7 A MORE SECURE, FAIR AND ENVIRONMENTALLY SUSTAINABLE WORLD

The Government is committed to ensuring that the UK plays a leading role in responding to the global challenges of climate change, meeting the Millennium Development Goals including tackling poverty, and promoting peace and stability. The 2007 Pre-Budget Report and Comprehensive Spending Review set out the next stage in the Government's strategy to meet these challenges.

Tackling climate change, including:

- **increasing the Department for Environment, Food and Rural Affairs' budget by an average of 1.4 per cent a year in real terms, from £3,508 million in 2007-08 to £3,960 million in 2010-11.** This includes increasing funding for flood and coastal erosion risk management from £600 million in 2007-08 to £800 million in 2010-11;
- **creating an Environmental Transformation Fund of £1.2 billion over the CSR07 period,** to support the demonstration and deployment of new energy and efficiency technologies in the UK and to advance poverty reduction through environmental protection in developing countries;
- **publishing the interim report of the King Review** on vehicle and fuel technologies which over the next 25 years could help 'decarbonise' road transport; and
- **replacing air passenger duty with a duty payable per plane rather than per passenger, from 1 November 2009.**

Tackling global poverty through:

- **increases to the Department for International Development's (DfID) budget by 11 per cent per year in real terms over the CSR07 period, from £5.4 billion in 2007-08 to £7.9 billion in 2010-11;** and
- an overall CSR07 settlement **that puts the UK on track to spend 0.56 per cent of Gross National Income (GNI) on Official Development Assistance (ODA) by 2010-11,** meeting the EU's collective commitment, and on course to reach 0.7 per cent of GNI by 2013;

Securing international peace and stability, through:

- **a new Stabilisation Aid Fund jointly managed by DfID, the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MoD) worth over £260 million** during the CSR07 period, for conflict stabilisation activity in volatile or hostile areas;
- **an increase for the MoD budget of 1.5 per cent a year in real terms over the CSR07 period,** enhancing capability including funding for two new aircraft carriers, new protected vehicles for the Army, further Air Transport capability, while providing the resources necessary to sustain the UK's nuclear deterrent; and
- **a CSR07 settlement for the FCO,** which enhances security across the overseas diplomatic network, funds a new embassy in Kabul, and provides an additional £21 million by 2010-11 for a Farsi TV service and for a 24/7 Arabic TV service.

7.1 Advances in transport and communication technology mean the links between different nations are more immediate than ever before. However, along with the opportunities that these advances bring, there are also challenges, with social, economic, environmental and security risks no longer easily contained within one country. In responding to these challenges, the Government firmly believes the UK must continue to be an outward-facing country, taking a lead in developing global solutions.

7.2 The major global challenges of climate change, tackling global poverty and securing international peace and stability are all closely related. Without action to tackle climate change, efforts to promote economic development and poverty reduction will be undermined, particularly in the poorest countries. Poverty and environmental degradation contribute to fierce competition for resources, which can lead to violence and instability. Conflict impedes efforts to reduce poverty and generates greater human distress and insecurity and environmental damage by displacing populations. This chapter sets out the Government's response to these interdependent challenges.

Climate change

7.3 The most serious and pressing global environmental challenge is tackling climate change. A year ago, the review by Sir Nicholas Stern[1] concluded that the costs of stabilising the climate are significant but manageable, whereas delay will be costly and dangerous. The Review found that climate change would affect the basic elements of life for people around the world – access to water, food production, health and the environment. The Review estimated that temperature increases associated with current business as usual emissions could lead to damage equivalent to as much as 5-20 per cent of global GDP. But if the world takes action now, and with the right policies in place, stabilisation of greenhouse gas concentrations at a level that avoids the most dangerous impacts of climate change could cost around 1 per cent of global GDP. This is significant, but is clearly less than the costs of not taking action.

Global poverty

7.4 Significant progress has been made on tackling global poverty. In 1990 more than 28 per cent of the world's population lived in extreme poverty, but by 2002 this had decreased to 19 per cent and is projected to fall to 12 per cent in 2015. However, despite progress, nearly 1 billion people remain in extreme poverty, and as the 2015 deadline for achieving the Millennium Development Goals draws closer, the international community faces a much more demanding development agenda.

International peace and stability

7.5 The UK's security and prosperity depends more than ever on international peace and stability. While the UK does not currently face a significant direct threat of attack from other states, conflict and instability elsewhere has the potential to increase risks to the UK, as well as the threat from global terrorism, as highlighted in Chapter 6. The UK must therefore continue to be active on the international stage in shaping global developments, for the benefit of its citizens, and to ensure a safer, more just and prosperous world.

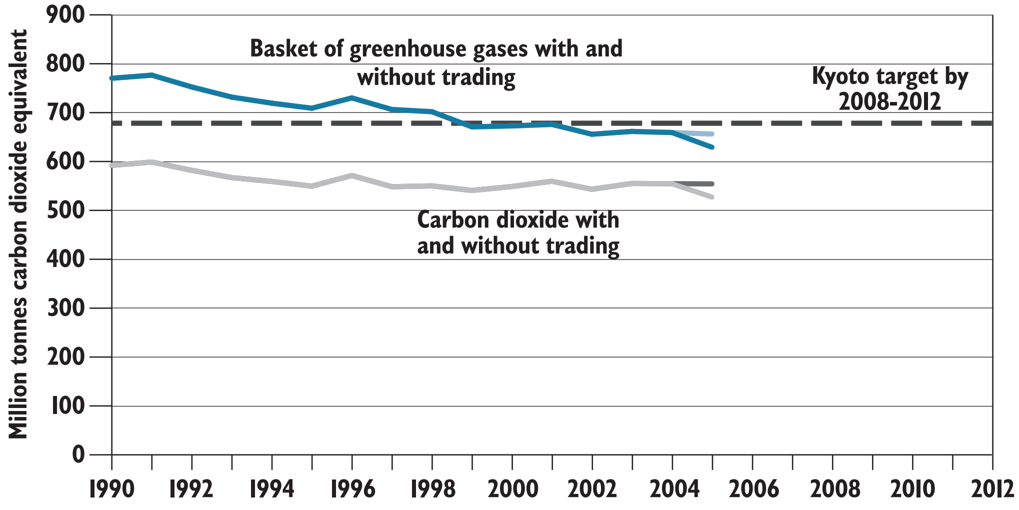
TACKLING CLIMATE CHANGE AND PROTECTING THE ENVIRONMENT

Response to climate change

7.6 Since 1990, the Kyoto baseline year, UK greenhouse gas emissions have fallen by 19 per cent, including reductions through the EU Emissions Trading Scheme. However, as the Stern Review makes clear, there is still much more to do to. Since its publication, the Review has had a significant impact in making the case for early and cost effective action to tackle climate change around the world. The Review, and the most recent reports of the Intergovernmental Panel on Climate Change, have highlighted that human activities are causing concentrations of greenhouse gases to reach unprecedented and dangerous levels.

[1] *The Stern Review on the Economics of Climate Change*, commissioned by the Chancellor of the Exchequer in July 2005, was set up to understand more comprehensively the nature of the economic challenges of climate change and how they can be met, both in the UK and globally. It was published on 30 October 2006, and employed economic methods to assess both the human and environmental impacts of, and responses to, climate change.

Chart 7.1: UK emissions of greenhouse gases



Source: AEA Energy & Environment and Defra

International response

7.7 Climate change is a global problem that must be solved through collective international action. The UK can help prevent climate change by showing the international community that a strong low-carbon economy is possible and affordable, while building a consensus to drive forward the necessary multilateral action. The G8 summit in June was key in taking forward resolute international action in order to reduce global greenhouse gas emissions. In particular, leaders agreed on the need for a global emissions goal and the central role of the United Nations Framework Convention on Climate Change in international negotiations.

7.8 However, the international community also needs to build on the existing international framework to take forward global action proportionate to the scale and urgency of the threat, particularly to the world's most vulnerable countries and communities. By strengthening this framework it will be possible to provide the global policy certainty needed to drive greater investment in low-carbon technology and financial flows to developing countries, as well as encouraging countries to adapt to the unavoidable impacts. The global community must therefore collectively agree and deliver a plan to reduce greenhouse gas emissions to a level that avoids dangerous climate change.

EU response

7.9 The Spring European Council agreed an ambitious package of climate change and energy measures. The EU committed to reduce greenhouse gas emissions by 20 per cent by 2020, compared with 1990 levels, or by 30 per cent as part of a wider international agreement, and reaffirmed the central role that emissions trading must play in achieving these long-term goals. The European Council also agreed a target of 20 per cent renewable energy in overall EU consumption by 2020. The UK Government is working with the Commission and other Member States to ensure that policies are effective in achieving the EU's greenhouse gas objectives, and that they provide a credible path to cost-effective delivery, in line with the Stern Review's recommendations.

Implementing the Stern Review

7.10 The Government is today **publishing *Moving to a global low-carbon economy: implementing the Stern Review*** alongside the 2007 Pre-Budget Report and Comprehensive Spending Review, setting out how the Government is taking forward the Stern Review and incorporating its findings within government policies.

7.11 As part of the 2007 Pre-Budget Report and Comprehensive Spending Review, **the Government announces a new PSA to lead the global effort to avoid dangerous climate change**. This PSA aims to secure effective and robust global commitments for the period after 2012, adopt and promote cost-effective policies which reduce UK net greenhouse gas emissions, and adapt to unavoidable climate change.

7.12 Furthermore, **the Government announces an increase for the Department for Environment, Food and Rural Affairs (Defra) of 1.4 per cent per year in real terms over the CSR07 period** to help meet the long-term challenges on climate change and natural resource protection.

Legislative framework

7.13 The Government has set out its intended legislative framework to tackle climate change through the draft Climate Change Bill, published for consultation in March 2007, enshrining the Government's long-term targets to reduce UK emissions through domestic and international action by at least 60 per cent by 2050 and 26-32 per cent by 2020, both compared with 1990 levels. The draft Bill proposes to move towards these targets by setting five-year 'carbon budgets' which will create binding limits on these emissions.

7.14 In May 2007, the Government published the Energy White Paper *Meeting the energy challenge*. The White Paper's ambitious package of measures, together with the impact of the EU Emissions Trading Scheme, is estimated to put the UK on course to meet the emissions targets through improved energy efficiency, bringing forward new low-carbon technologies, and ensuring secure reliable energy supplies. The Energy Bill will take forward the legislative measures necessary to support investment in more low-carbon sources of energy. Taken together with the Planning Bill reforms for major infrastructure projects set out in Chapter 4, these Bills form a package of action to accelerate the UK's transition to becoming a low-carbon economy.

Implementing the Stern framework

7.15 The Stern Review identified the need for a shared international vision of long-term goals and the key pillars for an international framework to help each country to play its part in meeting these common goals. This Pre-Budget Report and Comprehensive Spending Review, together with *Moving to a global low-carbon economy: implementing the Stern Review*, sets out how the Government is responding under each of these pillars:

- carbon pricing – creating a common price for carbon through trading, tax or regulations;
- technology policy – shifting to new or improved technology in key sectors to bring forward low-carbon alternatives and increase efficiency; and
- behavioural change – through tax, regulation, information or financing of energy efficiency improvements.

7.16 The Government maintains its principled approach to developing environmental policy as detailed in the 2005 Pre-Budget Report, using the most effective instrument to achieve its aims. Intervention can be through a number of different instruments including taxation, trading schemes, regulation and spending programmes. Where tax is used, it will aim to shift the burden of tax from 'goods' to 'bads'. In meeting its environmental aims, the Government takes into account the impact of action on wider economic and social objectives. While the policy framework continues to develop and evolve over time, the Government is committed to looking strategically at the overall regulatory burden and developing a policy framework that delivers emissions reductions with minimum regulatory requirements.

Carbon pricing

EU Emissions Trading Scheme

7.17 The EU Emissions Trading Scheme (EU ETS) is the UK's principal carbon pricing instrument, covering half of the UK's emissions. It is designed to keep emissions within fixed limits while allowing emissions to be reduced at least cost. In October 2006 the Government published its vision for the long-term future of international emissions trading, with the aim of developing the EU ETS as the basis of a global carbon market. The UK's key proposals are:

- to foster a deeper, more liquid market by considering expansion of the EU ETS to cover more sectors and gases;
- to move towards more auctioning of allowances in future phases; and
- to extend the scheme beyond Europe by enabling similar schemes in other countries to trade with the EU ETS and to guarantee that credits from Clean Development Mechanism projects in developing countries will be valid for compliance in EU ETS beyond 2012.

7.18 The European Commission is expected to publish its proposals on the future of the EU ETS post-2012 in December 2007. The Government is pressing for the setting of caps that ensures a well-functioning market with scarcity of allowances. **It also intends to make greater use of auctioning in the UK for Phase III with, in particular, a significant increase in auctioning to distribute allowances in the large electricity producers' sector.**

7.19 The Government will auction 7 per cent of allowances in Phase II (2008-12), plus any from closures or surplus from the New Entrants Reserve. It is the Government's intention to appoint the Debt Management Office to run the auctions of allowances for Phase II.

Engaging with business

7.20 The Government is committed to strengthening the EU ETS to build investor confidence in the existence of a multilateral long-term carbon price signal. The Government is providing better market information and analysis, such as in the forthcoming *Energy Markets Outlook* publication, and in the context of this work, is engaging with business to understand the impact of climate change policy, as one of many factors, on their investment decisions.

Combined heat and power

7.21 Combined heat and power (CHP) is the simultaneous generation of usable heat and power (usually electricity) in a single process. CHP is a more efficient way to use both fossil and renewable fuels and can be employed over a wide range of sizes, applications, fuels and technologies. The Government will aim to ensure that arrangements for future phases of the EU ETS continue to recognise the carbon savings that CHP delivers.

Carbon markets conference

7.22 Budget 2007 announced a proposal to host an international conference on carbon markets. This will take place in London in November 2007. It will bring together international finance officials and market participants to discuss how to develop and operate effective international carbon markets. Ensuring such a market is deep, liquid, and efficient is central to tackling climate change while protecting economic growth and development.

Technology policy

7.23 In addition to carbon pricing, technology policies can accelerate the shift to a low-carbon economy in key sectors such as power generation and transport.

Domestic ETF **7.24** The domestic element of the Environmental Transformation Fund (ETF), led by Defra and the Department for Business, Enterprise and Regulatory Reform (BERR), is a dedicated fund that brings together the Government's existing and new funding commitments within the UK to support the demonstration and deployment of new energy and energy efficiency technologies. **Over the CSR07 period, Defra will spend £170 million and BERR will spend £200 million, creating a domestic fund of at least £370 million.** The international element of the ETF (paragraph 7.78) will support development and poverty reduction through environmental protection and help developing countries to tackle environmental challenges.

7.25 The ETF is a critical part of the Government's response to the technology challenge, along with the Energy Technology Institute and the Technology Strategy Board (discussed in Chapter 4). The Government is developing a new low-carbon energy technology strategy, to be published in 2008. This will focus on applying the principles from the Stern Review to the Government's funding for innovation across the full chain from initial research and development to demonstration, deployment and diffusion, in order to maximise the cost-effective potential for cutting emissions in the UK and internationally.

Energy Technology Institute **7.26** Budget 2006 announced the Government's intention to establish a new Energy Technologies Institute (ETI), expected to be fully operational in 2008, as a 50:50 partnership with industry. The ETI brings together some of the world's biggest companies, including BP, Caterpillar, EDF Energy, E.ON UK, Rolls-Royce and Shell, with the aim of raising up to £1.1 billion over a ten-year period for low-carbon energy technologies.

Carbon capture and storage **7.27** The Stern Review highlighted carbon capture and storage (CCS) as a key technology for tackling global carbon emissions. CCS has the potential to reduce carbon emissions from fossil fuel power stations by 90 per cent and in Budget 2007 the Government announced that it would launch a competition to design and build a full-scale demonstration of the full capture, transport and storage chain.

7.28 The Secretary of State for BERR is today announcing details of the competition and launching a short period of discussion with industry prior to the formal start of the competition in November 2007. This competition will ensure the UK is a world leader in bringing forward this globally important technology for tackling climate change, which is important not only to the UK, but also to achieve the EU's aspiration to have 10 to 12 demonstration projects by 2015, and encourage the transition to a low-carbon economy in China and India.

Microgeneration **7.29** The Government provides support for microgeneration through: the Low Carbon Buildings Programme; reduced VAT on installations; access to Renewable Obligation Certificates; and tax exemptions for revenues earned from domestically generated electricity exported to the grid. The installation of microgeneration equipment in business premises can trigger an increased liability for business rates. Subject to state aid clearance, **the Government will therefore not include microgeneration investments in ad hoc re-assessments of business rates liability from 2008.** Such investments will now only be taken into account at the five-year re-valuation of business rates, providing up to five years worth of benefit to rate payers.

Biofuels **7.30** The Renewable Transport Fuel Obligation (RTFO) will become the principal mechanism for encouraging the development of biofuels, leading to a significant reduction in emissions of greenhouse gases from the transport sector, by increasing the use of biofuels. The total net carbon savings associated were initially estimated to be in the region of 3.6 $MtCO_2$ per year by 2010. Estimating the precise carbon savings from biofuels is an emerging area of work and in order to reflect more accurately the marginal impact that biofuels may have on the fuel efficiency of vehicles, the Government has revised its estimates downwards to 2.6-3 $MtCO_2$ per year by 2010.

Renewable Transport Fuel Obligation

7.31 In June this year, the Government announced that from 2010 the RTFO would reward biofuels according to the carbon that they save. In addition, from 2011, the RTFO will also reward only biofuels that meet appropriate sustainability standards. These aims will enhance the environmental focus of the RTFO, directly benefiting those who produce and sell the most sustainable biofuels. With its additional environmental focus, the Government continues to believe that the RTFO will be the most effective mechanism for encouraging the use of biofuels. The Government has today laid in Parliament the draft RTFO Order to prepare for the introduction of the RTFO in April 2008.

ECA for the cleanest biofuels plant

7.32 The RTFO will provide all biofuel producers with a valuable incentive to produce the cleanest sustainable biofuels. The Government has been pursuing state aid clearance for an enhanced capital allowance (ECA) for the cleanest biofuel plant. However, it has become clear that in order to make it compliant, it would offer little value to the limited number of businesses who would be eligible whilst introducing considerable administrative complexity and uncertainty. As such, **the Government has decided to focus on ensuring that the RTFO encourages the production of the cleanest and most sustainable biofuels, and will therefore not pursue state aid clearance for the proposed ECA.** Biofuels producers can still seek financial assistance to ensure cleaner fuel production through investing in good quality CHP installations, which are eligible under the existing ECA scheme.

Extending the duty incentive

7.33 In addition, building on the package of measures announced in Budget 2007, **the Government will extend the current duty incentive for biofuels to biobutanol on a pilot basis, with the aim of assessing its environmental benefits and performance as a transport fuel.**

Behavioural change

7.34 The third essential element in the policy framework identified by the Stern Review is overcoming barriers and encouraging long-term behavioural change. Energy efficiency is particularly important. Making more effective use of energy can provide a significant contribution towards climate change mitigation, making it easier to achieve EU ETS caps at low or even negative cost; however, for a variety of reasons many opportunities are not taken up. The Government has therefore sought to complement EU ETS with a range of measures to improve business energy efficiency.

Climate change levy

7.35 The climate change levy (CCL) was introduced in 2001 to encourage business to reduce energy demand. Independent analysis by Cambridge Econometrics[2] estimated that the levy delivered cumulative savings of 60 $MtCO_2$ to 2005. By 2010, it is estimated that the levy will have reduced energy demand in the commercial and public sector by around 15 per cent a year compared with the levy package not being in place. The full impact of the levy package was set out in a report published alongside Budget 2006.

7.36 Improving energy efficiency helps businesses to reduce their energy costs and makes them less vulnerable to energy market volatility. Therefore, targeting energy efficiency effectively continues to be the right focus for CCL. As announced in Budget 2007, the Government confirms that CCL rates will increase in line with inflation from 1 April 2008 to maintain the levy's environmental impact. The Government will continue to explore how energy efficiency objectives can be further improved in the future.

[2] *Modelling the Initial Effects of the Climate Change Levy,* Cambridge Econometrics, March 2005. www.hmrc.gov.uk

Climate change agreements

7.37 Over 50 energy intensive sectors are now able to benefit from an 80 per cent discount in CCL in return for signing climate change agreements (CCAs) under which firms agree to improve energy efficiency and/or reduce emissions. By 2010, it is estimated that CCAs will deliver savings of around 10.2 $MtCO_2$ per year. Regular reviews of existing CCAs by Defra continue to ensure the energy efficiency improvements and emissions reductions delivered by the agreements are maximised. To consolidate the success of CCAs, **the Government announces that the scheme will continue until 2017, subject to state aid approval, and will discuss with business the most effective way of taking this forward.**

Household energy efficiency

7.38 Households account for over a quarter of UK energy consumption and carbon emissions. The main mechanism introduced by the Government to encourage the take up of energy efficiency measures in homes is the Energy Efficiency Commitment (EEC), soon to be replaced by the Carbon Emissions Reduction Target (CERT). Alongside the EEC, the Warm Front and Decent Homes programmes provide insulation and other energy efficiency options free to low-income households and to the social housing sector.

7.39 There is also a range of tax measures in place to encourage household energy efficiency including: a reduced rate of VAT that applies to professionally-installed energy-saving materials; the Landlords Energy Saving Allowance; and a stamp duty land tax (SDLT) exemption on the first acquisition of a new home meeting the zero carbon standard costing up to £500,000. Zero carbon homes costing in excess of £500,000 will receive a reduction of £15,000 to the SDLT bill. The tax relief will apply to acquisitions of zero carbon homes from 1 October 2007. Regulations bringing the relief into effect will be laid before Parliament later this month. The Government published earlier this month revised guidance setting out the zero carbon home standard under the Code for Sustainable Homes which will help the construction industry respond to the challenge of meeting the Government's zero carbon homes target.

More efficient home and office products

7.40 Improving the energy efficiency of the products used in homes and offices provides one of the most cost-effective ways to meet the Government's climate change and energy goals, with savings of 3.5-10 $MtCO_2$ by 2020. Priorities are consumer electronics, lighting, office equipment (ICT), pumps and motors, heating and air conditioning, white goods and standby. Because action in this area is best taken at EU level, the Chancellor and the Secretaries of State for BERR and Defra have today written to other Member States and the Commission, calling on the EU to:

- make clear its priorities, targets and future plans for efficiency standards, and transparently and regularly update them;
- improve product information and compliance to help consumers make better choices and drive fair competition;
- work with international partners to make policy more effective;
- urgently accelerate delivery of mandatory, cost-effective energy efficiency standards for priority products; and
- allow the introduction of a reduced VAT rate for the most energy-efficient products (the Chancellor and French Finance Minister have together written to EU Finance Ministers and the European Commission to recommend that this reduced rate be introduced as soon as possible).

7.41 In addition, the Government is seeking voluntary action by retailers, manufacturers and service providers to phase out the least efficient products and to raise their own standards. Following a commitment in Budget 2007, the Government announced on 27 September 2007 that major retailers, with the support of manufacturers and energy companies, have agreed an ambition to phase out inefficient incandescent light bulbs by 2011. The Government will be consulting on standards and targets for other products shortly.

King Review of low-carbon cars

7.42 Alternative fuel and vehicle technologies have the potential to deliver significant environmental benefits. Budget 2007 announced a review, led by Professor Julia King, Vice Chancellor of Aston University and former Director of Advanced Engineering at Rolls-Royce plc, working with Sir Nicholas Stern, to examine the vehicle and fuel technologies which over the next 25 years could help to 'decarbonise' road transport, particularly cars. **The Government welcomes the Review's interim report, published today.** The Review's final report, including policy recommendations, will be published in time to inform Budget 2008.

Box 7.1: King Review of low-carbon cars

Key points from the interim report include:

- **in the long term, decarbonisation of road transport is achievable but will require clean power sources and major breakthroughs in vehicle technology;**
- **meanwhile, there is great potential for reducing emissions, immediately and at low cost;**
- **vehicle technology exists that can deliver CO_2 reductions of 30 per cent compared with today's equivalent models and these could be standard within 5-10 years, if manufacturers see a market for them;**
- **consumers play an important role, and low carbon choices can be made now, for example, by choosing the most efficient vehicle in the preferred class. A typical driver can reduce their CO_2 emissions (and fuel bill) by 25 per cent; and**
- **fuels must be considered on the basis of their life-cycle CO_2 emissions. Biofuels offer potential for CO_2 savings but care must be taken not to expand demand too quickly before crop breakthroughs and robust environmental safeguards are in place.**

Fuel efficiency of vehicles

7.43 In February 2007, the European Commission published its proposals for the successor regime to voluntary agreements for new cars which are due to expire in 2008-09. They have proposed that car manufacturers achieve a mandatory target to reduce average new car emissions to 130g/km of CO_2 by 2012. Discussions on this are ongoing, and the Commission is expected to publish its full legislative proposal by the end of 2007.

Vehicle excise duty

7.44 Vehicle excise duty (VED) for cars was reformed in 2001 and is now based on graduated carbon dioxide bands, giving a clear signal to motorists to choose more fuel-efficient vehicles. Fuel efficiency labels matching the graduated VED structure were introduced into car showrooms in 2005, raising consumer awareness of the potential fuel savings that can be achieved.

7.45 Budget 2007 set out car VED rates for the next three years to further sharpen the environmental signals to motorists and to continue to support the development of the low-carbon market.

7.46 **The Government today announces inflation-only increases on motorcycle VED rates in 2008-09, while VED rates for special types vehicles, combined transport vehicles and all vehicle categories that are linked to the basic goods rate will be frozen.** It also announced on 1 October 2007 that heavy goods vehicles (HGV) VED rates would be frozen in 2008-09. All changes take effect from licences commencing 1 April 2008.

Taxation of business travel

7.47 The Government recognises there are interactions between rates of company car tax (CCT), employee car ownership schemes (ECOS), tax-free mileage allowances (AMAPs), and tax relief on business cars, that work together to determine car purchase and usage choices. The Government wants to ensure that the tax system properly reflects and supports business activity, in addition to promoting fairness and environmentally friendly travel.

7.48 Company car tax was reformed in 2002 and is now based on carbon emissions, encouraging the take up of more fuel-efficient cars in company fleets. These changes are forecast to deliver significant savings of between 1.5-3.3 $MtCO_2$ per year by 2020. Budget 2008 will set out the company car tax thresholds for 2010-11.

Company car fuel benefit change

7.49 The company car fuel benefit charge – paid by employees who drive company cars and receive free fuel for private use – was reformed in 2003 to align it with the environmental principles of the company car tax system. **The Government today announces that from 6 April 2008 the fixed figure on which the company car fuel benefit charge is based will be increased, from £14,400 to £16,900, in line with the change in the retail prices index since April 2003, to enhance the environmental incentives to drive fewer miles.**

7.50 **Following HM Revenue and Customs' review of the taxation of ECOS, the Government has decided not to impose a benefit in kind charge.** Budget 2007 also announced that HMRC would undertake discussions with business to review AMAPs. In advance of the Budget, the Government will continue to consider the representations received from industry.

7.51 In March 2007 the Government published an update of its consultation on the tax relief for business expenditure on cars. **A summary of the responses to the consultation is published today.**

7.52 The Government appreciates the importance of considering the framework of taxation of cars used for business travel as a whole, and will make announcements on future policy in this area in Budget 2008.

Vehicle emissions standards

7.53 The EU has reached agreement on the Euro V and VI emission standards for cars and small vans. Euro V and VI will become mandatory from 1 January 2011 and 1 September 2015 respectively. As announced in Budget 2007, the Government is considering the case for incentivising the early uptake of Euro V and subsequently Euro VI technology. Any incentive for Euro VI take-up cannot be provided until Euro V is mandatory.

Air passenger duty

7.54 Aviation accounts for 6.3 per cent of the UK's CO_2 emissions and this is projected to rise to as much as 15 per cent by 2030. Aircraft also contribute to climate change through high-altitude emissions of nitrogen oxides, contrails and the formation of cirrus clouds. The Government's policy, as set out in the 2003 Air Transport White Paper, is that aviation should pay the costs it imposes on society at large. The Government's priority has been to work to include aviation in the EU Emissions Trading Scheme, which will help to ensure that the aviation sector plays its part in delivering real carbon reductions across Europe. The Government continues to make good progress on securing this goal.

7.55 The Government believes that domestic air passenger duty (APD) is playing a valuable role in encouraging behavioural change, reducing emissions from aviation and ensuring that air travel makes a fair contribution towards the Government's spending priorities, including public transport and the environment. The changes to APD rates announced in the 2006 Pre-Budget Report will deliver reductions equivalent to 2.75 $MtCO_2$ a year by 2010. Following an earlier consultation, **with effect from 1 November 2008, the Government will correct an anomaly to ensure passengers on 'business class only' flights are liable for the standard rate of APD.**

7.56 The Government now intends to reform the taxation of aviation to send better environmental signals and ensure aviation makes a greater contribution to covering its environmental costs. **Therefore from 1 November 2009, the Government proposes to replace APD with a duty payable per plane rather than per passenger,** and will begin a consultation shortly. The consultation will consider ways to make aviation duty better correlated to distance travelled and encourage more planes to fly at full capacity. In introducing this duty, the Government will also take into account the impact on freight and transit and transfer passengers, consistent with its wider economic and social objectives. In advance of the introduction of a per plane duty, **APD rates will be frozen at their current level for 2008-09.**

Adaptation

7.57 The Stern Review also emphasises the importance of adaptation, as some impacts of climate change are no longer avoidable.

Domestic adaptation: flood risk management

7.58 The Stern Review and the *2004 Foresight Future Flooding* report both highlighted that climate change in the UK is likely to increase the severity and frequency of flooding events. In line with this, **total Government expenditure on flood and coastal erosion risk management will rise from £600 million in 2007-08 to £800 million in 2010-11. The Government will also introduce an adaptation toolkit of £10 million per year, to assist communities in adapting to change where constructing defences is not the most appropriate means of managing flood and coastal erosion risk.**

Help for flood victims

7.59 On 25 July 2007 the Chancellor of the Exchequer announced a package of measures for individuals and businesses affected by severe flooding. As part of that package, the Government will bring forward legislation in next year's Finance Bill to allow the Commissioners of HMRC to waive interest and surcharges on tax paid late due to the floods.

Protecting the UK's environment

Sustainable development

7.60 While tackling climate change at home and abroad is the most pressing issue for ensuring growth in the global economy is environmentally sustainable, the Government, in accordance with the principles of sustainable development, recognises the importance of protecting and enhancing our natural environment so that domestic growth is more environmentally sustainable.

Long-term challenges

7.61 Despite the progress made in recent years, challenges remain in some areas and in some cases will intensify under the influence of factors such as growing and changing population patterns, economic growth and climate change. These pressures on the natural environment, as identified in *Long-term opportunities and challenges for the UK,* are:

- improving water quality and maintaining stable and sustainable supply;
- dealing with waste, especially from households, in a way that reduces its environmental impact;
- reversing the historic decline in biodiversity; and

- maximising the benefit people derive from a healthy and attractive natural environment.

7.62 **The Government therefore announces a new PSA to secure a healthy natural environment for today and in the future.** This demonstrates the Government's commitment to ensuring a healthy natural environment for everyone, monitoring key components such as water quality, air quality, the marine environment, biodiversity and the impacts of farming on the natural environment, as well as recognising the significant role that farmers and land managers play in protecting and enhancing the natural environment. Delivery arrangements for this PSA emphasise the positive impact that improvements in these measures can have on people's well-being, health and prosperity.

Water Strategy

7.63 Defra will publish a Water Strategy early next year, which will take a long-term look at challenges in the water sector and outline the Government's priorities. The aim is to improve standards of service and quality, while balancing environmental impacts (including diffuse water pollution), water quality, supply and demand, and social and economic effects.

Waste Strategy

7.64 The 2007 Waste Strategy set out the good progress made in England, with household recycling rates up from 7.5 per cent in 1996-97 to 26.7 per cent in 2005-06. The 2007 Comprehensive Spending Review provides for significant investment in more sustainable waste management options, which will allow continued reduction of the amount of waste that ends up in landfill. Funding through the Private Finance Initiative will total £2 billion over the CSR07 period, rising from £280 million in 2007-08 to £700 million by 2010-11.

Landfill tax

7.65 Landfill tax increases the costs of waste disposal by landfill, encouraging more environmentally sustainable ways of dealing with waste. Budget 2007 announced that from 1 April 2008 and until at least 2010-11, the standard rate of landfill tax will increase by £8 per tonne each year. The lower rate applying to inactive waste will also increase from £2 to £2.50 per tonne from 1 April 2008. The Government plans to make an announcement on the future of the exemption from landfill tax for waste arising from contaminated land at Budget 2008.

Landfill tax dredging exemption

7.66 The Government recognises that dredging inland waterways can prevent floods. However, the EU Landfill Directive being phased in necessitates the treatment of dredged waste so that it doesn't contain free-draining liquids. Therefore, from 30 October 2007, the landfill tax exemption will be extended to include treated waste from dredging.

Air quality

7.67 The Government is committed to delivering cleaner air to protect people's health and the environment. The Government's revised Air Quality Strategy was published in July 2007, and sets out a way forward for work and planning on air quality issues. The strategy also sets out details of the objectives to be achieved and introduces a new policy framework for tackling fine particles, similar to the approach being proposed in the new European Air Quality Directive, which is currently under negotiation.

TACKLING GLOBAL POVERTY

7.68 The Government believes that, as one of the richest countries in the world, the UK has a moral obligation to contribute to international efforts to reduce global poverty. At the 2005 Gleneagles G8 summit, the Government led the world's richest nations to promise faster progress towards this goal. In today's interdependent world, eradicating extreme poverty also serves the UK national interest. Many of the most serious threats to the UK's prosperity and security are global, and are caused or exacerbated by poverty in developing countries, such as conflict, climate change, international organised crime and the spread of diseases like HIV/AIDS.

7.69 The UK has played a leading role in international efforts to tackle global poverty and achieve the internationally agreed Millennium Development Goals. Over the past decade, the Department for International Development's (DfID) budget has more than doubled in real terms between 1997-98 and 2007-08. DfID estimates that each year it helps to reduce permanently the number of people living in poverty by 3 million. However, significant challenges remain:

- just under a billion people – one in six of the world's population – still live in extreme poverty, that is on less than US$1 a day;
- every day 30,000 children die because of preventable diseases, and average life expectancy in Africa is 47 years; and
- by 2015, nine out of ten of the world's poorest people will live in Africa and South Asia, around half in countries without effective governments.

Millennium Development Goals

7.70 International development therefore remains a key priority for the Government. This is reaffirmed by its **new PSA to reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals.** This PSA sets out the Government's commitment to build a global partnership on development that stretches beyond traditional aid programmes – working with and through international partners, focusing UK action where it is most needed in Africa and South Asia. The clear and resounding message of the Make Poverty History campaign – actively supported by more than 1 in 4 people in the UK – has demonstrated that this commitment is strongly supported by the public. Success on this goal demands a cross-government approach to development, and requires that DfID help to reform the international development system to ensure that it is equipped to respond to new challenges, and to disburse increased aid flows effectively.

Financing development

7.71 The sustained and substantial increases to DfID's budget over the last decade are at the centre of the Government's efforts to tackle global poverty. To accelerate progress, **the 2007 Comprehensive Spending Review will increase DfID's budget by 11 per cent a year in real terms from £5.4 billion in 2007-08 to £7.9 billion in 2010-11.** These resources will be concentrated where they will have the maximum impact on poverty reduction: countries with the largest numbers of poor people and fragile states, especially those vulnerable to conflict.

Official Development Assistance

7.72 Under the UK's presidencies of the G8 and EU in 2005, the Government achieved international agreement to provide a historic level of debt relief to Nigeria. As a result, the UK's cumulative spending on Official Development Assistance (ODA) during the 2004 Spending Review period was £17.8 billion, significantly higher than the £16.9 billion forecast. ODA, which was projected to be 0.42 per cent of GNI in 2006-07, actually reached 0.51 per cent in 2006, and this early delivery means that ODA is forecast to be lower than projected – 0.37 per cent – in 2007-08. **The 2007 Comprehensive Spending Review puts the UK on track to spend 0.56 per cent of GNI on ODA by 2010-11, meeting the EU's collective commitment, and on course to reach 0.7 per cent of GNI, the UN's recommended level, by 2013,[3] two years ahead of the EU target.**

Financing the MDGs

7.73 In allocating these resources, the Government will help partner countries promote economic growth, good governance and delivery of basic services, to get children into school, improve healthcare and increase access to clean water and sanitation. The UK is leading action in a number of these areas, for example as the only major international donor to make a ten-year education funding commitment of £8.5 billion. The Government is also driving forward efforts to approach poverty reduction in new ways, by developing innovative financing mechanisms like Advance Market Commitments and the International Finance Facility for Immunisation (IFFIm), which address market failures and help to provide a more stable and predictable flow of donor resources to developing countries. The UK is the leading donor to IFFIm, which will help to save over 5 million children's lives by 2015.

Debt relief

7.74 The UK remains committed to full implementation and financing of the Heavily Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI), which together have already reduced the debt burden of the world's poorest countries by over US$100 billion. In addition, the UK has renounced debt payments from the world's poorest countries, exceeding commitments under the HIPC initiative, and offering debt relief unilaterally for qualifying, non-HIPC poor countries that can use the savings for poverty reduction, through the UK MDRI. The Government will continue to encourage other donors to follow. The savings from debt relief provide long-term and predictable resources to fund country-owned strategies for poverty reduction and improve the conditions for economic growth. In countries receiving debt relief, debt service has been cut by two-thirds and annual spending on anti-poverty programmes has increased from US$4 billion to US$11 billion since 1999.

Development beyond aid

Sustainable economic growth

7.75 There is clear evidence that growth reduces poverty: a recent report[4] found that, averaged over the countries studied, an increase of 1 per cent in GDP per head reduced poverty by 1.7 per cent in the 1990s. Growth that is sustained and inclusive will have the greatest impact on poverty reduction. Recognising the importance of growth, DfID, working with partners across Government including HM Treasury, will assist developing countries in identifying and overcoming the constraints to growth, increasing access to financial services, improving transparency, strengthening public financial management systems and addressing poor infrastructure. Overcoming these constraints will ensure that poor people can access the economic opportunities that they need to benefit from growth.

[3] 2013 refers to calendar year 2013, which is the basis on which ODA is accounted for by the Organisation for Economic Co-operation and Development, Development Assistance Committee.

[4] *Pro-poor growth in the 1990's; Lessons and insights from 14 countries*, Operationalising Pro-Poor Growth Research Programme, June 2005, page 18.

Trade **7.76** Economic openness and trade reform can, under the right circumstances, play a significant role in increasing economic growth and reducing poverty. In an increasingly integrated world economy, it is crucial that developing countries be supported in participating in the world trading system. The UK continues to work hard with World Trade Organisation (WTO) partners to deliver an ambitious and pro-development outcome to the Doha round of world trade talks. Bold and concerted political leadership is needed to take forward negotiations on the basis of the Texts produced by the Negotiating Group chairs. Building on these Texts, the negotiations could achieve significant increases in market access, an end to export subsidies, a substantial reduction of all trade distorting agricultural domestic support, and provide effective special and differential treatment to enable developing countries to capture the gains from trade.

Aid for trade **7.77** Trade reform alone is not sufficient: investment is needed to support developing countries in overcoming supply-side constraints, such as inefficient customs systems or poor transport. UK support for aid for trade is expected to increase by 50 per cent to £409 million per year in 2010. The Government welcomes the successful outcome of the 25 September 2007 high-level pledging conference for the Enhanced Integrated Framework (EIF), which is a multilateral aid for trade fund for the 50 Least Developed Countries. The overall fund could be as much as US$400 million over 5 years, to which the UK contribution will be £15.5 million for the first 2 years and thereafter 20 per cent of overall commitments, up to a total maximum of £38 million.

International ETF **7.78** Climate change, alongside natural resource depletion, poses the most serious long-term threat to economic growth. The primary challenge for DfID is to ensure that economic growth is environmentally sustainable and that developing countries acquire the capacity to adapt to climate change. Developing country interests must also be taken into account in international policies to reduce climate change. **The 2007 Comprehensive Spending Review therefore establishes an Environmental Transformation Fund (ETF), with an interational element that provides £800 million over the CSR07 period, to advance poverty reduction through environmental protection.** The ETF will be managed by DfID and Defra, and will work to support adaptation to climate change, provide access to clean energy, and help tackle unsustainable deforestation.

Governance **7.79** Effective, stable and well-governed countries are more likely to attract investment and generate long-term economic growth which will reduce poverty. As such, improving governance in developing countries will remain a priority for DfID during the CSR07 period. DfID, in conjunction with the Foreign and Commonwealth Office, will increase its focus on supporting fragile states with weak governance, institutions and capacity. Fragile states comprise 9 per cent of the developing world's population but over a quarter of the extreme poor, and so a failure to make an impact on these states will jeopardise achieving the MDGs and pose risks that can cross borders, through civil conflicts, public health emergencies and humanitarian crises.

Conflict prevention and stabilisation **7.80** Violence and conflict keep people poor: of the 34 countries furthest from reaching the MDGs, 22 are in, or just emerging from, conflict. Accordingly, DfID, working closely with the MoD and the FCO, will continue to work to prevent conflict and manage its after-effects. The UK has been a leader in this area, and as outlined below, the Government will undertake a series of reforms to strengthen its approach during the CSR07 period.

STRENGTHENING INTERNATIONAL PEACE AND STABILITY

7.81 In an increasingly integrated world, the UK's security and prosperity depends on international peace and stability. While the UK does not currently face a significant direct threat of attack from other states, conflict and instability elsewhere has the potential to increase the risks to the UK. The challenge from global terrorism is serious and complex. In the period ahead changes in the geopolitical balance, climate change and resource pressures may also increase the risk of conflict between states, and the incidence and complexity of internal conflict.

Integrated response

7.82 In facing these interrelated threats and challenges, an integrated response is essential: military, diplomatic and development interventions all have a part to play. The 2007 Comprehensive Spending Review strengthens the UK's ability to play its part in this response with and alongside the multilateral institutions and the wider international community.

7.83 Within a transformed geopolitical environment, the FCO has reviewed its international network in order to position the department at the forefront of the UK's efforts to counter global challenges, among them the growing terrorist threat. The MoD is renewing Britain's nuclear deterrent while ensuring that this does not come at the expense of the conventional capability the Armed forces need.

Resources and investment

7.84 The settlements for the MoD and FCO announced in this 2007 Comprehensive Spending Review continue this progress. Alongside the increase to DFID's budget, this CSR07 delivers:

- **1.5 per cent annual average real growth over the CSR07 period for the MoD**, enhancing conventional capability across the armed services, including two new aircraft carriers, new protected vehicles for the Army, and further Air Transport capability. The settlement also funds the additional activity necessary over this CSR07 period to sustain the UK's nuclear deterrent;

- **a sustained increase in spending on counter-terrorism and intelligence through the new single security and intelligence budget, rising to more than three times pre 9/11 levels by 2010-11.** The new single security and intelligence budget will rise from £2½ billion in 2007-08 to £3½ billion by 2010-11, boosting the counter-terrorism effort in the UK and overseas;

- **an additional £123 million by 2010-11 for the FCO,** enabling the department to step up its engagement with critical areas of the globe, while improving its efficiency and reducing back-office costs. Among other improvements to the network, this settlement funds a new embassy in Kabul; and
- **an increase in resources for the BBC World Service and British Council which will enable them to continue their vital public diplomacy work** providing trusted news and information to millions around the globe and supporting efforts to build trust and break down cultural barriers. With £21 million in additional funding by 2010-11, the BBC World Service will launch Farsi TV and 24/7 Arabic TV services from 2008-09. The British Council will take forward its Reconnect programme with an additional £3 million per year by 2010-11, building understanding with Muslim societies particularly among alienated younger populations.

7.85 Alongside these spending commitments, **the Government announces today a new PSA to reduce the impact of conflict through enhanced UK and international efforts.** This embeds a strategic and comprehensive approach to reducing conflict and its impact, creating the conditions required for effective state building and economic development, monitoring progress to strengthen international institutions and building the UK's capability to plan, co-ordinate and deploy civilian and military resources. As part of the delivery arrangements for this PSA, the 2007 Comprehensive Spending Review announces a number of reforms to the way conflict prevention and stabilisation activity is co-ordinated and managed within Government.

Conflict stabilisation and prevention

7.86 The Government intends to merge the existing Global and Africa Conflict Prevention Pools to reduce bureaucracy, focus effort where it can deliver best returns, and ensure that the new single Pool remains an effective instrument for long-term conflict prevention.

7.87 Conflict prevention is most effective where the immediate effects of conflict have been addressed through stabilisation activities. **Responsibility for these activities in 'hot' conflict zones will become the responsibility of a new £269 Stabilisation Aid Fund established in the 2007 Comprehensive Spending Review.** The Fund, for which DfID, FCO and MoD will be keyholders, will fund civil conflict stabilisation activities in volatile or hostile areas where the security situation does not yet permit the roll-out of programmes that the Pools have traditionally funded. This Fund will take on responsibilities currently handled by the Global Conflict Prevention Pool for civil effect in the operational theatres of Iraq and Afghanistan, allowing the new single Conflict Prevention Pool to refocus on prevention activity in other parts of the world.

7.88 The Government will continue to develop the role and capability of the cross-departmental Post Conflict Resolution Unit – to be renamed the Stabilisation Unit in recognition of its role in management of the new Stabilisation Aid Fund on behalf of DfID, FCO, and MoD. The Unit will be responsible for providing the civilian teams to support the design and delivery of UK civilian activities, including quick impact projects, in insecure environments often alongside UK military forces, and filling critical capability gaps in UK and international operations such as the rule of law, governance and policing advisers. The Stabilisation Unit will also facilitate cross-government assessment and planning to stabilise countries emerging from conflict, and will identify and integrate lessons from UK interventions into future stabilisation activities.

Special Reserve

7.89 International peace support operations play a vital role in strengthening global stability, and the UK's continued engagement in these operations is an important component in achieving our foreign, defence and development policy objectives. In Budget 2007, the Government announced £400 million of provision for the special reserve in 2007-08, to be reviewed at the time of the Pre-Budget Report, to help meet continuing international commitments in Iraq, Afghanistan and elsewhere. **The CSR07 allocates a further £400 million for the special reserve in 2007-08 to support ongoing operations.**

Table 7.1: The environmental impacts of Budget measures

Budget measure	Environmental impact
Climate Change and Air Quality	
Climate change levy (CCL) package	Climate change levy is estimated to deliver annual emissions savings of over 12.8 million tonnes of carbon ($MtCO_2$) by 2010[1]. Climate change agreements are estimated to deliver annual emissions savings of 10.3 $MtCO_2$ a year by 2010. Total CCL package, including Carbon Trust, is estimated to deliver annual emissions savings of over 27.5 $MtCO_2$ a year by 2010.
Carbon capture and storage	Carbon capture and storage demonstration is expected to deliver savings of around 0.7 $MtCO_2$ per year by 2020.
Fuel duty	Fuel duty increases announced for 2007 to 2010 are expected to result in carbon savings of 0.7 $MtCO_2$ a year by 2010-11.
Support for biofuels	The RTFO is estimated to deliver savings of between 2.6 and 3 $MtCO_2$ a year by 2010. (see paragraph 7.30.)
Rebated fuels	Maintaining the differential with main road fuels will reduce levels of fraud, and will deliver small CO_2 and local air pollution benefits through increased use of less polluting fuels and less use of rebated fuels, which are more polluting.
Vehicle excise duty (VED)	The environmental signals provided by VED will help deliver reductions in CO_2 emissions. The number of vehicles in the 3 lowest CO_2 emission graduated VED bands is forecast to grow significantly in the longer term in part due to VED reform.
Company car tax (CCT)	CO_2 emissions savings of reformed CCT system estimated to be 0.7 to 1.8 $MtCO_2$, in 2005, forecast to rise to between 1.5 and 3.3 $MtCO_2$ per year in the long run[2].
Company car fuel benefit charge (FBC)	The number of company car drivers getting free fuel for private use has fallen by around 600,000 since 1997, partly as a result of changes to the company car tax system in April 2002 and changes to the fuel benefit rules in April 2003, helping to reduce levels of CO_2 emissions, local air pollutants and congestion[3]. Increasing the FBC in line with the changes in the retail prices index in 2008-09 will deliver a small additional reduction in CO_2 emissions.
Landlord's Energy Saving Allowance (LESA)	Small reduction of carbon emissions.
Reduced rate of VAT on professionally-installed energy saving materials and microgeneration (from 17.5 per cent to 5 per cent)	Small reduction of carbon emissions.
Reduced rate of VAT on domestic fuel and power (from 8 per cent to 5 per cent)	Estimated to increase carbon emissions by 0.7 $MtCO_2$ by 2010[4].
Improving Waste Management	
Landfill tax	Between 1997/98 and 2006/07 the total quantity of waste disposed to landfill sites registered for landfill tax fell by 26 per cent, while the amount of active waste disposed to landfill fell by 19 per cent[5].
Landfill communities fund	Landfill tax credits scheme (now the landfill communities fund) has provided almost £780 million for projects since its introduction.
Protecting the UK's countryside and natural resources	
Aggregates levy and aggregates levy sustainability fund	An 8 per cent reduction in sales of aggregates in Great Britain between 2001 and 2005. Reductions in noise and vibration, dust and other emissions to air, visual intrusion, loss of amenity and damage to wildlife habitats.

[1] *Modeling the initial Effects of the Climate Change Levy, Cambridge Econometrics, available at www.hmrc.gov.uk.*
[2] *HMRC modeling.*
[3] *HMRC modeling.*
[4] *HMRC modeling.*
[5] *Data at wwwuktradeinfo.com, in calendar years.*