

# The Government's response to the Better Regulation Commission's Report:

**Regulating to mitigate climate change  
a response to the Stern review**

**May 2007**



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## Introduction

1. The Government welcomes the Better Regulation Commission's report, as it builds upon the approach already undertaken when developing climate change policy. The Government accepts the principles behind the Commission's recommendations and will apply the seven tests in the future development of climate change regulation. The Government sees the better regulation recommendations and tests as essential to combating climate change in a proportionate consistent way. The Government is committed to looking strategically at the overall regulatory burden and developing a policy framework which delivers emissions objectives with minimum regulatory requirements.

2. The views expressed in this response are those of the UK Government and do not necessarily reflect the views of the devolved administrations who have their own responsibilities in taking action to mitigate climate change.

3. The Stern Review sets out both the environmental risks posed by climate change and the risks to the global economy of inaction, and underpins Government thinking on policy responses.

4. Better Regulation is already an important driver across Whitehall with all Departments committed to reducing administrative burdens and to producing annual simplification plans, which set out how they plan to achieve the reductions as well as other initiatives which contribute to the Better Regulation agenda.

5. The Government is determined to show international leadership in tackling climate change, and to demonstrate that ambitious action to reduce emissions is achievable, affordable, and consistent with high and sustained economic growth. Doing that requires careful attention to better regulation principles. Action on climate change which imposes unnecessary costs, or which makes it difficult for businesses to respond positively, is likely to reduce the UK's effectiveness in arguing internationally for more rapid progress. As the Stern Review sets out, early and co-ordinated multilateral action is key if the costs of tackling climate change are to be minimised. For example, working with others in Europe to create a carbon price under the EU Emissions Trading Scheme (EU ETS) allows emissions reductions to be delivered at least cost. Stern demonstrated there are significant synergies between tackling global climate change and a healthy global economy. Globally, action will cost less than inaction if the right policies are put in place.

6. Every section of society – business, individuals and the Government – has a role to play in helping to meet the UK's climate change and other environmental goals. For its part, the Government recognises it is required to take action where market failures prevent long-term economic and environmental consequences from being taken into account in decision-making. A key aim of Government intervention is to encourage behavioural change, particularly with regard to the use of energy. Investment to increase efficiency is often a cost-effective option for businesses and households, but

short-term cost considerations, lack of information or awareness and market failures can create barriers to the take-up of more efficient alternatives. Intervention can correct these market failures, ensuring the implementation of the 'polluter pays' principle where environmental costs are fully internalised in economic decisions.

7. Government principles for action on climate change are set out in:

- The Climate Change Programme 2006.
- The recently published Energy White Paper. This brings the key elements together for the first time in an integrated international energy strategy which describes the action we are taking to help deliver secure energy supplies and tackle climate change.
- The draft Climate Change Bill proposes putting into statute the Government's targets on climate change, including a long-term legal framework with a series of clear targets for reducing carbon dioxide emissions - including making the UK's targets for a 60% reduction by 2050 and a 26 to 32% reduction by 2020 legally binding (see Annex A for further information).
- *Tax and the Environment*, published by HM Treasury in 2002, set out the detailed Government intervention in environment policy. In the 2005 Pre-Budget Report, the Government reiterated the principles which underpin decisions about whether Government intervention is needed and if so, what that action should be (see Annex A for further information).

8. Within this framework, it is essential that the Government uses the most effective instrument to achieve its aims. For instance, regulation or voluntary agreements can be most effective where there are a limited number of polluters, or where, for example, market failures make product standards for energy efficiency the most cost-effective instrument of behavioural change. Spending measures may have a role to play where the polluter cannot afford to reduce pollution, or where equity or distributional issues make a tax or similar measure unacceptable. Fiscal measures can tackle external environmental costs, such as pollution, through reflecting such costs in prices and encouraging the behavioural changes needed to move to a more sustainable economy. Indeed, as highlighted in its *Statement of Intent on Environmental Taxation*, published in 1997, the Government believes that fiscal measures can be an important part of a wider package of measures, and is committed to reforming the tax system to shift the burden from 'goods' to 'bads'. Overall, it is crucial that environmental policy is the outcome of balanced decision-making. All intervention by the Government to meet environmental aims must also take account of the impact of any action on its wider economic and social objectives, including macroeconomic stability, business competitiveness, social inclusion and reducing fuel poverty.

9. Moving forward, our response to this report shows how we are:
  - continuing to keep the overall regulatory burden on climate change under review, looking for ways of streamlining existing regulatory burdens and reducing overlaps;
  - ensuring that the strategic approach behind and supporting case for existing instruments is clear and transparent.
10. For an overview of current Government activity on climate change, including in the EU and internationally, please see Annex A.

### **Recommendation 1**

**That by September 2007 the Government should publish their understanding of the pros and cons of the alternative ways of ensuring carbon emissions are priced to reflect the damage they cause identified in the Review, including the level in the supply chain at which these should be placed, and taking into account that it may be necessary for several instruments to be imposed on the same sector. In doing so they should take into account the effect on final prices and demand, the likely administrative burden, the potential for avoidance and for double-counting, any cost of living or distributional effects, the potential for unintended consequences and any international consequences.**

### **Government response**

11. The Government will actively seek to avoid double-banking carbon, and regulatory inconsistency, which could impact negatively on achieving climate goals. The Government agrees that it will set out its strategic approach to selecting appropriate instruments to tackle emissions in different sectors and points in the supply chain by the first quarter of 2008, taking into account EU policy. The Government will also identify overlaps, inconsistencies and conflicts between existing regulatory regimes and suggest how these can be resolved.

12. The Government's strategic approach to reducing emissions across the economy is set out in the Climate Change Programme. The Energy White Paper provides an improved framework that will help businesses, individuals and Government deliver more energy saving, cleaner energy supplies and timely energy investments. However we recognise that, spread across a number of policy documents and publications, our approach to selecting which instruments are most appropriate to tackle emissions in different sectors and points in the supply chain can be unclear to business.

13. The Government therefore recognises the value of clarifying the strategic framework and will apply it when assessing options for the future development of policies designed to drive emissions reductions. Making our strategic approach clear supports investment certainty and ensures that an informed and effective strategic dialogue can take place between

Government, business and other organisations on their ongoing contribution to emissions reductions.

14. A key consideration in selecting instruments has to be the creation of a common carbon price for the economy that prices the impact of additional emissions on the economy. Interventions upstream in the production/consumption process, such as those targeting electricity suppliers and energy-intensive industrial sectors, have the advantage of providing a common carbon price across the whole economy. Cap-and-trade schemes such as the EU ETS give emission sources flexibility on whether to invest in abatement themselves or purchase it from elsewhere via the carbon market. Such instruments also have economic efficiency benefits, by allowing emissions reductions to be made where they are cheapest, reduce carbon leakage, and minimise enforcement costs. However, other market failures may mean that cost-effective carbon savings are not realised in some sectors of the economy. In addition, balancing various policy objectives (for example, emissions reductions vs. international competitiveness) may require the need to differentiate policy interventions on a sectoral basis. A mix of instruments designed to take account of these differences is likely to improve effectiveness of the overall policy.

15. However, as the BRC report rightly recognises, some sectors may have several instruments imposed on them, and multiple instruments can be problematic when they are inconsistent with each other. Lack of policy coherence and redundancies between various instruments can reduce the potential gains from using a range of instruments. Thus, it is important to ensure that the mix of instruments facing individual businesses is well understood, proportionate and ensures that industry competitiveness is maintained.

16. In order to embed better regulation principles into the policy making process, the new Impact Assessment process has two additional requirements in relation to administrative burdens and simplification. The first is the calculation of the costs of administrative burdens of new policy options using the standard cost model. The second is the identification of compensatory simplification (offsetting) initiatives. Departments must actively seek out opportunities to simplify or remove existing requirements when looking to introduce new requirements. Plans for simplification must be broadly equivalent to new proposals where relevant.

## **Recommendation 2**

**That by September 2007 the UK Government publish an updated view of the appropriate future path of the price of carbon for use in the UK, given the likely path for total global emissions over time based on a broadly acceptable view for the overall stabilisation target.**

## **Government response**

17. The Government agrees that it should work to provide businesses with greater certainty about the future carbon pricing framework while working towards an international framework for reducing emissions post-2012. It is taking a number of steps to provide this certainty, including through the publication of the draft Climate Change Bill which sets out medium and long-term legally binding targets for net UK CO<sub>2</sub> emission reductions<sup>1</sup>. The draft Bill also includes a system of five-year carbon budgets to be set fifteen years ahead which will give a clear signal to UK businesses and investors that policy will continue to drive the shift to a low carbon economy, and that a price for carbon will remain in place.

18. The Government is working closely with European partners to find ways of giving longer term certainty on the price of carbon in the EU Emissions Trading Scheme (EU ETS). The EU ETS is the main mechanism of creating a carbon price, allowing emissions reductions to be made at least cost. The recent announcement by EU leaders at the March Spring Council that the EU will deliver Greenhouse Gas emissions reductions of at least 20% on 1990 levels in 2020, will have given a strong signal about the level at which EU ETS caps are likely to be set, and hence the carbon price.

## **Recommendation 3**

**That by September 2007 the UK Government should put in place measures to ensure policies to tackle climate change have an agreed methodology to estimate the costs and benefits relating to the damage caused by carbon emissions across the globe today and in the future.**

## **Government response**

21. The Government has already fulfilled this recommendation. The Government has published guidance on how the damaging effects of carbon emissions today and into the future, should be taken into account in climate change policy appraisals and evaluations through its estimate of the social cost of carbon. Greenhouse Gas Policy Evaluation and Appraisal in Government Departments can be found at <http://www.defra.gov.uk/environment/climatechange/uk/ukcccp/pdf/greengas-policyevaluation.pdf> This describes the UK Government's methodology for measuring climate change costs and benefits for use in evaluation and appraisal of climate change policies.

22. As set out under the response to recommendation 2, following the Stern Review, the Government is considering how to update its estimate of

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<sup>1</sup> See the Climate Change Strategic Framework recently published by Defra:  
<http://www.defra.gov.uk/environment/climatechange/uk/legislation/pdf/CCBill-Strategy.pdf>



the social cost of carbon; any changes to methodology will be agreed and published by summer 2007.

23. The new Impact Assessment (IA) template and guidance, which supports the Greenhouse Gas Policy Evaluation document, will ensure that the social cost of carbon of different policy options is measured, and the impacts on industry competitiveness are analysed as policy options are developed. The IA summary sheet, which is a mandatory requirement of the new approach, includes a question on the value of changes in greenhouse gas emissions and contains a Specific Impact Test checklist which includes a Carbon assessment category. The Summary Sheet also requires policy-makers to indicate when the policy will be reviewed to establish the actual costs and benefits and the achievement of desired effects. This includes the impact of carbon emissions. More information on the new IA process, including the Summary Sheet is available at <http://www.cabinetoffice.gov.uk/regulation/ria/>.

24. Following the Stern Review, the Government is also considering how to update its estimate of the social cost of carbon; i.e the marginal damage cost of carbon emissions. This is dependent on the path of emissions and will rise over the medium term – meaning that the social cost of carbon will be lower at any given time with climate change policies in place than under business as usual. The Stern Review has already given estimates of the future path of the social cost of carbon under different stabilisation paths. The Government is currently considering how to update its estimate of the social cost of carbon, with the aim of agreeing and publishing any changes to methodology by summer 2007<sup>2</sup>

#### **Recommendation 4**

**That by end-2007 all UK Government departments and other public sector concerns should have developed and implemented a plan for investing appropriately (that is, to the extent implied by the estimated future path of the price of carbon) in public sector energy conservation. This will set an example to the wider community.**

#### **Government response**

25. The Government agrees that Government departments and the wider public sector should play a leadership role in reducing emissions. It has already put in place plans to reduce emissions from the public sector estate and arrangements to report on progress.

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<sup>2</sup> It is important to distinguish between the social cost of carbon and carbon pricing. Estimates of the social cost of carbon inform assesses of the costs and benefits of alternative outcome and polices. The carbon price delivered by cap-and-trade schemes such as the EU ETS emerges from market transactions. Its level is influenced by factors that include the scarcity of emissions allowances (how tight the cap is), the cost of abatement, and the decisions made by firms in among the firms under the cap.

26. In the review of the Climate Change Programme, the Government has set out how the public sector can take a leading role in improving energy efficiency and reducing carbon emissions. This has been developed further in the Energy White Paper published on 23 May which brings forward plans for funding of energy efficient new social housing and public sector buildings, and energy efficient procurement of new public sector cars and energy using products:

- large public sector organisations will be required to reduce emissions by participating in the Carbon Reduction Commitment scheme;
- a condition of Government funding will be that all new social housing built by registered social landlords, other developers and all new homes developed by English Partnerships comply with level 3 of the Code for Sustainable Homes;
- Buildings greater than 1,000m<sup>2</sup> occupied by public authorities and institutions to display energy rating certificates;
- From 2008 challenging energy efficiency standards will be set for all new products and services that the Government procures.

27. There would be difficulties in developing and implementing formal public sector wide plans for investment as suggested in the recommendation. The public sector is increasingly devolving funding and decision making e.g. NHS Foundation Trusts, Academy schools and local authorities, which provides greater freedoms and flexibilities. This means the Government has less direct control on what organisations invest in. Given this, the focus must be on having the right incentives and performance management frameworks in place that focus on outcomes where progress can be measured. There are also plans to put climate change indicators in the 200 forthcoming Comprehensive Performance Assessment (CPA) indicators for local government.

28. The Government is putting in place a combination of targets, support, policies and programmes to encourage all sectors to invest appropriately. In addition, there are measures that apply specifically to the public sector to encourage them to go further, where progress can already be demonstrated, such as the sustainable operation targets for the Government estate and those for the NHS in England to reduce carbon emissions and improve energy efficiency. The Energy Performance of Buildings Directive came into effect in April 2007 and requires all public sector bodies to assess their buildings operational energy performance and display certificates in a prominent place clearly visible to the public. Furthermore, audits undertaken to provide an energy rating for the building when it is constructed, sold or leased will also provide recommendations to improve the energy performance, which will further encourage the development and adoption of energy efficiency plans.

29. The recently published Sustainable Procurement Action Plan sets out our goal for a low carbon more resource efficient public sector and a plan for reaching this goal in the way it spends the £150 billion on goods and services every year. To help deliver this, the Government will publish guidance on criteria for energy efficiency and energy savings to be used in competitive tendering for public contracts by Spring 2008.

## **Recommendation 5**

**That by end-2007 all relevant UK Government departments and public sector concerns should cooperate in publishing an assessment of the existing regulatory framework relating to energy efficiency issues, seeking inconsistencies in regulations and standards etc, and unnecessary hurdles, and should set in place appropriate regulation and standard-setting, possibly involving several instruments being imposed on the same sector, given the likely future path for the social cost of carbon.**

### **Government response**

30. The Government is undertaking a simplification review, focussed specifically on policy instruments aimed at industry and business, to identify how the coverage of these policies might be simplified - in particular the three major instruments of EU ETS, Climate Change Agreements and the proposed Energy Performance Commitment. Where opportunities for improvement are identified, Government will take them forward both as part of its better regulation approach to future EU legislation on emissions trading, and in the design of its domestic instruments, following consultation with those affected and other stakeholders. The review, which will report by the end of the year, will also make an initial assessment of any significant overlaps with the administrative requirements of other areas of environmental regulation such as Integrated Pollution Prevention and Control, the Large Combustion Plants Directive, Combined Heat and Power (CHP) policy, the Renewables Obligation and waste policies.

31. The review will build on earlier work, carried out by the Carbon Trust on behalf of the Government as an input into the review of the Climate Change Programme, which looked at how policy instruments impacting on business and the public sector could be optimised to deliver significant carbon savings, whilst maintaining and enhancing the competitiveness of UK companies. That work showed why energy efficiency must continue to play a central role in the Government's national energy and climate change strategy, where the main potential lies for energy efficiency improvement, and what the main barriers and drivers are to the take-up of current and upcoming energy efficiency and low carbon technologies in business and the public sector. The response to recommendation 1 commits us to clarifying the strategic framework by the first quarter of 2008.

32. The revised UK Climate Change Programme published in March 2006, and the 2003 Energy White Paper set out the Government's strategic approach to carbon reduction, carbon pricing and energy efficiency across the economy up to 2020. The Government has already undertaken a fundamental strategic review of all carbon and energy efficiency instruments, through its work to review the UK Climate Change Programme, and in the preparation of the 2007 Energy White Paper and National Energy Efficiency Action Plan that the UK is required to submit to the European Commission in 2007. However,

the Government agrees that there is a need for a simplification review of the main climate change instruments aimed at industry and business, primarily because of the introduction of the EU emissions trading scheme in 2005. This is underway and will look strategically at the scope for reducing overlaps and minimising burdens.

33. Elsewhere in this response, the Government recognises the importance of setting out the principles that will inform the future development of policies and measures designed to reduce emissions from industry and business. Our responses to recommendations 2 and 3 set out our approach to the social cost of carbon and how the Government intends to give more certainty on carbon prices, including in the development of the EU ETS.

### **Recommendation 6**

**That by end-2007 the UK Government publish an assessment of the role it might take in identifying and dealing with market imperfections relating to the three stages of the innovation process (research/invention, development and diffusion) in the light of the likely future path of the price of carbon, with a view to bringing forward a portfolio of low carbon technology.**

### **Government response**

34. The Government accepts this recommendation. The Government has published strategies for the low carbon energy technologies it supports through the investment chain, and a strategy for biomass energy is due for publication shortly. These set out the business case for financial support, together with the policies and actions that are proposed to overcome market failures.

35. As announced by the Chancellor last year, the funding and organisation of research and development in low carbon energy technologies and demand management is being transformed through the creation of a new public/private sector partnership, the Energy Technologies Institute. In addition a new Environmental Transformation Fund is being established to support renewable energy, bio-fuels and other non-nuclear, low-carbon technologies. Further details will be announced in the 2007 Comprehensive Spending Review.

36. The Government's approach on technology policy also takes account of advice and recommendations of groups such as the Commission on Environmental Markets and Economic Performance (CEMEP) and the Environmental Innovations Advisory Group (EIAG) which have been tasked with looking at how the UK can make the most of opportunities for wealth creation and jobs from environmental technologies.

37. The Government will publish an overarching assessment of its role in supporting the low carbon energy innovation process that brings together these aspects.

## **Recommendation 7**

### **The Seven Tests For Better Climate Change Regulation**

38. The Government accepts the seven tests for climate change regulation, and commits to applying them to future policy development and to the review of existing policy. The Government is confident that, in general terms these tests have already been applied to policy development. For example:

- The Government's approach to policy evaluation and appraisal places high value on the need for the Climate Change Policy Framework to be consistent with a healthy UK economy.
- The UK Climate Change Programme, Energy Review and draft Climate Change Bill, all demonstrate the Government's overall strategic approach to carbon reduction.
- Policies are rigorously assessed against a social cost of carbon

39. The Government will apply the seven tests with regard to the clarification of the framework in recommendation 1, and the simplification review referred to in recommendation 5.

40. The Government will give further consideration as to how the tests can be put into practice through the Impact Assessment system.

## **Test One**

### **Ensure climate policy is consistent with a healthy UK economy**

#### **Government response**

41. The Government agrees that this should be a cornerstone of the approach to tackling climate change. Indeed the Stern Review provides clarity that tackling climate change is itself essential for long-term economic and social well-being. In addition UK action to reduce emissions should be designed to encourage other economies to take on similar levels of ambition; part of that involves being able to demonstrate that our action is cost-effective; for example, to show that cap and trade schemes such as EU ETS offer a cost-effective option to industry. The Government's assessment of EU ETS as it develops and the analysis undertaken and published as part of the Review of the EU ETS across Europe, should be used to increase the understanding and transparency of that policy instrument. The Government's vision statement for emissions trading, published alongside the Stern Review in October 2006, emphasised the importance of the review ensuring that the ETS complied with better regulation principles, for example by removing small emitters from the scheme.

## **Test two**

### **Government must develop and act consistently with a climate change strategy; avoiding piecemeal announcements**

#### **Government response**

42. The Government accepts this test; this is illustrated by the national climate change programme currently in place, and the suite of measures announced in the draft Climate Change Bill and Energy White Paper 2007, including a 5-year carbon budget and a systematic, economy-wide approach to defining and measuring progress. The Government accepts that piecemeal announcements should be avoided where possible in order to provide certainty and consistency to business and consumers. Any announcements on tax will be decided within the normal Budget cycle.

## **Test three**

### **Test policy against a carbon price benchmark**

#### **Government response**

43. The Government accepts this test. There is currently a standard methodology in place in the Climate Change Programme<sup>3</sup> which will set the standards for all other Government departments. As mentioned in recommendation 2 the Government uses the social cost of carbon to determine the extent of UK action on climate change. The Cabinet Office new Impact Assessment guidance includes a requirement to assess the impact of different policy options on greenhouse gas emissions, using the social cost of carbon. Government is currently working on revisions to the social cost of carbon.

## **Test four**

### **Carbon policy choices must be efficient; don't do things twice**

#### **Government response**

44. The Government accepts the principle behind this test, and that the amount of carbon emissions reductions generated from policies should not be double-banked. As the BRC's report itself says, we should avoid double-banking carbon whereby emissions are counted twice under different initiatives. As recommendation 1 acknowledges, it may be necessary for several instruments to operate within one particular sector but they need to be proportionate, and inter-linkages should not over-burden any one sector. For example, there may be benefits in having energy efficiency policies in order to encourage a prompt response to carbon price signals, and so as to secure climate change and security of supply objectives together.

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<sup>3</sup> See the appraisal guidance for policies affecting greenhouse gas emissions at <http://www.defra.gov.uk/environment/climatechange/uk/ukccp/pdf/greengas-policyevaluation.pdf>

However, Government needs to consider the mix of policy instruments not just in terms of whether they are collectively an effective and coherent means of delivering the target, but also from the point of view of individually regulated firms. It is therefore particularly important that a full range of options is considered to ensure policy objectives can be met in the least burdensome way. The Government is committed to ensure this happens. Where, having decided that multiple instruments are necessary for a particular sector, the Government introduces new regulation, it will actively look for measures that can simplify other areas of regulation for that sector.

Where different measures apply to an organisation, it should be possible for that organisation to have a clear picture of what is being asked of it, and to determine an effective strategy to ensure compliance at least cost. The review of instruments referred to above, should help Government to identify opportunities for putting this approach into practice consistently.

#### **Test five**

##### **Keep administrative costs to a minimum**

#### **Government response**

45. The Government accepts this test. Administrative costs and burdens imposed on businesses should be no higher than the level needed to ensure that the policy is effective.

46. As highlighted in paragraph 16 the new Impact Assessment process will help embed the Better Regulation principles in the policy-making process.

#### **Test six**

##### **Do not use climate change as a justification for other policy goals**

#### **Government response**

47. The Government accepts this test and should always be clear on the rationale for measures to tackle climate change, and should not be used as a justification for other policy goals. However, it is important to recognise the co-dependencies between climate change and other policy goals. The Government uses environmental taxes to raise revenue to pay for public services as well as using tax to influence consumer behaviour in a range of ways. For example, fuel duty takes account of climate change concerns but is also aimed at reducing congestion and improving air quality. The Government has made tackling climate change a priority because of its importance for other policy goals, which Stern has confirmed. A stable climate underpins UK prosperity and security, and the delivery of many of our international strategic priorities – e.g. on preventing conflict or managing migration. That is why the Government has made "achieving climate security by promoting a faster transition to a sustainable, low carbon global economy" a strategic international priority in its own right. The Government agrees the need to consider transparently the co-benefits and trade-offs between our climate objectives and other policy goals. Taking those interdependencies into

account explicitly in policy making may also help to reduce burdens on business – for example, by ensuring the climate change and Local Air Quality legislation applies to individual installations in a more coherent and easily understood way.

### **Test seven**

#### **If it isn't working, change it**

##### **Government response**

48. The Government accepts this test. Where the rationale for policies no longer justifies their continued implementation, they should be removed. This is consistent with the Government's commitment to post-implementation review. The new Impact Assessment guidance sets out a process for evaluating and reviewing policies. However, in the case of new and innovative measures it must be recognised that there will be a period of market adaptation and it may take some time for them to prove effective. For example, the UK ETS was a pilot trading scheme running for five years from 2002 to 2006, which provided many valuable lessons for the development of climate change policy and future trading schemes, including the EU ETS. The EU ETS itself is currently completing its first phase (2005-2007), and lessons are being learned from the loose caps set in the first phase by many Member States, in order to take a more effective approach in phase two and beyond.

49. There may be cases where the answer is to adjust the way a policy is implemented (e.g. improvements to EU ETS cap setting for phase two). Because organisations need a level of predictability in the instruments applying to them any changes should be introduced on Common Commencement Dates. If organisations have a reasonable expectation that Government will apply a measure consistently, sudden or frequent changes may not be the best way of securing buy-in and credibility for future instruments.

50. We should also aim to avoid frequent changes in the mix of policy measures or their application; organisations need a level of predictability in the instruments applying to them (which will be achieved by applying test two).



## Annex A

### Overview of current Government activity on climate change

1. Government has already taken significant steps to meet the challenge of reducing emissions domestically, with policies such as the Climate Change Levy and Climate Change Agreements, the Renewables Obligation and Energy Efficiency Commitment. The review of the Climate Change Programme sets out a range of policy and other activity. The Government's report on the Energy Review: "The Energy Challenge" was released on 11 July 2006. This work aims to put us in a position to meet the two major long-term challenges in UK energy policy:

- tackling climate change by reducing carbon dioxide emissions; and
- delivering secure, clean energy at affordable prices, as we move to increasing dependence on imported energy.

2. The recently published Energy White Paper set out the key elements of the Government's strategy involving increased international cooperation as well as action at home. These are :-

- Establish an international framework to tackle climate change;
- Provide legally binding carbon targets for the whole economy, progressively reducing emissions;
- Make further progress in achieving fully competitive and transparent international markets;
- Encourage more energy saving through better information, incentives and regulation;
- Provide more support for low carbon technologies;
- Ensure the right conditions for investment.

3. The Government has also further reinforced its climate change objectives in the Pre Budget Report 2006 and Budget 2007, including;

- Government will launch a competition to develop the UK's first full-scale demonstration of carbon capture and storage, the result of which will be announced next year;
- an increase in fuel duty rates of 2 pence per litre (ppl) from 1 October 2007, and increases in the next two years of 2ppl and 1.84ppl respectively;
- announcing car vehicle excise duty rates for the next three years, including rates for the most polluting cars rising to £400 and rates for clean cars in band B falling to £35;
- a review to examine the vehicle and fuel technologies which over the next 25 years could help 'decarbonise' road transport;
- a package of measures to support biofuels including extending the 20 pence per litre biofuels duty differential to 2009-10;

- a rise in climate change levy rates from 1 April 2008 in line with current inflation;
- that from 1 October 2007 all new zero-carbon homes costing up to £500,000 will pay no stamp duty, with zero-carbon homes costing in excess of £500,000 receiving a reduction in their stamp duty bill of £15,000;
- an intention that, by the end of the next decade, all householders will have been offered help to introduce energy efficient measures with the aim that, where practicably possible, all homes will have achieved their cost-effective energy efficiency potential;
- increasing funds available through the Low Carbon Buildings Programme to a total of over £18 million to help meet the demand from households for microgeneration technologies; and
- an £800 million international window for the Environmental Transformation Fund to finance overseas development projects that deliver both poverty reduction and environmental benefits in developing countries.

4. The UK has been a leading player in the development and successful introduction of the EU Emissions Trading Scheme for its first phase in 2005-2007, and in ensuring more ambitious plans for 2008-2012.

5. The draft Climate Change Bill which was published for consultation and pre-legislative scrutiny on 13 March 2007, proposes putting into statute the Government's targets on climate change, with the following key elements:

- A long-term legal framework with a series of clear targets for reducing carbon dioxide emissions - including making the UK's targets for a 60% reduction by 2050 and a 26% to 32% reduction by 2020 legally binding.
- A new system of legally binding five year "carbon budgets", set at least 15 years ahead, to provide clarity on the UK's pathway towards its key targets and increase the certainty that businesses and individuals need to invest in low-carbon technologies.
- A new statutory body, the *Committee on Climate Change*, to provide independent expert advice and guidance to Government on achieving its targets and staying within its carbon budgets.
- New powers to enable the Government to more easily implement policies to cut emissions.
- A new system of annual open and transparent reporting to Parliament. The Committee on Climate Change will provide an independent progress report to which the Government must respond. This will ensure the Government is held to account every year on its progress towards each five year carbon budget and the 2020 and 2050 targets.
- A requirement for Government to report at least every five years on current and predicted impacts of climate change and on its proposals and policy for adapting to climate change.

6. In the 2005 Pre-Budget Report, the Government reiterated the principles which underpin decisions about whether Government intervention is needed and if so, what that action should be:

- the decision to take action must be evidence-based;
- any intervention to tackle environmental challenges must take place at the appropriate level – international, national or local;
- action to protect the environment must take account of wider economic and social objectives;
- action on the environment must be part of a long-term strategy;
- the right instrument must be chosen to meet each particular objective; and
- where tax is used, it will aim to shift the burden of tax from ‘goods’ (e.g. employment) to ‘bads’ (e.g. pollution).

### **The Spring European Council: integrated climate protection and energy policy**

7. The European Council held in Brussels on 8 and 9 March 2007 demonstrated that the importance both of action to tackle climate change and of better regulation is now well embedded across Member States. The European Council agreed to cut the administrative burden arising from EU legislation by 25 per cent by the year 2012 in line with UK objectives. It also committed itself to delivering at least a 20% reduction in greenhouse gas emissions by 2020 compared to 1990. This is a landmark decision, and will require changes in all Member States' domestic policies to deliver the necessary reductions in emissions.

8. In particular, these targets will require strengthening of the EU Emissions Trading Scheme. The UK has taken a lead in phase two of the scheme (2008-2012) in setting an ambitious cap, and this was acknowledged by the Commission President. The UK was among a handful of Member State proposals that were approved in full by the Commission. The Commission has taken action to ensure that caps set by other Member States show similar levels of ambition, and are consistent with the Kyoto Protocol commitments. The UK supports the Commission's work to strengthen the EU ETS in further phases through its current review; has backed the inclusion of aviation in the scheme as soon as possible (the Commission's current proposals suggests 2011); and wants to see the European carbon market becoming the core of a wider global carbon market. Emissions trading is at the heart of the UK's international strategy to tackle climate change in the most cost effective way.

9. Of course, these European commitments have to be part of wider international action. As the Stern Review demonstrated, without concerted international action, there will be disastrous consequences for global economic development. The European Council reaffirmed the importance of agreeing a long-term framework to address climate change. It set out a coherent and united vision for how such a wider international agreement might work. It paves the way for further action on climate change at the G8 Summit in Germany in June. This will be a major opportunity for focusing on

an international agreement, including on a long-term global stabilisation goal, a route to a truly global carbon market, support for new technology, adaptation measures, and action on deforestation.

10. International agreement is in the end, the crucial prize. UK and EU action to secure emissions reductions is vital; but in order to be fully effective in tackling the problem, it needs to be used effectively to secure greater commitments from other major economies, and from the world as a whole. Better regulation is a vital part of demonstrating that effective action is both possible and affordable. However, it is important we also take action here in the UK, in order to help with the transition towards a low carbon economy over time, as the draft Climate Change Bill shows. The Bill also demonstrates the UK's strong international leadership – a key factor in helping to secure future international agreements. Indeed a UK Government official gave evidence at the US hearing on climate change and emissions trading, showing that Congress is thinking seriously about carbon regulation.

11. But ultimately it is only an agreement that is global and includes the USA, China and India that will halt the damage of rising greenhouse gas emissions. Other Government action can be justified in its own right, but it is most useful as a means to that end. The G8 + 5 dialogue which was started at Gleneagles in the UK Presidency in 2005 and which has all the main countries within it, is an excellent forum in which new, broad principles for an international framework can be agreed.