion, of which £7.1 billion was the net fuel deficit (of which £3.9 billion was oil based).

The UK's Digest of UK Energy Statistics (DUKES) 2008 shows energy consumption was 164.6 million tonnes of oil equivalent (mtoe) in 2007. Transport consumed about 60mtoe, of which 12mtoe was aviation and 41mtoe was directly road related. Domestic users were responsible for about 44mtoe.

Total energy expenditure is much more dominated by transport, reflecting the higher price of oil based energy. Thus road transport takes 49.1% of total expenditure, domestic users 23.4% and industrial users 12.2%.

From this, it is possible to consider how achieving the carbon reduction targets adopted for the UK would reduce the balance of payments and how quickly two major sectors where there are known methods of reduction, transport and buildings, could make a contribution.

Calculating the numbers for this is difficult because of fluctuations in oil prices and the exchange rate. However, it is possible to estimate the balance of payments impact of, for example, each 1% reduction in petrol and diesel used by transport.

At $50 a barrel and $1.40 per £, this is over £110million. Thus the climate change target of a 26% reduction by 2020 is worth over £2.5billion at a low oil price. If the world economy recovers, the oil price will rise and at $100 a barrel the value would be £5billion. Achieving such a target for domestic users would benefit the balance of payments by around half this figure. It should be noted that any over achievement represents a further benefit.

Which policies could achieve such a reduction?

For example, In transport, travel planning initiatives which encourage car sharing, public transport, walking and cycling could achieve fuel reductions of 10% for expenditure of a few hundred million, rather than billions of pounds. These are known techniques which are only waiting for Government funding. They could start immediately and would create jobs in the "Smarter Travel" industry.

Improving the energy efficiency of space and water heating would cost a similar amount—there are about 10 million older boilers in UK homes that could be replaced with models which are 40-50% more efficient. Solar heating can provide most domestic hot water in the summer and up to a third in winter. Existing grants are small and the total is limited. New grants would boost this and at least a billion a year should be used in a nationwide programme. This would have a rapid positive effect on jobs in the building industry, where the recession has caused deep cuts.

Why is this important for any UK recovery?

The answer to this question can be found in the Treasury's Pink Book which deals with the UK balance of payments. The Office of National Statistics publishes a large quantity of data using different assumptions about prices, for example current, constant and chained. While the exact total values are different for each set of assumptions, the pattern is very similar.

Prior to 1997 there had been two major consumer led growth events named after Chancellors of the Exchequer: Antony Barber in the mid 1970s and Nigel Lawson in the late 1980s. In both cases, an increase in consumption caused an increase in imports and thus a balance of payments deficit. Amongst other effects, this puts downward pressure on the pound and in these circumstances devaluation is a corrective mechanism—it puts the UK price of imports up and the external price of exports down.

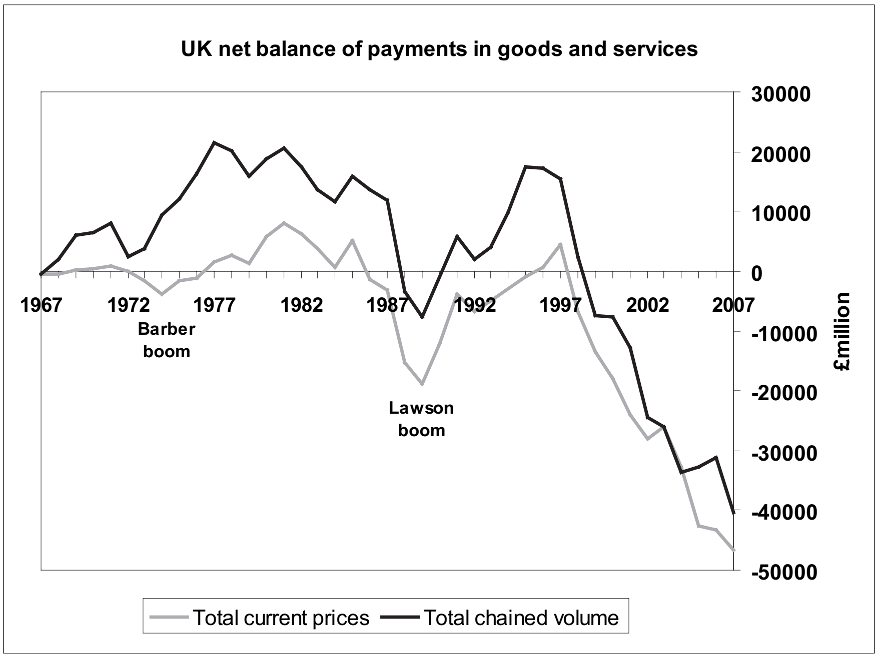
What is interesting is that from 1998 until 2007 there was a significant balance of payments deficit but with very little impact on exchange rates. There are several factors which may have enabled the consumer led expansion to last so long.

The first is that the UK exported more oil than it consumed—this helped the balance of payments but the pound was also seen as a petrocurrency and may have held its value for that reason. In addition, interest rates were higher in the UK than in the Eurozone—tending to attract footloose deposits and adding to the currency's strength. Finally, the new forms of access to the wholesale money markets through elaborate financial products allowed short term money to flow into the UK economy.

The current UK recession will mean a reduction in imports, but the world recession will mean that exports will also fall. Earnings from services and foreign investments, which have in the past brought surpluses to the UK balance of payments, will be hit by the recession and by the unknown value of some of the assets.

This means that sustaining growth in a context of paying back Government debt and a balance of payments deficit would be extremely difficult. The extent of the balance of payments problem is illustrated in the charts on the following page.

For this reason, a renewed emphasis on the "UK plc" profitability, measured through the balance of payments, will be essential in terms of a stable currency and international confidence. On the latter, there is a major difference in perception, as well as in fact, between investing with a tangible return and supporting consumer spending. This will influence the ability of the UK Government to borrow in the international markets. In transport, demand can be managed at relatively low cost and investments which are predicated on continuing high levels of transport fuel use should be avoided. This particularly applies to road travel and aviation.



Source: ONS dataset IKBJ and IKBM.

It should be noted that the above does not include some financial transactions which complete the UK national accounts. These involve income and expenditure on investments and other foreign assets and liabilities which have expanded greatly in recent years. There is clearly some degree of uncertainty over the latter.

27 January 2009

Memorandum submitted by Virgin Atlantic

Introduction

Virgin Atlantic welcomes the opportunity to submit evidence to the Environmental Audit Committee for the purpose of their inquiry into the 2008 Pre-Budget Report.

Virgin Atlantic is mainly concerned with the changes to Air Passenger Duty announced in the Pre-Budget Report and have therefore focused our response on this area only.

Summary

Whilst we are pleased that the Government made the right decision to retain APD, many of the proposals regarding its reform contradict the Government's wider environmental policy:

- APD fails to incentivise alternative modes of transport for short-haul journeys.
- APD penalises long-haul flights, despite there being no viable alternative mode of travel for passengers.
- The Government's new banding system is discriminatory against Caribbean countries, which are heavily reliant on the tourism industry.
- Premium Economy passengers will have to pay the same level of APD as First/Business Class passengers.
- Tax hikes will further harm the UK airline industry in what are already very challenging times.
- APD should be withdrawn as soon as aviation becomes part of the EU Emissions Trading Scheme in 2012.

Air Passenger Duty fails to incentivise alternative modes of transport for short haul journeys

1. There is widespread agreement that for short-haul journeys encouragement should be given to using rail services as far as possible. Yet under the new APD scheme, the tax for shorter journeys (Band A) will, by 2010–11, increase by up to £4 per passenger, or 20%, while long-haul journeys (Band D) will increase by 112%. This will add an additional £90 to the price of a long-haul ticket.

APD penalises long-haul flights, despite there being no viable alternative mode of travel for passengers

2. The smallest increases in APD will be applied to routes where in many cases there are viable surface alternatives and the largest increases will be applied where no such alternatives exist. The relative levels of APD bear little relationship to the environmental impact of air services or the logic of the Government's overall transport policy.

The Government's new banding system is discriminatory against the Caribbean

3. The banding system has been based on the distance from London to the capital cities of individual countries. Therefore, the whole of the United States, from Boston to Los Angeles and even Hawaii, falls within Band B. However, all Caribbean countries fall within Band C. This has a number of effects. It means that a passenger travelling to Barbados will pay significantly more in tax than someone travelling to San Francisco, which from an environmental perspective makes no sense. It also means that destinations such as the Caribbean Islands will be at a marked disadvantage in attracting tourists compared with US destinations such as Florida. Such an outcome would appear to go against the Government's own drive to encourage the development of tourism in the Caribbean.

4. We would strongly recommend that the Government look again at the banding system in order to remove the anomalies outlined above.

Premium Economy passengers will have to pay the same level of APD as First/Business Class passengers

5. For some time, Virgin Atlantic has been calling on the Treasury to remove the so-called "Premium Economy" anomaly. It has been widely accepted that it is disproportionate to tax Premium Economy seats at the same level as First and Business Class seats. The unfairness of the excessively heavy taxation of Premium Economy passengers is all too evident. There are only modest product differentiators from economy class. Virgin Atlantic's Premium Economy and similar 'intermediate' products offered by other airlines are an extension of the product found in the economy cabin rather than a slimmed down version of business class. It would be far more logical for the higher level of APD to apply to First/Business class passengers, and for the lower level to apply to Premium Economy/Economy passengers. At present APD accounts for an excessive proportion of the Premium Economy fare.

Tax hikes will further harm the UK airline industry in what are already very challenging times for the industry

6. No one can deny that aviation is facing one of its toughest challenges yet. As with the wider economy, aviation is feeling the effects of the global economic downturn. This year airlines have grappled with record fuel prices, only to be hit head on by weakening consumer demand as a result of the wider economic woes felt around the world.

7. Therefore, it is very disappointing that at a time when the airlines face severe financial difficulties the Government has decided to increase taxation on aviation substantially. Not only does the amount to be raised by APD far exceed the environmental costs of aviation, it is also much higher than taxes applied to the industry by any other country. We would refer the Committee to the comments made by Ruth Kelly in her capacity of Secretary of State for Transport:

8. "Since APD was doubled, (in January 2008) aviation will meet its climate change costs, taking account not just of carbon dioxide emissions, but of the other aviation greenhouse effects such as NOx emissions and contrails".[1]

9. Aviation has long been a UK success story. It is something we are good at. We would urge the Government not to penalise the airline industry to an extent that no other country would contemplate.

APD should be withdrawn as soon as aviation becomes part of the EU Emissions Trading Scheme in 2012

10. Virgin Atlantic has been a strong supporter of the inclusion of aviation in a European Emissions Trading Scheme. Whilst we have our concerns about the detail of the scheme now proposed, and some issues are still to be finalised, it is clear that the cost to aviation will be significant. It is vital that the Government does not retain APD after the industry becomes part of ETS in 2012. Failure to end APD when EU ETS is introduced would result in double taxation, for which there can be no justification.

January 2009

Memorandum submitted by the Association Of British Insurers (ABI)

The Association of British Insurers (ABI) is the voice of the insurance and investment industry. Its members constitute over 90% of the insurance market in the UK and 20% across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in government and in public debate on insurance, savings, and investment matters.

Summary

- The Pre-Budget Report (PBR) is a badly missed opportunity for the UK Government to stimulate the economy and protect more homes, businesses and infrastructure from climate risk.
- Spending plans on flood defences should be brought forward.
- Government failed to use the fiscal stimulus program to encourage the uptake of environmental friendly and climate resilient products.
- Government should introduce VAT exemptions for products that help to prevent or prepare for climate change.

Introduction

It is essential that through these tough economic times climate change remains at the top of the Government's agenda. We do not believe this was sufficiently reflected in the 2008 Pre-Budget Report.

The most immediate impact of climate change is the action of weather on our built environment, communities and infrastructure. The 2007 floods demonstrated the crippling impact extreme weather events can have on the economy. They are costly not only to insurers—the total bill to insurers for the 2007 floods amounted to approximately £3bn—but also to public services and small businesses.

The ABI is working closely with the Government to develop a long-term flood management strategy, which looks at funding needs 25-30 years ahead, and regional planning taking into account the likely impact of climate change in 50 and 100 years time.

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[1] Ruth Kelly, Speaking as Secretary of State for Transport, *Hansard*, 2 April 2008.

Stimulating the Economy by Investing in Climate Resilience

1. The ABI calls on the Chancellor to use the PBR to bring forward spending plans on vital flood defences. Speeding up this spending would stimulate the economy and protect more homes from increasing flood risks.

2. The Chancellor's decision to bring forward just £20 million of expenditure, from the £850 million allocated, is a token gesture and a missed opportunity.

3. Following the devastating floods of 2007, the Government agreed to spend £1.5bn on flood defences between 2009 and 2011. By bringing that spending forward to 2009, the Government could help boost expenditure projects to the benefit of the wider economy.

4. Investing in flood risk management is much less complicated and cumbersome than other capital expenditure projects and it would allow the Government to quickly and efficiently inject a fiscal stimulus to the economy.

5. Our own research shows that investment in climate resilience is very cost effective. For example, flood defence expenditure in the UK has a cost-benefit ratio of 7:1. This is much higher than for other public sector capital investments.

6. Turning promises for tomorrow into action today on flood defences will enhance protection for households and businesses from the threat of flooding; is much less complex and contentious than other possible capital projects; and can be rolled out faster.

Stimulating the Economy by Increasing the Uptake of Climate Resilient and Environmental Friendly Products

7. Infrastructure, including housing, has a long legacy (around 1% of the housing stock turns over each year) so we need to build houses that are sufficiently energy efficient and climate resilient. We also need to retrofit the existing building stock and infrastructure to withstand more extreme weather events.

8. To incentivise the use of resilient and energy efficient materials there should be a VAT exemption on these products.

9. Carefully targeted fiscal incentives could boost the uptake of these products and measures. The increased domestic demand for climate friendly and resilient products would enable UK business to become world leaders in adaptation and mitigation technologies.

10. Insurers are also playing their part and some companies are encouraging the purchase of environmentally friendly cars through lower premiums or repairing homes in a flood resilient way.

January 2008

Memorandum submitted by the London Borough of Hounslow

Summary

Within this submission the Council of the London Borough of Hounslow asks the Environmental Audit Committee to consider the case for substantially improving the levels of mitigation available to counter the effects of:

— noise pollution caused by the aviation industry and road vehicles; and

— poor air quality caused by the aviation industry and road vehicles.

In addition, the Council asks that the Environmental Audit Committee consider the need for increasing the level of funding for academic research into new technology. This is needed, because current technology is insufficient to reduce the impact of all aspects of the aviation industry on local people, their health, the buildings they live in and use and open spaces.

1. Introduction

1.1. The London Borough of Hounslow is situated immediately to the east of Heathrow Airport, which remains the busiest international airport in the world. The airport at one time or another currently affects nearly all of the 214,000 residents of Hounslow by causing, directly or indirectly:

— noise from aircraft in the air or on the ground; and

— poor air quality mainly caused by transport emissions from vehicles passing through the borough, many of which are going to and from Heathrow.

2. Environmental Standards—Some Examples

2.1 The effects of excessive noise levels and poor air quality are well documented by the World Health Organisation[2] and others. The WHO suggests a variety of noise targets, to be achieved over a period of time, for example, noise levels in a bedroom should be no greater than 35 dB(A). There are also noise standards for the construction of buildings, for example British Standard 8233[3] and Building Bulletin 93 (Noise and Schools). The latter specifies that noise in a standard classroom should be no greater than 35 dB(A).

2.2 The noise levels within many of the bedrooms within the borough are above the 35 dB(A) standard and many of the school classrooms also exceed this level.

2.3 The effects of poor air quality are also well known. The Government's Air Quality Strategy[4] reiterates the mandatory standards included in the European Union Air Quality Daughter Directive[5] for example by the year 2010 the ambient annual average level of nitrogen dioxide should be below 40 micrograms per cubic metre.

2.4 The Council has already designated the borough an "Air Quality Management Area"[6] because the aforementioned air quality standard is not being achieved. The United Kingdom may become the subject of European Union infraction proceedings because of this.

2.5 Whilst not the subject of this paper, expanding the airport will make the existing air quality and noise situation worse.

3. Mitigation

3.1 *Noise*

3.1.1 The economic downturn has lead to a reduction in development across the whole construction sector. This has or will inevitably lead to a loss of jobs in the building business and in the associated supply chain.

3.1.2 Mitigating the effects of aviation pollution would maintain and create many thousands of jobs in this sector.

3.1.3 Noise related projects that the Council would wish to see undertaken include:

- All classrooms in Hounslow schools to be compliant with the criteria within Building Bulletin 93 (noise) and Building Bulletin 101 (ventilation).
- All public buildings (including places of worship) insulated and ventilated to current standards.
- All domestic premises insulated to comply with BS8233.

3.2 *Air Quality and Carbon Dioxide—Positive Alternatives*

3.2.1 Improving surface transport in the Heathrow area would lead to improved local air quality. Local schemes for example the introduction of guided bus (see Fastway[7] scheme around Gatwick) have proven to be an economic viable alternative to the private car, leading to air quality improvements.

3.2.2 Nationally, the Council is of the view that implementation of a high-speed rail scheme, connecting into Heathrow would have significant environmental benefits. Local air quality would be improved and the scheme would help the Government achive its carbon dioxide emission target as the need for the majority of internal flights would be removed. The Council supports the High Speed North proposal that is being promoted by the 2M group of local authorities[8]. Unlike comparable proposals High Speed north would link UK cities (including Glasgow and Edinburgh) to Europe with, in many cases, a travelling time of less than four hours.

3.2.3 Both of the above examples would provide significant levels off employment and environmental improvement. They would provide such a boost to the transport system that the United Kingdom businesses would become more competitive, further improving the economy.

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[2] Guidelines for Community Noise edited by Birgitta Berglund, Thomas Lindvall, Dietrich H Schwela, World Health Organisation 1999.
[3] Sound insulation and noise reduction for buildings. Code of practice BS 8233, 1999.
[4] The Air Quality Strategy for England, Scotland, Wales and Northern Ireland, Defra 2007.
[5] Directive 2008/50/Ec Of The European Parliament And Of The Council Of 21 May 2008 On Ambient Air Quality And Cleaner Air For Europe.
[6] Air Quality Management Area Declared by Order LB Hounslow 6 March 2006.
[7] http://www.westsussex.gov.uk/ccm/navigation/roads-and-transport/public-transport/fastway/
[8] http://www.2mgroup.org.uk/

3.3 *Air Quality and Carbon Dioxide—Improving Emissions from Vehicles*

3.3.1 It is evident that the UK motor vehicle manufacturing industry is in decline due to the economic down turn. To encourage the uptake of newer vehicles grants could be offered to take older vehicles of the road. This would reduce both operational carbon dioxide emissions and improve local air quality.

4. Research and Development in the Aviation Industry

4.1 Reduction of emissions at source is the most cost effective and efficient way of reducing pollution. Academic research in collaboration with the industry and other stakeholders is vital. Implementation of technology developed as part of this type of programme will preserve and possibly create jobs. Research programmes such as OMEGA[9] must be maintained for the good of local residents, the industry and the environment.

13 January 2009

Memorandum submitted by the Construction Products Association

"Facing Global Challenges: Supporting People through Difficult Times"

The Construction Products Association represents the manufacturers and suppliers of products to the construction industry. Through its major company and trade association members it represents more than 85% of the £40 billion industry in the UK.

Of the issues raised in the Call for Evidence for this Inquiry, the Association would like to focus on implications for environmental spending with particular reference to improvements to the energy efficiency of the existing housing stock.

Summary

— The additional £100 million to improve the energy efficiency of existing housing is a fairly modest amount, and it is disappointing that this focuses only on insulation when much more could be achieved through a variety of measures.

— Investing in improvements to the existing stock will stimulate the construction industry while at the same time helping the UK meet its carbon emission reduction targets.

— The CERT scheme is not working as effectively as it should.

— The government should reduce VAT to 5% on all energy efficient products and energy saving products.

Main Text

1. The energy efficiency measures for housing laid out in the Pre-budget Report are welcome and support what the Association particularly asked for. However the additional £100 million is a fairly modest amount given that 45% of all present carbon emissions come from existing buildings, with 27% from homes. It is estimated that 87% of existing buildings will still be here in 2050. Also it is disappointing the £100 million focuses only on insulation when much more could be achieved with support for double glazing, upgrading of central heating boilers and other energy saving measures.

2. The government must do more to improve the energy efficiency of the existing stock both to stimulate economic activity in the construction industry and to help meet the UK's demanding 80% carbon reduction target. The need for action as part of the climate change agenda has been reinforced by recent reports from the CLG and BERR Select Committees and the Committee on Climate Change, December 2008 report, 'Building a Low-Carbon Economy'.

3. The CERT scheme is not working as effectively as it should and the targets set for the utilities are not feeding through into meaningful action on the ground in the way that the industry and those who should be benefiting from this initiative would expect. One of our major companies that supplies these insulation products reports that in October 70% of the applications from elderly people seeking funding support for improving the insulation in their homes were turned down because the energy companies had already met their targets for that month. What seems to be happening is that the energy suppliers are meeting their "targets" in a range of different ways including offering advice on energy efficiency (which may not be acted upon) and the unsolicited delivery of energy efficiency light bulbs, which the recipients may not use.

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9 http://www.omega.mmu.ac.uk/

4. In addition we understand that announcements made in September 2008 increasing the target funding for the CERT scheme will not come through until May 2009 because they need an Act of Parliament to approve them. Government urgently needs to review the operation of this scheme both to ensure that in the short term it is delivering the energy savings that are expected of it, and to provide a longer term commitment to manufacturers and installers to ensure they make the long term investment in the products that are needed to insulate the existing housing stock, as well as training those needed to install these products.

5. CERT, however, is only a small part of what can be done to improve the energy efficiency of our housing and ensure we meet our targets for carbon reduction. It makes no sense to charge a lower rate of VAT on energy than the products that will reduce the need for it, and Government should reduce VAT to 5% on all energy efficient products and provide time-limited funding support for those who wish to improve the energy efficiency of their homes up to the current requirements of the building regulations. This will particularly help SMEs in the industry as they typically undertake this type of work.

13 January 2009

Memorandum submitted by the Chartered Institution of Water and Environmental Management

1. The Chartered Institution of Water and Environmental Management welcomes the opportunity to respond to the Environmental Audit Committee's 2008 Pre-Budget Report Inquiry.

2. In principle, and given the current economic circumstances and the lack of ability of government generally to integrate its policies effectively to deliver meaningful environmental improvements, CIWEM endorses Chapter 7: *Delivering on Environmental Goals*.

3. As expected, Chapter 7 of the Report focuses on climate change without making the link between this urgent problem and the resource consumption that largely caused it, hence our comment in (2), above. Much of the remainder of the Report contains measures designed to maintain current (or return to those levels seen prior to the current economic downturn) levels of consumption. Whilst this dichotomy persists, and in continuing to apply the current economic model, CIWEM considers that there is little chance of making the changes to our society and economy required to afford a realistic chance of preventing dangerous climate change. Furthermore, economic growth is simply not sustainable indefinitely and for this reason alternative models of economic success should be considered.

4. CIWEM considers that the current economic downturn and the Government's intention to stimulate the economy through bringing forward public works represent a rare opportunity to deliver a step-change in deployment of environmental technologies and good practice. Such investment would have the longer-term benefit (after stimulating job creation and enhanced global competitiveness of UK-based environmental industries) of ensuring greater energy security and efficiency, leaving a valuable legacy for future decades. Chapter 7 hints at this but CIWEM considers that the measures contained are inadequate to make a sufficiently meaningful impact on either economy or environment. Measures to accelerate the delivery of 200 new rail coaches are referred to (although it is not clear the extent to which these will be additional to existing rolling stock or replacing old carriages) but such measures are minimal compared to what is required in order to create a genuinely sustainable transport system which allows and encourages high levels of public transport use.

5. CIWEM is pleased by the commitment to extend the renewables obligation until at least 2037 and the introduction of a feed-in tarrif for small-scale renewable energy generators is welcomed. However, again the scale of support for such essential new infrastructure could be greater in the context of what is required to meet the targets set under the Climate Change Act and a public works scheme of similar impact to President Roosevelt's New Deal. CIWEM contends that stimulus for investment should be geared towards developing genuinely sustainable infrastructure, ie providing what is needed in the long-term and not short-term fixes for a stumbling economy.

6. We are disappointed by the proposed vehicle excise duty increases (or lack thereof). We consider that those drivers of the most polluting vehicles will not be effected by the "clearer environmental signal" of an increase of a maximum of £5 in 2009 or £30 in 2010. These figures set in the context of the overall cost of owning and running such cars are a complete triviality. CIWEM is disappointed also to see no clear commitment to encouraging hydrogen vehicle technology, which arguably in the long-term offers greater flexibility than regular electric vehicle technology, as has been demonstrated by manufacturers such as Honda.

7. CIWEM is pleased to see that energy efficiency and insulation measures are to be extended for many low income households and we would urge the Government to continue such initiatives as cost-effective ways not only of reducing the carbon impact of domestic properties but also sending an environmental signal to residents.

8. Overall, CIWEM considers that much in the 2008 Pre-budget report points in the right direction as far as the environment is concerned. However step-changes are required both in terms of how economies are run (with a move away from the current emphasis on perpetual economic growth) and the level of commitment required to addressing environmental challenges—which at the same time could go a long way to generating new industries and employment.

January 2009

Memorandum submitted by the Freight Transport Association

Summary

— Fuel duty increases on commercial operators will not help achieve environmental goals.
— The current economic conditions combined with fuel duty increases will dissuade commercial operators from investing in newer, cleaner vehicles.
— The Government's decision to abandon the Aviation Duty proposals was the correct one as these would have disadvantaged the UK economy without achieving positive environmental results.

Submission

1. In this submission FTA will address the following areas of interest to the Committee: the risks and opportunities of an economic downturn and the Treasury's announcements on Air Passenger Duty and fuel duty.

Fuel Duty

2. In his Pre-Budget Report, the Chancellor announced an increase in fuel duty—for all vehicles—of two pence per litre (ppl) from 1 December 2008 and by a further 1.84ppl from April 2009. This was presented as balancing the also announced cut in VAT.

3. As businesses, hauliers gain refunds on VAT and so therefore this is a cost increase for commercial operators.

4. The imposition of the fuel duty increases does not differentiate between such essential users and car drivers. While car drivers may have a choice in terms of whether they use their car or public transport, essential users do not.

5. The tax change brought about by the PBR therefore will have the effect of increasing the tax take from road users, but only by taking more from the sector who are not able to reduce their use of road transport.

6. The Government has once again missed the opportunity to focus road fuel duty on private users, where far greater environmental improvements could be gained as behaviour is more price sensitive.

7. FTA has presented options for 'decoupling' the fuel duty paid by hauliers from that paid by private motorists to the Treasury, but these arguments have been rejected by the Government.

Impact of Economic Conditions

8. The December increase alone represents an additional cost burden to the logistics industry of £533 million. FTA economists estimate that the cost of the April increase will add a further £900 per truck to that bill. With many operators having fleets in the hundreds, this equates to a significant burden, one which some operators may not be able to bear and which may result in high levels of redundancies and possibly insolvencies across the sector.

9. Consequently sales of new trucks decreased significantly over the second half of 2008, with most operators looking to consolidate their fleets, rather than invest in new vehicles. With the additional fuel duty burden, this situation is likely to continue, resulting in older vehicles remaining on the road for longer.

10. This will have clear environmental impacts due to the improved cleaner performance of newer road haulage vehicles.

Air Passenger Duty

11. Through 2008 the Government consulted on their intention to replace Air Passenger Duty (APD) with a new Aviation Duty which would be charged on a "per plane" basis. Thus for the first time, and alone amongst EU countries, air freight would be directly taxed. FTA argued against this change, due to the negative impact it would have on the UK economy.

12. In the PBR the Government announced their decision to abandon this change and instead reform APD.

13. FTA supports the decision the Government made as it prevented a competitive disadvantage being added to the UK economy, which would have made locations on the Continent a better place to do business.

14. FTA believes this decision, as far as it impacts freight, will not have adverse consequences for environmental performance. This is because the Aviation Duty (AD) scheme as proposed would not have improved overall climate change emissions involved in the UK supply chain.

15. The Government were open in discussions with industry that the main rationale for AD was to increase Government revenue: any environmental benefits would have been fringe benefit rather than the aim of the measure.

16. Where UK based businesses require air freight services these would have continued as sea or land transport systems cannot offer the speed or control offered by air freight. It should be noted that air freight is already significantly more expensive than other modes of transport, and so where it is used for freight shipments it is because the speed that air services provide is an absolute requirement.

17. AD would however have changed industry operations—but not to stop goods being air freighted. Rather operators would have switched to utilising continental airports such as Amsterdam, Brussels or Paris, and then road freighting goods into the UK. The resulting trucking to the UK would in many cases have actually increased the carbon footprint of goods delivered to the UK.

18. It should be noted that the AD scheme as devised took no account of the environmental performance of the aircraft involved and consequently would not have incentivised operators to make more use of newer cleaner aircraft. Industry supported making such Duty based on environmental performance, but the Government concluded this was too complicated to implement.

Alternative Measures to Address Environmental Impacts

19. Aviation is a global activity with global environmental impacts. For this reason measures to address the environmental impact of the aviation should be dealt with at least at a regional level.

20. Given the nature of the operation and the technologies involved, aviation is the single hardest area of industrial activity in which to improve environmental performance—no equivalent alternative service exists whatever price is charged. Therefore policy mechanisms should be used that most effectively enable aviation to contribute to overall environmental improvements.

21. On both these counts the EU's Emissions Trading Scheme would appear best placed to be the tool to manage and reduce aviation's environmental impacts, and FTA would support the use of that scheme as the primary tool for this purpose.

January 2009

Memorandum submitted jointly by PLATFORM, People and Planet and BankTrack

1. For over 20 years, PLATFORM has been bringing together environmentalists, artists, human rights campaigners, educationalists and community activists to create innovative projects driven by the need for social and environmental justice. This interdisciplinary approach combines the transformatory power of art with the tangible goals of campaigning, the rigour of in-depth research with the vision to promote alternative futures.

2. People and Planet is the UK's leading student organisation campaigning on issues of world poverty, human rights and the environment. Since 2006, People and Planet has been running the Ditch Dirty Development campaign, with students calling for a transition of public and private energy financing away from fossil fuels and into renewable energy.

3. BankTrack is a global network of civil society organisations and individuals tracking the operations of the private financial sector (commercial banks, investors, insurance companies, pension funds) and its effect on people and the planet.

4. PLATFORM, BankTrack and People & Planet welcome the Environmental Audit Committee's present inquiry into the 2008 Pre-Budget Report. They are grateful for the opportunity to comment on the following issues in the Committee's remit:

- the risks and opportunities of an economic downturn—and of the policy response to it—for environmental taxation and investment policy; and
- the size and nature of the "green stimulus" package announced in the PBR—and the environmental impacts of the other economic stimulus measures announced at the same time, such as funding for roads.

5. The principal conclusions of this Memorandum are as follows:

— one of the most significant outcomes of the recent financial crisis has been the government's acquisition of a majority stake in the Royal Bank of Scotland (RBS);

— RBS has been the source of a great deal of controversy over its status as the UK bank that is the most heavily involved in financing the expansion of fossil fuel projects around the world;

— the carbon emissions embedded in RBS' project finance are enormous. A report in 2006 calculated that they were greater than the carbon emissions of Scotland itself;

— the fact that banks play such a large role in providing finance to projects that are exacerbating climate change has been wholly unaddressed in current government policy;

— given that the government will unveil new banking regulation in the light of the financial crisis in 2008, there is an urgent need that such regulation should include environmental concerns as well as financial concerns;

— many organisations are promoting the idea of a "Green New Deal" to simultaneously address the triple threat of climate change, peak oil and the current economic crisis;

— the public ownership of the majority of RBS provides an institution with capital and financial expertise to play a key role in providing loans as part of the infrastructural overhaul that the economy needs in order to be largely decarbonised; and

— instead of taking an "arms length" approach to the management of RBS, the government should be using its political and financial influence to prioritise climate change as a principle concern in RBS' lending decisions.

The Government's decision to Recapitalise RBS

6. On 8 October 2008, the Chancellor announced in Parliament that a fund had been established, to allow UK banks to increase their capital position in the face of the global financial instability that threatened the ability of the banks to function properly. Through this fund, the government offered to buy "preference shares" in participating banks that had been unable to raise sufficient capital on the open market. In addition to the purchase of "preference shares", the Chancellor announced that, "the Fund will be ready to provide at least another £25 billion of capital, to strengthen the balance sheets of any interested bank."[10]

7. On 13 October 2008, the Chancellor announced that of the UK private banks, three would be re-capitalised through the Bank Reconstruction Fund—HBOS, Lloyds TSB and RBS. For RBS, and (subject to the merger) HBOS and Lloyds TSB, the Government has underwritten significant capital raisings amounting to £37 billion. The government proposed to take up to £15 billion of ordinary shares and £5 billion of preference shares in RBS. Following the successful completion of the merger between HBOS and Lloyds TSB, the government proposed to take up to £8.5 billion and £4.5 billion respectively in ordinary shares, and up to £3 billion and £1 billion in preferential shares.[11]

8. On 28 November 2008, following a slow public take-up of shares issued by RBS (only 0.24% of the shares on offer), it was announced that the government would purchase the remaining 57.9% of the shares.[12] A new company, UK Financial Investments Ltd, chaired by Sir Philip Hampton, was created by the government to manage its investments in the re-capitalised banks.[13]

The UK's Climate Commitments

9. The Climate Change Act 2008 for the first time commits the UK to legally binding targets for green house gas emission reductions through action in the UK and abroad of at least 80% by 2050, and reductions in CO_2 emissions of at least 26% by 2020, against a 1990 baseline.[14]

10. The aims of the Climate Change Act are stated as being:

— "to improve carbon management and help the transition towards a low carbon economy in the UK; and

— to demonstrate strong UK leadership internationally, signalling that we are committed to taking our share of responsibility for reducing global emissions in the context of developing negotiations on a post-2012 global agreement at Copenhagen next year."[15]

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[10] 8 October 2008—Statement by the Chancellor on financial stability- http://www.hm-treasury.gov.uk/statement_chx_081008.htm

[11] 13 October 2008—Statement by the Chancellor on financial markets—http://www.hm-treasury.gov.uk/statement_chx_13_10_08.htm

[12] 28 November 2008—BBC News—'Government to own majority of RBS', http://news.bbc.co.uk/1/hi/business/7753845.stm

[13] 3 November 2008—Treasury Press Notice—http://www.hm-treasury.gov.uk/press_114_08.htm

[14] http://www.defra.gov.uk/environment/climatechange/uk/legislation/provisions.htm

[15] *Ibid.*

THE ROYAL BANK OF SCOTLAND AND FOSSIL FUEL FINANCING

11. The Royal Bank of Scotland (RBS) is one of the most significant funders of the oil and gas sector in the UK. Between 2001 and 2006, RBS provided over $10 billion in oil and gas loans, and structured the loan agreements and acted as financial adviser on over $30 billion of oil and gas projects, according to a report published by BankTrack, Friends of the Earth—Scotland, nef (new economics foundation), People & Planet and PLATFORM.[16]

12. The carbon emissions "embedded" within RBS project finance to oil and gas projects exceeded 36.9 million tonnes in 2005, equivalent to those of 6.2 million homes (one quarter of UK households).[17] Embedded emissions are the emissions that will result from fossil fuels produced or brought to the market from operations financed through project finance. The bank's proportion is calculated according to the proportion of the project funded.

13. RBS is also a major investor in the coal industry. Coal is the most carbon-intensive fossil fuel and, according to James Hansen, director of the NASA Goddard Institute for Space Studies, "Coal and unconventional fossil fuels such as tar shale contain enough carbon to produce a vastly different planet, a more dangerous and desolate planet, from the one on which civilization developed, a planet without Arctic sea ice, with crumbling ice sheets that ensure sea level catastrophes for our children and grandchildren, with shifting climate zones that cause great hardship for the world's poor and drive countless species to extinction, and with intensified hydrologic extremes that cause increased drought and wildfires but also stronger rain, floods, and storms."[18]

14. A report published in August 2008 detailing the involvement of UK banks in the global coal industry, found that RBS, Barclays and HSBC were all heavily implicated in providing funding to coal projects and companies. Of these three banks, RBS had the highest involvement with the coal industry. Between May 2006 and April 2008, HSBC was involved three times in coal loans, Barclays 17 times and RBS 27 times. The total value of the loans was $38 billion for Barclays, $71 billion for HSBC and $96 billion for RBS.[19]

15. In October 2008 in the wake of the financial crisis, among its many instances of project finance, RBS took part in a $500 million loan to Great Plains Energy, a US power generator whose coal-fired plants emitted 26.5 million tonnes of CO_2 in 2006.

CASE STUDIES OF RBS FINANCE AND ENVIRONMENTAL DESTRUCTION

16. *Mountain Top Removal*: In October 2006, RBS participated in an $800 million revolving credit facility for Arch Coal,[20] the second largest coal producer in the US. Arch Coal owns a number of mountain top mines in the Appalachia region,[21] and utilises the controversial Mountain Top Removal method, using explosives to remove up to 1,000 feet of vertical rock to extract coal. The practice produces vast quantities of coal sludge that is dumped in neighbouring valleys and threatens local communities. Bank of America has recently committed to phase out financing of Mountain Top Removal coal mining because of its impact on the environment and on local communities.[22]

17. *Tar sands*: In 2004 and 2006, RBS-NatWest acted as the lead arranger of loans totalling US$800 million to Canadian oil company Opti Canada for their Long Lake tar sands project south of Fort McMurray in the Athabasca region of Alberta in Canada.[23] The oil in the ground at Athabasca is not normal crude oil, it is a much heavier form known as tar sands. Made up of extremely heavy crude oil, sand, clay and other contaminants, it takes significantly more energy to process and emits around three to five times more greenhouse gases as conventional crude oil during processing.[24] According to a report published by WWF and the Co-operative Financial Services, exploiting all the recoverable unconventional oil reserves in North America could be catastrophic in climate terms, resulting in an estimated increase in atmospheric CO_2 levels of between 49 and 65 ppmv.[25]

[16] The Oil & Gas Bank—RBS and the financing of climate change: March 2007, p 6. Published by PLATFORM, BankTrack, Friends of the Earth Scotland, new economics foundation and People & Planet. Online: http://www.carbonweb.org/documents/Oil_&_Gas_Bank.pdf

[17] *Ibid* p 4.

[18] Letter from James Hansen, Director of the NASA Goddard Institute for Space Studies, to Prime Minister Gordon Brown, 19 December 2007.

[19] Cashing in on Coal: RBS, UK Banks and the Global Coal Industry, August 2008, p 13. Published by BankTrack, Friends of the Earth Scotland, People & Planet, PLATFORM, Scottish Education and Action for Development, and Stop Climate Chaos. Online: http://www.carbonweb.org/showitem.asp?article = 338&parent = 39

[20] *Ibid* p 17.

[21] Arch Coal website: www.archcoal.com

[22] see http://www.banktrack.org/show/news/bank_of_america_stops_funding_mountain_top_removal

[23] The Oil & Gas Bank, p 14.

[24] BP and Shell: Rising Risks in Tar Sands Investments, September 2008, p17. Published by Greenpeace, Oil Change International and PLATFORM. Online: http://www.greenpeace.org/raw/content/canada/en/documents-and-links/publications/bp-and-shell-rising-risks-in.pdf

[25] Unconventional Oil: Scraping the bottom of the barrel? May 2008, p5. Published by WWF and The Co-operative Financial Services. Online: http://assets.panda.org/downloads/unconventional_oil_final_lowres.pdf

RBS and the Public Backlash

18. There is mounting pressure on RBS over its record of fossil fuel financing. In August 2008, the Guardian newspaper ran a front-page story with a headline that warned that "High street banks face consumer boycott over investment in coal projects".[26] In the last two years, student groups and climate activists across the country have protested more than a hundred times at various RBS branches and offices.[27] Many Student Unions across the country have passed motions threatening to call a boycott on RBS in the near future should they fail to take more substantive action on climate change. In January 2009 RBS featured in the weekly "greenwash" column on the *Guardian* website over its fossil fuel financing, in an article that raised questions over the fact that the bank was now majority public owned.[28]

19. This public concern over RBS' record in fossil fuel financing is increasingly becoming a source of reputational risk for the bank. Now that the UK government has a controlling interest in the bank and that tax-payers money is being used to plough into new coal, oil and gas projects around the world, there is a strong possibility that RBS' lending habits will be seen as being at odds with the governments' attempts to demonstrate world leadership on climate change, as stated under the Climate Act and become a source of potential embarrassment.

The need for Environmental as well as Financial Regulation in the Banking Sector

20. On 8 December 2008, the government's proposed Banking Bill formed the centrepiece of the Queen's speech to Parliament. The aims of the proposed bill are to, "strengthen the framework for protecting bank depositors, enhance financial stability through measures to reduce the likelihood of banks getting into difficulties, and improve the tools available to resolve the situation if they do."[29]

21. Many civil society organisations have called for new banking regulation to include some form of environmental regulation as well as financial regulation. A letter to the Guardian newspaper printed on 14 October 2008 and signed by Friends of the Earth Scotland, PLATFORM, People & Planet, BankTrack, Scottish Action and Education for Action and Development and Indigenous People's Links, proposed that the bail out of UK banks, "should be conditional upon those banks which have benefited making a full disclosure of their fossil-fuel financing, as well as making a commitment to cap and reduce the carbon emissions embedded in their investments and loans."[30]

22. In November 08, 20 NGOs from the BankTrack network took part in the BankTrack meeting in Spain to discuss the financial crisis and the response of civil society. The 'El Escorial Statement on Banks and the Financial Crisis' was a policy paper that came out of these discussions, and was a series of recommendations to be made in the context of new regulatory regimes for the banking sector.

23. One of the recommendations was that banks should use 'green screening' for potential finance recipients. The statement said that, "Know Your Customer (KYC) guidelines are anti-money laundering mechanisms used by banks to screen potential depositors. In a similar vein, "Green KYC" guidelines should be developed, which would require banks to conduct environmental and social due diligence for both commercial depositors and borrowers, with the aim of prohibiting lending to corporations that do not comply with environmental and social laws."[31]

24. There is also a need to address the issue of environmental transparency as well as financial transparency. The emissions embedded in project finance represent another type of "hidden risk" in the market. The recent economic turmoil has shown what happens when financial risks are concealed from the market. There is an urgent need to ensure that carbon risks are open and accountable.

25. The "El Escorial" statement says that "Banks should be completely transparent about their risk assessment processes, decision-making procedures, clients, and transactions. For example, banks should fully disclose their financing activities in the extractive industries and infrastructure sectors, which often have high environmental and social impacts. In light of widespread public distrust about banks' intentions, the issue is no longer how much transparency banks can allow, but how much secrecy they can afford. Such transparency is already best practice among some ethical banks."[32]

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[26] 11 August 2008—*Guardian* Newspaper—"High street banks face consumer boycott over investment in coal projects"—http://www.guardian.co.uk/business/2008/aug/11/banking.ethicalbusiness
[27] *See* for instance http://risingtide.org.uk/node/230
[28] 8 January 2009—*Guardian* website—"We own RBS, so are we now greenwashing ourselves?"
[29] 8 December 2008—Queen's Speech—Banking Bill—http://www.number10.gov.uk/Page17667
[30] 14 October 2008—letter to the *Guardian*—http://www.guardian.co.uk/environment/2009/jan/08/energy-fossilfuelshttp://www.guardian.co.uk/business/2008/oct/14/creditcrunch1
[31] November 2008—El Escorial Statement on Banks and the Financial Crisis—http://www.banktrack.org/download/bank_to_the_future
[32] *Ibid.*

RBS and the Green New Deal

26. The Green New Deal, as proposed by a coalition of various civil society groups in the UK aims to promote "joined up" political and economic thinking in addressing the challenges of climate change, energy security and the financial crisis.

27. Some of the proposals include massive investment in renewable energy and wider environmental transformation in the UK, leading to the creation of thousands of new green collar jobs, reining in reckless aspects of the finance sector—but making low-cost capital available to fund the UK's green economic shift.[33]

28. Such a deal would not seek to stabilise the economic system as it is, but aim to transform it into one that helps solve the pressing social and environmental problems the world is facing. The fiscal spending that is necessary to stimulate crisis-affected economies entering recession should be directed at achieving social justice, the promotion of sustainable production and consumption systems, and the transition of the world's economies onto a low carbon path.

29. Banks, particularly those that are now bailed out with tax money, have an important role to play in this economic transformation. It must be a role based on serving the public interest, rather than safeguarding the profits of the few. Given their power and important role, banks can and should deploy capital in ways that promote the restoration and protection of the environment and help create sustainable economies.

30. The public majority-ownership of RBS provides the UK with a unique opportunity to move forward in meaningfully addressing climate change. The transition to a low-carbon economy requires substantial investment, in renewable energy, public transport infrastructure and energy efficiency measures. The expertise and financial infrastructure of RBS could be usefully harnessed to facilitate the many changes that need to be made in the process of decarbonising the UK economy.

13 January 2009

Memorandum submitted by the Cambridge Centre for Climate Change Mitigation Research (4CMR)

This submission refers to one specific subject on which the EAC welcomes comments: "The Treasury's approach to the use of revenues from auctioning carbon allowances (or from prospective international carbon taxes) for dedicated environmental ends".

Summary

— The fate of auctioning revenues from introducing aviation into the European Union Emissions Trading Scheme (EU ETS) is critical to the overall outcome of this climate change policy, in terms of its likelihood of reducing greenhouse gas emissions from the European economy.

— If auctioning revenues are added to general Government budgets (non-hypothecated), our model suggests that they will have the effect of a slight increase in overall European greenhouse gas emissions at lower allowance prices.

— If auctioning revenues can be directed towards new abatement technologies, or can be used to support the airline industry in other ways while it invests, there is more likely to be an overall reduction in carbon emissions.

About 4CMR

4CMR is an interdisciplinary research centre within the Department of Land Economy at the University of Cambridge.

Our objective is to foresee strategies, policies and processes that are effective in mitigating human-induced climate change. We combine computer modelling with expert knowledge from economics, energy systems, engineering, applied mathematics and environmental science to understand how the transition to a low carbon economy can happen quickly, efficiently and equitably. www.4cmr.org.

Response

1. 4CMR carried out a research project on the economic and environmental impacts of introducing aviation into the EU ETS, in association with Cranfield University and the University of Maine (USA).

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[33] http://www.neweconomics.org/gen/greennewdealneededforuk210708.aspx

2. The project *Air Transport in the European Emissions Trading Scheme* is due to be completed and reported on in February 2009. The results are already compiled and were presented at an Omega workshop on 11 December 2008.[34] They have not yet been published in a final report or in peer-reviewed literature. The study was carried out by Annela Anger of 4CMR, Peter Allen of Cranfield University, and Jonathan Rubin of the University of Maine.

3. The study used the energy-environment-economy model E3ME to predict the likely impacts of introducing aviation into the EU ETS. This model describes the European economy as 42 industry sectors, one of which is air transport. It uses real historical data from 1970–2004 to estimate the interactions between different sectors of the economy. Taking these interactions into account, it estimates the impacts of short and medium term greenhouse gas mitigation policies and predicts future economic changes to 2020. More information about the model can be found at: http://www.e3me.com

4. E3ME treats emissions trading as a tax on fossil fuel use. It adds a cost to fuel, based on the carbon content of that fuel. The model has been run with and without aviation being included in the EU ETS, so the economic and environmental effects of including aviation can be analysed.

5. The study assumes that aviation is included in the EU ETS with 85% of allowances allocated free and 15% auctioned. It assumes that up to 15% of allowances for each airline can be bought from the Kyoto Clean Development Mechanism (CDM). It is also assumed that there are no emissions reduction targets for non-ETS sectors. Finally, it assumes that the allowances for aviation are capped at 97% of 2004–06 levels in the first year, 95% in the second year, and then diminish at around 2% per year until 2020, as proposed for Phase 3 (2013–20) of the EU ETS for other sectors.[35] For this study, E3ME was run with three allowance price scenarios—allowance prices of €5, €20 and €40 per tonne of CO_2.

6. The results showed that with emissions trading, actual CO_2 emissions from air transport will be reduced compared to the reference scenario with no aviation emissions trading. However, the reductions will be small. Carbon emissions will be less than 1% lower with an allowance price of €5/tonne. At €20/tonne, CO_2 emissions will be reduced by 3.4% in 2020, and by around 7.4% at €40/tonne.

7. Similar reductions in emissions from aviation can be achieved by running the model with moderately high oil price scenarios and no emissions trading.

8. The model predicts a very small drop in demand for air travel—less than 1% reduction in 2020 even at the high allowance price. The air transport sector is able to continue to grow, because it becomes a net purchaser of allowances, buying allowances largely from the power sector.

9. However, contrary to expectation, the model does not show a reduction in CO_2 emissions from the entire economy (including the power sector), reflecting an increased demand for emission allowances created by the aviation industry.

10. In fact, CO_2 emissions from the wider European economy are predicted to increase slightly when aviation is included in the EU ETS, at lower allowance prices—by 0.2% at €20 per tonne and 0.1% at €5 per tonne. This effect is a result of auctioning revenues being recycled into the general economy and increasing other economic activities. At the highest allowance price, emissions from the wider economy are reduced, although only by 0.2%.

11. In other words, when the entire economy is taken into account, introducing aviation into the EU ETS may not be very effective at cutting carbon emissions, because of the counter effect of allowing auctioning revenues to enhance other economic activity. If auctioning revenues were earmarked for spending on carbon reduction technologies, or used to support air transport companies through the tax system, this effect may not happen.

12. More research is needed to analyse how sensitive overall CO_2 emissions might be to different treatments of auctioning revenues in this context.

13 January 2009

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[34] http://www.omega.mmu.ac.uk/EU-ETS-presentations/Annela_Anger_11Dec%20short.pdf

[35] We believe it has now been agreed that for aviation, the cap will remain at 95% of 2004–06 levels until 2020.

Memorandum submitted by the Combined Heat and Power Association

Overview of the Combined Heat and Power Association

1. The CHPA is a long-established not-for-profit trade association that acts as a focus for the combined heat and power (CHP) and community heating industry in the UK, providing support across our membership and working to establish and maintain the strong and stable market conditions necessary to grow the application of these technologies. The CHPA has over 90 members and represents a significant proportion of the total CHP capacity within the UK. Our membership comprises of CHP developers (small and community scale, large scale industrial and utility companies), end users, suppliers, public sector bodies and professional services providers.

What is CHP?

2. Combined Heat and Power (CHP) is a highly efficient process of energy conversion, which maximises the value of the energy that can be provided from a given quantity of fuel. The efficiency of the CHP or "cogeneration" process means that the technology has the potential to deliver major benefits through savings in fuel consumption and reduction in carbon emissions.

Background to this Response

3. The CHPA welcomes the Environmental Audit Committee's (EAC) inquiry. As the Committee has rightly noted, the Chancellor's 2008 Pre-Budget Report was set against a backdrop of a crowded policy agenda, a worsening fiscal outlook and competing calls from both the private and public sectors for assistance in addressing the consequences of the economic downturn. Within this context it is critical that the Government maintains and strengthens its commitment to improving the competitiveness in UK manufacturing, whilst mitigating climate change. HMG and in particular, HM Treasury, should demonstrate this by prioritising measures that are aimed at stimulating economic recovery but simultaneously provide the confidence for the private sector to invest in sustainable energy infrastructure which in turn facilitates "green collar jobs".

4. The Government has a target to achieve an installed capacity of 10 GWe of CHP capacity by 2010. Current installed capacity is 5.47 GWe and there is now no prospect of securing this capacity target in the proposed timeframe. However, the Government's own analysis[36] indicates that there is significant potential for further investment in new CHP capacity over the period top 2015, over which timeframe there is urgent need for investment in new UK power generating capacity.

5. The Government has previously established a package of measures that historically has provided a stimulus to CHP investment, under sympathetic market conditions. As the CHPA has previously highlighted to the Committee,[37] a major proportion of the value of this package accrues from an exemption from the Climate Change Levy for power exported from a qualifying CHP plant, a benefit which is subject to a European Commission State Aid approval which expires in March 2013. The value of this incentive as a stimulus to investment requires a clear an unequivocal commitment from the Government that it intends to retain this benefit in the period post-2013. Similarly, the benefit of Enhanced Capital Allowances is not currently available to Utilities, owing to State Aid constraints. This discriminatory arrangement undermines prospects for investment in CHP by preventing a major class of investor from accessing the benefit.

6. Since both incentives described are subject to the Finance Act, the Budget and Pre-Budget Reports provide an appropriate opportunity for the Chancellor to signal a commitment to address the uncertainty that is presently blighting investment prospects for large and industrial CHP. While this uncertainty persists, the prospects for growth in the CHP supply chain are likely to remain compromised. The UK retains significant capacity in the design and manufacture of industrial gas turbines, a major component of larger CHP plants, in both Lincoln and Newton Abbott. The uncertainty will also undermine the commercial opportunity to exploit CHP as a means of managing ongoing energy costs in the UK manufacturing sector. CHP is an important means of delivering energy savings in industries such as papermaking, refining and petrochemicals and food and drink.

7. In his Pre-Budget Report, the Chancellor delayed a decision on fiscal incentives until the forthcoming heat and energy saving consultation.[38] The CHPA considers that this move presents further delay in an aspect of energy, climate and economic policy that demands prompt resolution.

8. This submission sets out the rationale presented to the Government for a further extension, in terms of time and scope, of existing fiscal incentives for CHP.

[36] DEFRA: Analysis of the UK potential for Combined Heat and Power, October 2007.
[37] EAC: Reducing emissions from UK Businesses: The role of the Climate Change Levy and Agreements, p 38, March 2008.
[38] HM Treasury : Pre-Budget Report 2008, Facing global challenges: supporting people through difficult times, November 2008.

CONTRIBUTION OF CHP TO THE UNITED KINGDOM'S ENERGY POLICY PRIORITIE

9. CHP can achieve an overall efficiency of 80% or higher compared to a centralised power station efficiency of between 30-50%. In addition, CHP is located close to sites of heat loads and demand for electricity, and therefore avoids the bulk of the losses normally associated with the transmission and distribution of electricity. CHP delivers a range of economic, environmental and other benefits—some accruing to its users, some to operators of the electricity grid and yet others to the wider community:

(a) *Reduced carbon emissions*

CHP reduces carbon emissions, typically by up to 20%. The Government's latest statistics show that every 1 MW of CHP operating in the UK reduces carbon emissions by between 510 and 760 tonnes every year. Across the UK economy, Government estimates indicate that CHP saved between 10.6 and 15.4 million tonnes of CO_2 in 2006. CHP thus represents one of the largest single carbon reduction measures in the Government's Climate Change Programme.

(b) *Enhanced energy security*

CHP reduces primary energy consumption, typically by more than 10%. Conventional gas-fired power generation is set to expand, with an estimated 15 GWe of new capacity to come on line in the period to 2020. If this new capacity was developed as CHP plants, heat supplies from conventional boiler plant could be displaced thus reducing national fuel demand and improving the security of natural gas supplies. Similarly, ambitious renewable energy targets will place enormous stresses on scarce resources of biomass, recovered fuels, and wastes. Under these conditions, CHP has the potential to deliver more useful energy for the restricted quantities of fuel inputs, increasing the likelihood of securing renewable generation targets, reducing import dependency and mitigating the impacts of exposure to global energy markets.

(c) *Lower energy costs*

Making more efficient use of fuel reduces overall energy consumption and with it the costs of energy. CHP plants that are "Good Quality" under the government's CHPA Quality Assurance programme save a minimum of 10% of the primary fuel that would be required to provide energy under the alternative boiler and grid electricity scenario. Economic analysis undertaken by the Government in its *Heat: Call for Evidence* indicates that the majority of CHP investments can be considered as a 'no regrets' measure for policy makers, since they present negative costs.[39] These cost benefits are manifested as carbon savings, enhanced security of supply and reduced energy costs over the 20 year life of the project.

(d) *Green Collar Jobs*

The CHP industry is an established element of the green economy. From Local Authority members involved in strategic planning, energy and planning consultants, energy service companies, legal and financial services and CHP manufactures and the majority of the major energy utilities, the CHPA represent a substantial part of the supply chain of low carbon development. CHP applications at different scales require varied skill sets and abilities from highly skilled engineering contractors to apprentices that help install heat networks.

CURRENT STATUS AND FUTURE POTENTIAL OF CHP IN THE UK

10) The Government's analysis, presented in DUKES 2008,[40] indicates that:

(a) Installed CHP capacity at the end of 2007 stood at 5,474 MWe. This represents a net increase of 50 schemes between 2006 and 2007, but a net decrease of 10 MWe in installed capacity.

(b) The electricity generated by CHP schemes in 2007 was 28,677 GWh. This represents a little over 7 per cent of the total electricity generated in the UK.

(c) Across the commercial and industrial sectors (including the fuel industries other than electricity generation) electrical output from CHP accounted for around 12 per cent of electricity consumption.

(d) CHP schemes in total supplied 53,050 GWh of heat in 2007.

(e) In 2007, DEFRA produced a report setting out the economic potential for developing CHP in the UK and the benefits this could deliver. The results can be seen in Table 1 below.

[39] BERR, 2008: Heat Call for Evidence.
[40] BERR, 2008: Digest of UK Energy Statistics 2008.

Obstacles to Expansion of CHP

11. In spite of this considerable potential for expansion of CHP within the UK, we have not seen the increase in capacity of CHP necessary to realise the benefits described above, and the evidence from the marketplace is that we are not on track to meet the Government's target of 10GWe by 2010.

12. The principal constraints are market-related. From a commercial perspective, CHP presents a relatively complex and risky investment prospect, as plant owners must negotiate contracts for fuel supply, power and heat sales. Interacting with an electricity market designed to accommodate major, integrated energy companies also brings additional cost and risk. Investors demand additional returns to reflect these conditions and certainly higher returns than a more straightforward investment,in a conventional combined cycle gas turbine, which is the "default" investment in today's electricity market. While current sparks spreads suggest strong returns for CHP plant, future spark spreads are less attractive, and investments are made on the basis of this view of the future and not current prices. Therefore, establishing a policy framework to deliver adequate returns and manage these risks is a necessary step towards securing these important benefits of carbon savings.

13. The result is that while there is considerable interest in acquiring existing CHP assets, current investment in large scale CHP has stalled. The CHPA is aware of a number of major projects which are at an early stage of development but without greater certainty of adequate returns these are considered unlikely to proceed, further compromising efforts to maintain security of electricity supplies.

Historic Incentivisation of CHP

14. The Government has already seen fit to incentivise CHP, and between 2000 and 2003 introduced a package of measures designed to support the expansion of CHP capacity. Plant commissioned under this regime included the 730MWe CHP plant at Immingham, Europe's largest industrial CHP plant. These incentives included:

(a) Climate Change Levy exemption on CCL for fuel input and electricity output.

(b) Enhanced Capital Allowances (restricted to non-Utility companies).

(c) Business rate relief.

Improving the Prospects for CHP Investment

15. There are a number of actions that must be taken to address the situation and improve prospects for the deployment and operation of CHP:

(a) Extend the Climate Change Levy exemption on all supplies of electricity from Good Quality CHP, including power exported from a site. This important benefit is only available until 2012; thereafter the Treasury has provided no guarantees that the incentive will be retained. Investors cannot, therefore, value the incentive when making new investment decisions. Providing an unequivocal statement of the Government's commitment to retain this CCL exemption for CHP until at least 2027 would thus provide greater investment confidence.

(b) Make Enhanced Capital Allowances universally availability to both Utility and non- Utility companies.

(c) Continue to provide Business Rate relief on CHP plant.

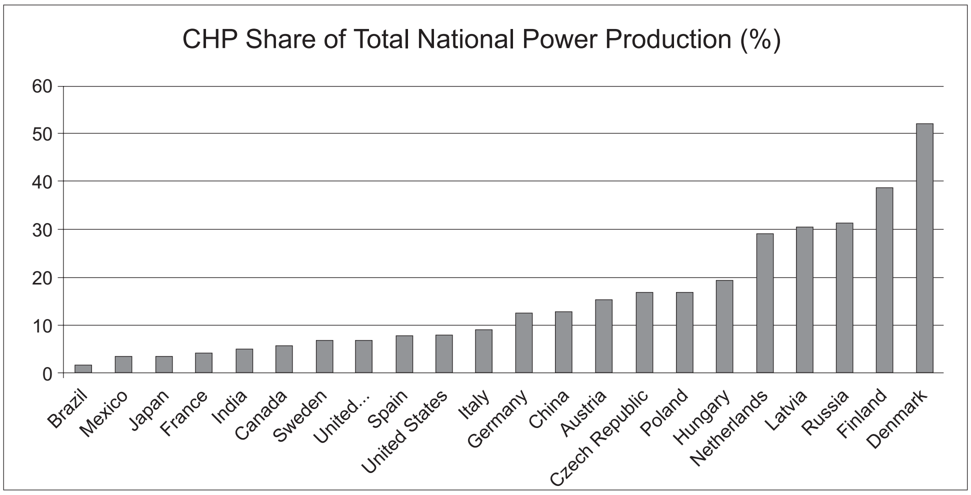
16. Concern over the adequacy of investment support measures have been reflected by major industrial CHP operators. At the CHPA's Annual Conference in November 2008, Andy Duff, CEO of RWE npower stated that his company was capable of making major steps forward in CHP investment. He presented the case for a simple and transparent investment framework to be put in place by the Government:

> "We need clear and unequivocal signals which would include the extension of the exemptions from CCL until 2027, universal availability of Enhanced Capital Allowances, exemption from the new heat levy for Good Quality CHP and finally a genuinely level playing field under the EU ETS, which would guarantee that CHP will not be disadvantaged by the allocations regime".

17. The International Energy Agency (IEA) is presently undertaking a major review of CHP and District Heating and Cooling, which includes comparative analysis of the incentive and policy framework for CHP in OECD member countries, using a scorecard approach.[41] Each scorecard provides a rating and issues recommendations to that country. The IEA have scored the UK at 2.5 out of a possible maximum of 5, and have made several notable recommendations. Amongst these are the establishment of locational signal for CHP investment, continued emphasis on the potential for efficient CHP for large power station developments, and creation of a national CHP target and strategy beyond 2010. Most notably, it calls for "further investor confidence in support mechanism longevity and accessibility", in reference to Climate Change Levy exemption for Good Quality CHP.

[41] International Energy Agency (IEA), Event Notice, International Energy Agency Announces Release of UK CHP/DHC Scorecard, 19 November 2008.

18. Publication of the scorecard also provided the opportunity to benchmark the UK's record on CHP against that of other industrialised nations. It is notable that the UK lags behind many competing economies in its adoption of CHP, see below.



Source: IEA, CHP: Evaluating the Benefits of Greater Global Investment (2008).

Impact of Extending CHP Benefits

19. Impact on Investment and Operation of CHP:

(a) Recognising the wider factors affecting today's economy, it would be misleading to suggest that extending the existing CHP benefits would have an immediate impact in delivering an expansion in CHP capacity and outputs. However, it is possible to demonstrate how the measures would affect the investment outlook for a typical CHP projects. This will affect investment sentiment and in turn the probability that new plant will be developed.

(b) The CHPA has undertaken analysis, in collaboration with our members, to determine the returns made when investing in CHP as an alternative to a conventional boiler and power purchase arrangement that is typical in most industrial, commercial and domestic applications. We estimate that if the existing package of CCL exemptions is extended to 2027, then the Internal Rate of Return (IRR) for the CHP project is extended by about 3–5%. For an industrial site investing in its own CHP plant, this would see the IRR increase to a point where it is likely to warrant serious consideration. What constitutes an acceptable return will vary between parties, however it is considered that the 5% increase that can be demonstrated from this measure is material and is likely to present a significant change in investor sentiment towards CHP.

20. Impact on the Exchequer:

(c) The CCL exemption is, in effect, a tax credit on the production of low-carbon energy. In stark contrast to measures such as the Renewables Obligation, the CCL exemption programme only presents a cost when the low-carbon energy is produced (the RO imposes a cost on customers irrespective of whether any renewable electricity plant is constructed or operated).

(d) It is therefore possible to determine a direct relationship between the carbon saved and any tax revenue foregone. The principal variable is the carbon content of the electricity and heat that is displaced when a CHP plant is in operation. If it is assumed that a CHP plant displaces natural gas in a conventional boiler, and a "grid average" electricity supply, then the cost of the carbon saved, in terms of lost revenue from CCL exemption is equivalent to between £31 to £54 per tonne of CO_2 saved.

Conclusions

21. Under current market conditions, which present a high degree of risk and uncertainty, it is unlikely that new large-scale CHP investment will be forthcoming. This is a direct consequence of commercial conditions, where the anticipated returns that accrue to a CHP investment—based on the best knowledge of future energy prices—are insufficient to support this class of investment. The Government has previously established a comprehensive package of measures that historically provide a stimulus to CHP investment

under appropriate prevailing market conditions. Extension of these benefits, with extension of the CCL exemptions to 2027 and universal availability of ECAs, presents a "no-regrets" approach to incentivising new CHP investment.

Answers to Questions:

The risks and opportunities of an economic downturn—and of the policy response to it—for environmental taxation and investment policy;

The current economic downturn coincides with a period of necessary investment in energy infrastructure. There is an opportunity to ensure that this investment meets both competitiveness and environmental objectives. However, as is noted throughout this response, this will not occur without the correct incentives.

The announcement of a forum on skills for a low carbon economy

The CHPA welcome the announcement of a forum on skills. The CHPA believe that without the appropriate skills capacity, the politically attractive concept of green collar jobs will never be fully realised.

January 2009

Memorandum submitted by the WWF

Main Summary

WWF's response to the EAC inquiry has focussed on:

1. The use of revenues from auctioning carbon allowances;

2. The reform to the Air Passenger Duty (APD); and

3. The increased role for the Export Credit Guarantee Department (ECGD) as part of the stimulus package.

1. WWF's Views on "the Treasury's Approach to the Use of Revenues from Auctioning Carbon Allowances (or from Prospective Carbon Taxes) for Dedicated Environmental Ends"

Summary

1. WWF believes that the UK should commit to use a sum equivalent to the full revenues from auctioning of allowances under the EU Emissions Trading Scheme (ETS) for climate protection measures. In our view, half of this sum should be used to aid the transition to a low carbon economy in the UK. Equally importantly, the other half should be set aside to help meet the adaptation and mitigation needs of developing countries (including stopping deforestation)—this second purpose will be critical to ensure a successful global climate deal in Copenhagen this year. WWF notes that the Government is opposed to hypothecation as a budgetary principle but this does not prevent it from committing to spending the equivalent amount accrued from the auctioning revenues. Whilst the use of revenues from auctioning carbon allowances may provide a significant contribution (depending on the carbon price) the UK should also consider other additional measures to finance mitigation and adaptation in developing countries.

Background

2. 2009 is a crucial year for tackling climate change and governments, such as the UK, will be looking to agree a successful global deal at Copenhagen. Crucially the level of climate protection finance provided by developed countries to developing countries will be the foundation upon which any deal will be based.

3. As the UK Government acknowledges in the Pre-Budget Report "Climate change represents a significant economic and environmental threat for all countries. Unchecked climate change could increase global temperatures by more than 5oC, causing hundreds of millions of people to suffer hunger, drought, and flooding and having serious impacts on world output. Strong action is required to put the world economy on a low-carbon path—both through co-ordinated global efforts and the leadership of individual countries and regions." In addition the report states that "Action to achieve environmental goals remains a high priority for the Government in the current economic circumstances."

4. This a welcome recognition of the scale and threat of climate change but the PBR fails to commit the UK to any level of funding to help finance a global deal on climate change, or to support any mechanisms which would potentially leverage the significant funds required.

This has caused concern amongst NGOs (see attachment) that the UK has not paid sufficient attention to this crucial aspect of achieving a global deal and may instead rely excessively on the ability of the fledgling carbon market to generate the level of financial flows needed. A major problem with this approach, however, is that the current project-based Clean Development Mechanism is unwieldy and is not a sufficiently robust mechanism to deliver genuine, additional emission reductions—certainly not on the transformational scale required. Moreover, a conceptual model in which the financial transfer is driven by an offsetting mechanism will fail to deliver a safe climate unless the carbon market is driven by very much more ambitious caps on industrialised countries than currently seems politically feasible, even in Europe.

5. Finance is an essential building block in the international negotiations and without an adequate financial package on the table from developed countries, there will very likely be no global climate deal. Developing countries require support, including financial support, to adapt to the impacts of climate change and to contribute to the global effort to reduce emissions (including efforts to reduce rates of deforestation). Furthermore, a commitment by developed countries to provide new and additional support to developing countries for these purposes is already written into the Bali Action Plan agreed by countries at the UN climate change conference at the end of 2007. Estimates of the financing required for a global deal are shown in the box.

Potential levels of funding needed to address climate change

The following are examples of the potential levels of funding that will be required to tackle climate change:

— Estimation of annual adaptation costs in developing countries—at least US$50 billion (Oxfam), US$86 billion by 2015 (UN Development Programme), US$28-67 billion by 2030 (UNFCCC)[i].

— Tackling deforestation—Stern estimates that to halve deforestation will cost US$3-33 billion per year".[ii] The Eliasch review estimated that to halve emissions from the forest sector by 2030 would cost between US$17-33 billion per year".[iii]

— Potential costs of mitigation—The United Nations Framework Convention on Climate Change (UNFCCC) Secretariat estimates that $133 billion per year in additional investment in developing countries will be needed in 2030 to increase climate resilience and support low carbon development. Although there are uncertainties around the exact figure of financing required, this should not detract from the urgent need to raise large scale revenues.[iv] However, this report is based on a scenario which would lead to more than two degrees centigrade global warming, the tipping point for dangerous climate change. Mitigation costs to say below two degrees would therefore likely be significantly higher.

In addition the report from the Oxford Institute for Energy Studies[v] states "To reach the minimum adequacy levels expressed in submissions by China, India, and the G77, the assessed contributions of EU Annex II Parties . . . would have to be €53 billion per annum"

[i] Oxfam (2007); "Human Development Report 2007/2008. Fighting climate change—human solidarity in a divided world" UNDP, 2007; "Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change" UNFCCC, 2007.

[ii] "Key Elements of a Global Deal on Climate Change" Stern, 2008.

[iii] In addition risk modelling commissioned for the Eliasch Review showed that the net benefits of halving deforestation could amount to $3.7 trillion over the long-term—based on reduced climate change. "Climate Change: Financing Global Forests" Eliasch et al, 2008.

[iv] "Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change" UNFCCC, 2007.

[v] "To Earmark or Not to Earmark? A far-reaching debate on the use of auction revenue from (EU) Emissions Trading" Benito Muller, Oxford Institute for Energy Studies, November 2008.

6. At the climate negotiations in Poznan, Poland in December 2008, the UK Government and EU did not come forward with any substantive financing proposals. The European Commission is set to publish a Communication on the post-2012 framework by the end of January—this will include global deal financing proposals and these measures are expected to be debated by the UK and other countries at the Environment Council on 3 March. It is unclear, however, to what extent this EU agreement will provide sufficient funding for a successful global deal. WWF, therefore, believes that the UK should be planning to use a proportion of the auction revenues for this purpose and seeking to take a leadership role in convincing other Member States to back an ambitious and coherent financing package.

7. Finally, the sources of finance to developing countries must be sustainable, predictable and adequate and be focused on the most vulnerable countries and communities, with priority access for Least Developed Countries, Small Island Developing States and drought, and flood-prone areas of Africa. A mix of policies and funding mechanisms will be necessary, and while the carbon markets will continue to play an important

role, they are unlikely to be able to deliver the totality of finance required. Therefore, the UK and other developed countries should look at other funding mechanisms, and be prepared to think boldly and creatively.

EU ETS Auction Revenues

8. The UK held its first auction of phase II allowances on 19 November which raised over £54 million from the sale of four million EU allowances (EUAs). These revenues will continue to accrue throughout phase II of the scheme which runs until 2012. In phase III (2013 to 2020) the revenues will increase significantly with the Carbon Trust estimating, prior to the conclusion of the EU's Climate and Energy package last year, that between €4 billion and €8 billion per year could accrue to the UK government.[42]

9. The final amended EU ETS Directive which was agreed as part of the EU's Climate and Energy, however, contains only a non-binding suggestion that Member States should use at least half of the auction revenues to invest in climate protection (including contributions to the Adaptation fund, tackling deforestation, CCS and other low carbon technologies). WWF, therefore, is calling on the UK to commit to meet and exceed this resolution.

10. It is not just environmental and development groups that have called for the revenues to be spent on the climate change mitigation and adaption. The Confederation of British Industry (CBI) in a joint letter with WWF to the Prime Minister, stated that: "While we accept there may be some technical difficulties in ring-fencing the revenue, it should be perfectly possible to announce a similar investment in low carbon technologies and adaptation equivalent to the revenue raised by auctioning."[43]

11. This was echoed by the UK Corporate Leaders Group on climate change in a letter to the Prime Minister last September: "Additional funding is needed to deliver climate change mitigation and adaptation strategies, including the needed capacity and technology support for developing countries to change their emission pathways. The UK should be looking to invest what is needed and we anticipate that this will be at least the equivalent of the income generated from auctioning allowances under ETS, if not more".[44]

12. Germany also has plans to spend €400 million of the revenues from auctioning allowances in the second phase of the EU ETS on a climate change programme to fund emission reductions—with €280 million funding projects within Germany and the remaining €120 million going to projects in developing countries.[45]

Examples of Earmarking in the UK

13. Despite the Government's stated opposition to ring-fencing revenue streams, there are several examples of schemes in which a proportion of the funds raised are earmarked for specific uses. For example:

— *The Climate Change Levy*—This was introduced in 2001 to encourage business to reduce energy demand by placing a levy on their energy use. In order to make this palatable to energy intensive businesses it was intended that the levy should be broadly revenue neutral via a cut in employers National Insurance contributions of 0.3%. In addition a proportion of the revenues raised from the levy have also been used to fund the Carbon Trust with the Trust receiving £150 million in the first three years.

— *Landfill Tax*—This was established to encourage recycling and reduce the amount of refuse going to landfill and is due to yield around £900 million in 2007–08. Up to 6.6% of the tax liability can be offset by contributing to approved environmental projects and companies subject to the tax also benefit from a cut in National Insurance contributions of 0.2%.[46]

14. Several other examples are given in a new report from the Oxford Institute for Energy Studies[47] and suggest that earmarking revenues from the auction of pollution allowances is a feasible option for the UK.

15. WWF, therefore, is calling for the UK to spend half of the revenues from auctioning (or the equivalent amount) on low carbon development in the UK and the other half in financing a global deal.

[42] Cutting Carbon in Europe—the 2020 plans and the future of the EU ETS, Carbon Trust, June 2008.
[43] http://www.cbi.org.uk/ndbs/Press.nsf/38e2a44440c22db6802567300067301b/0b8e47289c37df4a8025743b00364155/$FILE/Joint%20letter%20on%20ETS%20to%20PM.pdf 7 May, 2008
[44] http://www.cpi.cam.ac.uk/pdf/UK%20CLG%20letter%20to%20Party%20Leaders%20PM.pdf 19 September 2008.
[45] "Germany to invest €400 million in climate-change programme" Point Carbon, 19 June 2008.
[46] "WG5/6 Sub-Working EU Emissions Trading Scheme—Auctioning Proceeds" ETG, April 2008 http://www.etg.uk.com/documents/Auctioning%20Proceeds%20WG%20paper%2007042008%20final1.pdf
[47] "To Earmark or Not to Earmark? A far-reaching debate on the use of auction revenue from (EU) Emissions Trading" Benito Muller, Oxford Institute for Energy Studies, November 2008.

Additional Financial Options which the UK should consider

16. The use of revenues from auctioning carbon allowances may provide a significant contribution (depending on the carbon price) but the UK should also consider other additional measures to finance mitigation and adaptation in developing countries. These should include:

(i) *International transport*—several proposals have been advanced to raise revenue from international shipping and aviation and the UK Government should clarify its position on these. In our view, proposals for trading schemes or levies on international shipping are particularly promising: as shipping is a truly international sector, it would be appropriate for an international body such as the International Maritime Organisation to collect revenues and transfer them to a multilateral climate fund, thus short-cutting concerns over hypothecation from national coffers. In addition, shipping is an untouched area in terms of greenhouse gas regulation, so there is greater freedom to design optimal policies. The picture is more complicated for aviation, given the existing provisions of the ETS, which will come into force for aviation from 2012. Revenues from auctioning allowances currently accrue to Member States in the same way as for other sectors. In Poznan, Least Developed Countries tabled a new proposal for an Air Passenger Adaptation Levy—a universal ticket tax of $6 per passenger ($60 for premium seats) with the proceeds ring-fenced for adaptation. This has the advantage of being a simple and predictable source of finance, which its authors suggest will raise $12-$15 billion a year. The UK Government could implement this tax with an equal reduction in Air Passenger Duty.

(ii) Norway's proposal that a portion of developed countries' emissions reduction targets (assigned amount units—AAUs) established through the post 2012 global climate deal are auctioned and that the revenues are used to support developing countries' climate actions, is also a compelling option and should be further explored. In effect the UN would auction part of a country's right to pollute and use this revenue. Ed Miliband MP, Secretary of State for Energy and Climate Change (DECC) expressed broad interest in this proposal in his Ministerial speech in Poznan—it is to be hoped that the Government follow on swiftly with more concrete proposals and analysis.

Conclusion

17. We have less than one year to transform the global financial architecture to provide a sustainable future for people and wildlife. The UK Government has the opportunity now to take the lead on finance in the post-2012 deal and to use its influence to ensure the EU supports bold, ambitious and adequate financing for climate change adaptation and mitigation (including tackling deforestation) in the developing world. If the Government is unwilling to use the EU ETS auction revenues—a relatively politically pain-free option, which to a large degree simply corrects the massive windfall profits enjoyed by power generators in the first two phases of the scheme—then it must urgently make clear how it intends to raise the finance to fund the much needed global transition to a low-carbon future.

2. WWF's Views on the "Treasury's announcements on Air Passenger Duty, Vehicle Excise Duty, and Fuel Duty"

18. WWF-UK had hoped that the Government would implement the proposed switch to a per-plane, instead of a per-passenger tax, for reasons elaborated in our submission to the Committee's inquiry into PBR 07.

19. WWF-UK is disappointed that this opportunity has not been taken, and concerned that the Government appears to have yielded to pressure from scheduled airlines and cargo operators, who wanted to preserve anomalous exemptions on transit passengers and air freight respectively. Certain sections of the airline industry, notably low-cost carriers, actually supported the switch. WWF has not seen convincing evidence that there would be a substantial switch of freight from aircraft to road; even if there were this would represent a saving in carbon terms. The benefits of any modal shift to rail or water-borne transport would be even greater.7

20. As well as excluding these two categories, the structural advantage of a per-plane tax—that it discourages operators from flying empty planes—has also been lost.

21. That said, the Government has taken the opportunity to restructure Air Passenger Duty (APD) in some useful ways—by increasing the number of distance bands, and by grading the tax more steeply on longer distances. Both these have been applied sensibly, and it is particularly welcome that after the two-year phase-in period, tax on the longest flights will be just over double its current level. This brings the ratio between taxes on longest and shortest flights from 4:1 to 7:1—a necessary correction to a widespread public perception that short-haul flying is the greater evil. A flight to Australia generates nearly 20 times as much carbon as a flight to Austria.

22. Finally, it is also welcome that the lowest rate of APD is set to rise by £1 in 2009 and again in 2010. This hopefully signals an end to the practice of the past decade, where the tax was frozen and therefore steadily eroded by aviation, until the time came to double it, triggering vociferous opposition from the industry and sections of the media. WWF encourages the Government to signal that this modest escalator will continue further into the future.

3. WWF's Views on the Size and Nature of the "Green Stimulus" Package Announced in the PBR

23. WWF's comments on this section relate specifically to the Export Credit Guarantee Department (ECGD) and the additional finance announced in the PBR.

24. WWF notes the following announcement:

> "the Export Credits Guarantee Department, in conjunction with the banks, will introduce a temporary guarantee scheme to support a £1 billion facility providing smaller exporters with better access to short-term working capital."[48]

25. WWF further notes the following recommendations made by the EAC in the autumn concerning the ECGD:

> "We recommend that the ECGD commissions an independent study into how its environmental and sustainable development standards could be tightened, including an assessment of how UK Sustainable Development objectives could be effectively reflected in the ECGD's assessment standards. Such a study should be used to help the ECGD raise international standards"

26. And later:

> "the ECGD should bring all aerospace-related applications within the Case Impact Assessment Process"[49]

27. It is vital that assurances are received from the ECGD that the new enhanced underwriting facility will be subject to the highest standards of environmental impact assessment, and will not be seen as exempt from the enhanced process that we trust they will be putting into place.

January 2009—If you would like further information please contact Russell Cooper, Deputy Head of Public Affairs, on 01483 412382 or at rcooper@wwf.org.uk

Please find enclosed with this response the following documents which support our submission:

- "Cash to tackle climate change—the role of revenues from EU Emissions Trading Scheme auctions" November 2008, an Oxfam and WWF briefing paper. – November 2008
- "NGO Statement on Climate Finance—an opportunity for UK leadership" signed by nine development and environment NGOs.—December 2008

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[48] Pre-Budget Report, Chapter 4 Supporting Business, Box 4.1, p69, 24 November 2008.
[49] EAC Report/HC929.

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