Grantham Research Institute on
Climate Change and
the Environment

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Grantham Research Institute on Climate Change and the Environment

Chair: Professor Lord Stern of Brentford

Briefing note (August 2011)
Climate change policy in the United Kingdom

Overview

The Grantham Research Institute for Climate Change and the Environment and the Centre for Climate Change Economics and Policy have published a policy paper, originally commissioned as a working paper by the Organisation for Economic Cooperation and Development, which evaluates UK climate change policy and its impact on domestic greenhouse gas emissions. The key findings and recommendations are summarised below.

UK climate change policy performance and impact

- The UK has a comprehensive set of climate change policies in place and is likely to meet comfortably its near-term domestic greenhouse gas emission reduction targets and targets under the Kyoto Protocol, outperforming many other OECD countries.
- However, a step change in the pace of emission reductions is required for the UK to meet medium and long-term emission targets.
- Some of the UK's success in reducing emissions is due to one-off events including the 'dash for gas' in the 1990s and economic downturn from 2007.
- UK public spending on R&D on clean energy is at the minimum acceptable level and has lagged behind several other major OECD countries.
- The effective price of carbon varies across sectors of the economy and should be harmonised to achieve better cost efficiency. The unevenness in effective prices partly reflects the way policies overlap and means that some consumers and businesses pay more than they should relative to their carbon footprint, while others pay less.
- The uneven price of carbon also distorts relative prices of goods and services. This threatens to undermine public acceptance of future changes to climate policies because essential attempts to correct distortions could be perceived as unfair.
- Policies to help the UK adapt to climate impacts are developing in the right direction, but further work is needed.

Recommendations

- The Government should continue to seek a higher, more consistent, less volatile carbon price at the international level through tighter EU emission quotas (EU ETS) and the adoption of a binding 30% EU emissions reduction target by 2020.
- The Government should assess more thoroughly how policies interact and overlap, so that the effective carbon price becomes more uniform. Specifically, it should:
  - Adjust the Climate Change Levy (CCL) and hydrocarbon fuel duties to reflect more closely carbon content and the content of other pollutants.
  - Merge the CCL and the CRC Energy Efficiency Scheme and stop making Climate Change Agreements which reduce the implied carbon tax rate.
  - Raise the VAT rate on domestic energy use over time from 5% to the standard rate of 20% to promote consistency in climate change policies

and enhance efficiency of taxation. Concerns including fuel poverty could be more efficiently addressed through targeted support.

  - Consider ways of giving firms greater certainty about the trajectory of the carbon price they face[1] including by implementing proposals in the current energy market reform consultations. The proposed carbon price floor should help.
  - Speed up the development and deployment of low-carbon technologies, focusing on correcting the inadequate private market incentives for innovation. Increased public spending on R&D for new low-carbon technologies could be warranted, while taking account of fiscal constraints.

- Improve support for renewable power generators as part of planned electricity market regulation reforms.
- Consider expanding the jurisdiction of the Climate Change Committee, for example, by granting the Committee power to set and adjust key climate policy instruments, e.g. the carbon price floor and Climate Change Levy, much in the way the Bank of England sets interest rates. That might strengthen the long-term credibility of climate change policies, improve accountability and make lobbying by special interests more difficult.
- Step up preparations to adapt to climate impacts, focusing on the provision of information, better risk-assessment frameworks and more advanced metrics for monitoring and evaluation.

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[1] *e.g.* by means of long-term contracts that transfer some risk around EU ETS carbon prices from firms to the government.