

What is the Economics of Climate Change?

March 2006

Introduction

The British Chambers of Commerce welcome the opportunity to participate in this consultation document. Having consulted the BCC network, which represents some 100,000 businesses across the UK economy, the opinions of business are represented below. We trust that our opinions will be given due weight.

Response From the BCC

1) Introduction

- 1.1 The BCC welcomes the Stern Review on the economics of climate change, as a further important step towards meeting the challenge of global warming. Climate change is a priority issue that has steadily risen up the international agenda and it is entirely appropriate that steps are being taken to address it. We welcome the opportunity to engage with this challenge and the opportunities presented. Due to the nature of our organisation, we do not feel qualified to answer all of the questions posed by the discussion document. However, where possible we have provided answers relating to the relevant sections.
- 1.2 We accept that the business community has a role to play in stabilising and reducing greenhouse gas emissions and we believe that businesses should work in partnership with a range of sectors, including the Government, the devolved administrations, the public sector and the general public, to achieve the reductions set out in the Kyoto Protocol. There is no doubt that economic and environmental concerns do have the scope to be complementary. For example, steps to improve energy efficiency can both lead to reduced carbon emissions and reduced costs for industry.
- 1.3 It is of concern, however, that some attempts to control polluting behaviour are harming the competitiveness of UK firms. The UK needs to achieve its emissions targets with little or no impact on the commercial viability of business. The resulting cost burden will be counter-productive if it results in the transfer of products, and jobs, to countries where climate change measures are less stringent. This would not help the environmental objectives that the scheme is aiming to achieve.
- 1.4 In line with this, we also call upon the Government to place continued pressure on other countries, including the US, to deliver their Kyoto commitments. The UK cannot shoulder this burden alone.

- 1.5 It is also important to recognise that we are seeing an overall net increase in energy use in the UK, much of which comes from the domestic and transport sectors and not primarily from the industrial and commercial users. In fact many industrial users have already become much more energy efficient. Domestic consumers must share their part of the responsibility for improving energy efficiency.

2 Section 2.2: Taking action to mitigate climate change

2.1 How can policymakers create sufficiently clear and credible signals and the institutions to support them?

- 2.1.1 We believe that the Government should continue to carefully analyse the impact of any distinct policies on business and industry. Industry already has to deal with a range of complex and often conflicting climate change instruments, including the Climate Change Levy (and associated Climate Change Agreements), Renewables Obligations, UK Emissions Trading Scheme, EU Emissions Trading Scheme and Integrated Pollution Prevention and Control (IPPC). Any new policies, which add to this complexity, could cause further damage to businesses struggling to remain competitive.

- 2.1.2 If there is to be change, then we would urge the Government to support the simplification of existing policies. It is difficult for businesses to plan effectively against a background of constantly changing regulation and so we would advocate a period of stability to develop a simplified fully integrated national policy.

- 2.1.3 We would also welcome steps to reward firms that can demonstrate that they meet all industry regulations regarding energy efficiency and are already using the best technology available to them to reduce emissions. It seems unreasonable to penalise those businesses that are genuinely doing everything that they can to minimise harmful effects to the environment.

- 2.1.4 As an example of this, we are in favour of finding a practical way of allowing a wider cross-section of businesses to negotiate Climate Change levy agreements (CCLAs) if they wish to do so. This “carrot” approach as a means to improve energy efficiency is far more likely to be taken up by companies because the incentive to achieve improvements is far greater than to non-CCLA companies.

2.2 What is the role of persuasion and education to change preferences?

- 2.2.1 We believe that the single most effective way of realising the necessary energy efficiency improvements in the small business sector is to take steps to increase awareness, particularly through education.

- 2.2.2 Clear, focused support needs to be provided for business in their contribution to achieving emissions targets. Small businesses tend to be run by a limited number of non-specialists who frequently do not have the resources, time or

knowledge to prepare and implement energy-saving projects. Such support could be a tremendous assistance to business, if the scope is easy to access and both relevant and practical ideas are available.

- 2.2.3 Numerous different suggestions have been offered by Chamber members and some of these are outlined below:

“Businesses would welcome a project engineer provided by the Carbon Trust to help them implement energy saving strategies.”

“Energy suppliers could offer energy management deals to smaller users who are not currently considering energy reduction schemes.”

“In Bedfordshire we have a good example of how this can operate with Bedfordshire Green Business Network running sector specific environmental awareness courses and linking with other environmental groups such as the Bedfordshire Waste Exchange and regional organisations giving advice on energy efficiency.”

3) Additional Comments

3.1 Introduction

- 3.1.1 In general, we believe that efforts to improve the environmental performance of the business sector should be focused on market-based approaches and incentives as opposed to regulation and taxation. However, any extensions to existing schemes should not be introduced without careful consultation with the business community.

3.2 EU Emissions Trading Scheme

- 3.2.1 In principle, we are supportive of the EU Emissions Trading Scheme (EU-ETS). This is a flexible, market-based approach, which will result in fewer emissions at lowest cost. Organisations who can improve energy efficiency at low cost can sell excess allowances from the scheme to those who could only reduce energy consumption at greater cost.
- 3.2.2 It is important, from an environmental and economic sustainability viewpoint, that EU-ETS is implemented fairly across all EU member states. It is important that the UK government continues to resist attempts to reduce the UK's allowance allocations. Government must balance emission reduction aims with the need to retain a competitive environment for British business activity. If international manufacturers locate abroad, they are likely to move to countries with far lower environmental standards and the global environmental benefit that environmental targets seek to achieve will be effectively negated.
- 3.2.3 It is also important that all EU member countries police their industry equally. Any variation in the way the directives are enforced will inevitably encourage dissatisfaction and dissent, under-mining the whole process.

3.3 Incentives

- 3.3.1 The current policy mix places considerable emphasis on penalising non-compliance rather than promoting advantages of compliance. In many cases, small business will be more receptive, if they can be convinced of a direct financial benefit. We would like to see more incentives to promote good practice amongst businesses.
- 3.3.2 As an example, we would like to see developments to the Enhanced Capital Allowances (ECAs) scheme. This is a good incentive for businesses to invest in more efficient technologies. However, the list of approved technologies is very limited and needs to be reviewed and expanded constantly to increase uptake. Take up of ECAs is also limited for smaller organisations due to the complexity of claiming them. Steps should be taken to promote take-up amongst small firms.
- 3.3.3 We would also like to see a continued focus on research and development of energy saving technologies. There are many new products and inventions being produced every year, many of which could have a positive effect on the environment. However, not enough is being done to help with the physical cost of development from the company point of view.

3.4 Climate Change Levy

- 3.4.1 We are concerned that the Climate Change Levy (CCL) is significantly adding to business costs without meeting the environmental objectives that it is intended to achieve.
- 3.4.2 Before the introduction of the CCL, we experienced a lot of concern from members about how this was going to impact on their energy costs. Although the CCL has increased costs (sometimes by 15 - 20%), in general companies seem to have absorbed these costs/increased prices rather than reduce energy consumption. This is clearly not the desired outcome.
- 3.4.3 The stated intention of the CCL is to help meet the Government's manifesto pledge to cut greenhouse gas emissions by 20% from 1990 levels by 2010. We do not believe, however, that the levy is the most effective way of encouraging industry to switch to cleaner fuels as it is based on energy content and not carbon (pollutant) content.
- 3.4.4 We are also concerned that the CCL has also been uneven in its impact, disproportionately disadvantaging the manufacturing sector. Consequently, the levy has had an uneven regional impact, with the Midlands, Wales and North West suffering disproportionately because of their greater reliance on manufacturing industry.

3.5 Climate Change Agreements

- 3.5.1 We are concerned that the Climate Change Levy falls disproportionately on small and medium sized enterprises, as these tend not to fall into energy intensive sectors where there will be negotiated agreements and rebates.
- 3.5.2 As a consequence, the Government must find a practical way of allowing a wider cross-section of businesses to negotiate Climate Change Levy Agreements (CCLAs), whereby companies are given an 80% discount on the levy in return for committing to meet energy efficiency targets. This “carrot” approach, as a means to improve energy efficiency, is far more likely to be taken up by companies because the incentive to achieve improvements is far greater than for non-CCLA companies.

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