Submission by the Zero Carbon Campaign

Info on organisation:

The **Zero Carbon Campaign** was launched by entrepreneur and founder of OVO Energy Stephen Fitzpatrick in July 2019, following the introduction of the UK's 2050 net zero commitment. It calls for the government to introduce stronger and more consistent carbon pricing across more of the UK economy to help drive a fair and just transition towards net zero, and catalyse a 'green recovery' from COVID-19. Zero Carbon Campaign has set up a **Commission** of leading scientists, business leaders, environmental and academic experts to work through the practical challenges of how such a policy might be structured and implemented. The Commissioners include:

- Lord Adair Turner, *Senior Fellow, Institute for New Economic Thinking & Chair, Energy Transition Commission*
- Nick Butler, *Energy Commentator, The Financial Times*
- Professor Paul Ekins, *Professor of Resources and Environment Policy, Bartlett School Environment, Energy & Resources*
- Professor Sam Fankhauser, *Director, Grantham Institute at LSE*
- John Sauven, *Executive Director, Greenpeace*
- Dr. Rhian Mari Thomas, *CEO, Green Finance Institute*
- Baroness Worthington, *Founder, Sandbag & co-author of the UK's Climate Change Act*
- Georgia Berry, *Director, Sustainable Business and Communications, OVO Energy and former Downing Street adviser on energy policy*

Rachel Wolf of Public First is acting as the Commission Secretariat. She authored the Commission's interim report, which was **published** in June 2020, and will also be writing the final White Paper; due for release in September.

Reason for submitting:

If we want to 'green' the post-Covid recovery and get on track for net zero by 2050, we have to account for the true costs of fossil fuel pollution. Pricing carbon and equivalent emissions across our economy - and using the revenue to further environmental gains whilst mitigating cost impacts on households - is the most effective way to respond to these dual challenges at a price society can afford. This is the premise of our consultation response, and the primary lens through which we have responded to each question.

Questions:

1. **How can any fiscal and economic stimulus packages be aligned with the UKs ambitions on net-zero, biodiversity, the circular economy, and Sustainable Development Goals?**

Without compromise, all fiscal and economic stimulus packages should be aligned with the UK's stated net zero goaland the UN SDGs - including those which relate to biodiversity (15) and the circular economy (goal 12). To ensure such alignment, packages must be designed to reduce the likelihood of - and increase the resilience of our society and economy to -

future environmental shocks. A stimulus that succeeds only in getting economies and livelihoods quickly back to 'business as usual' will not be sufficient.

In practice, this means pursuing recovery policies that will trigger low-carbon investment and behavioural changes at the pace and scale required to meet long-term emission reduction goals. It also means committing to end policies and practices which disrupt the progress of these aims, such as distributing unconditional 'bailouts' to emissions intensive industries. This not only goes against the principles of a 'Green Recovery' but is also highly economically inefficient; with such policies ranking poorly across all key recovery metrics.[1]

What's more, opinion polling suggests that such policies go against the will of the public. Indeed, only 11% of the UK public support airlines receiving bailouts without plans to tackle climate change.[2] This suggests that there is public support for attaching 'green' conditionality to Government investment decisions, and that a commitment to mandating all Government policy and financial decisions to be reviewed through a 'net zero' lens in future would gain popular support.[3]

2. **How should the policy response to the current crisis differ from the response to the global financial crash in 2008?**

The government's policy response should recognise that pitting an 'environmental' recovery against one which prioritises speed creates a false and unhelpful dichotomy. A 'Green Recovery' is not a moral choice or a compromise: it is an opportunity which can enable us to meaningfully address climate and ecological breakdown, whilst driving economic growth and job creation in both the short and long term. The public, businesses and politicians from across the political spectrum have demanded a Green Recovery which embodies these principles, and it is time that the Government implemented one, using environmental ambitions as a lens through which all fiscal and economic stimulus packages are assessed, afforded and held to account.

In 2008, the opportunities posed by green stimulus policies were not effectively realised because they made up such a small share of global recovery packages.[4] Since then a number of studies have demonstrated the superiority of such policies in delivering returns on investment in comparison to traditional fiscal stimuli:

- Studies of the 2008 US stimulus package in the wake of the crash show that around half a million jobs were created by the environmental elements of the package; a rate that (according to some estimates) out-performed 'non-green' measures by 20%.[5]
- TheSmith School recently compared green, brown and colourless fiscal responses to the financial crash and found that greenenergy and construction projects tend to

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[1] O'Callaghan, B, Hepburn, C (2020). Leading economists: Green coronavirus recovery also better for economy. *Carbon Brief*. Available here.

[2] YouGov (2020). We Are Possible Survey Results. Available here.

[3] This follows the precedent established in the Heathrow Third Runway decision, in which the Court of Appeals ruled that the government's plans had been produced unlawfully due to its failures to meet the provisions of the Paris Agreement. More detail available here.

[4] Robins, N. et al (2010). Delivering the Green Stimulus. *HSBC Global Research*. Available here.

[5] Jacobs, M (2012). Green Growth: Economic Theory and Political Discourse. Grantham Research Institute on Climate Change and the Environment. Available here.

have higher short run multipliers, create more jobs and lead to increased long-term cost savings.[6]

These findings are particularly pertinent when you consider how much low-carbon investments have been de-risked since 2008: options are now cheaper and more readily available, while the risks of stranded high carbon assets are much higher.[7]
The government also needs to recognise the global nature of the Coronavirus pandemic and the context in which it has occurred. Most sectors of the economy in most countries across the globe have been affected by the COVID-19 crisis; this was not the case in 2008-9. The broad impact of COVID-19, combined with the urgent threat that the climate crisis poses to security and prosperity around the world, creates a pressing need for countries to work together ensure that the costs and benefits of the low-carbon transition are spread fairly across the world.

Britain, in its capacity as COP26 President, can push other countries to raise their ambition in this space, and champion the benefits of pursuing a green economic policy response. They can also lead overseas fossil fuel divestment to avoid the risk of a recovery premised on the locking of stranded assets - and stranded jobs - into developing economies.

3. **In what areas should interventions be targeted to deliver both economic and environmental benefits in the short and long term?**

We believe that stronger and more consistent carbon pricing can encourage environmentally-friendly decision making across the economy, delivering both short and long-term gains that can help realise the Government's 2050 'net zero' Commitment, and kick start a 'Green Recovery' from COVID-19.

When accompanied by a suite of regulatory policies, the introduction of a long-term carbon price trajectory can drive rapid emissions abatement in the areas which it is most cost-effective to do so, whilst giving businesses and manufacturers the confidence to make long-term decisions about the total decarbonisation of their supply chains and practices.
The environmental, social, health and economic benefits of a revised carbon pricing system have been covered extensively.[8] However, it is also worth noting that the revenue raised by such a policy could be used to further de-risk investment in low-carbon technologies (such as CCUS and hydrogen), and to encourage the scale and up-take of relatively high-cost low-use products such as Sustainable Aviation Fuels (SAFs).

4. **How could the Autumn budget be used to shift taxation from economically beneficial things, such as jobs and incomes; to environmental harms, such as pollution and waste?**

The Autumn budget can quickly and effectively shift the focus of taxation to environmental harms - and redress the perverse balance of incentives that currently favours emission

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[6] Allan, J., Donovan, C., Ekins, P., Gambhir, A., Hepburn, C., Robins, N., Reay, D., Shuckburgh E., and Zenghelis, D. (2020). A net-zero emissions economic recovery from COVID-19. Smith School, University of Oxford. Available here
[7] Ibid.
[8] WWF (2020). Keeping Us Competitive: A UK Investment Strategy for Net Zero. Available here

intensive energy - by extending and strengthening UK carbon taxation to ensure that emissions are effectively priced wherever they occur. Our opinion research suggests that the public are on board with this proposal, revealing absolute support for carbon charging; even when we made it clear that this might initially raise bills for consumers.[9]
Why is environmental tax reform necessary?

The current UK ‘green tax’ landscape is piecemeal and inefficient - it has led to high carbon prices in some sectors, and effective subsidies in others. It is also counterproductive in terms of climate positive behaviour change: low-carbon electricity costs are lumped onto energy bills, making them approximately four times more expensive than more polluting heat sources such as natural gas.

The solution, as we see it, is a much more simple approach: one that redresses the balance of carbon pricing across the economy, whilst remaining sensitive to the challenges that different sectors face, and the different complementary policies required to ensure that carbon pricing has the desired decarbonisation effect.

What do we recommend?

Our Commission’s interim report has outlined how the government could conduct a phased extension of carbon charging to help fund a fair, green transition towards net zero. The report proposes that by 2025, there would be a simple carbon charge of £55/tCO2e (carbon dioxide and equivalents) on greenhouse gas emissions across much of the economy, rising to £75/tCO2e by 2030. It would repurpose or replace many of today’s existing prices[10] as an explicit carbon charge, and be extended to sectors that currently lack sufficient abatement incentives.

For sectors such as waste - which already has a very high effective carbon price - we have made alternative proposals; including the extension of the landfill tax to incineration, a ban on biodegradable waste entering landfill, and support for the governments plastic tax policy.

In order to address concerns about ‘carbon leakage,’ we recommend a phased introduction of charges via a Border Carbon Adjustment or equivalent international pricing mechanism by 2025 (or earlier if possible) before a ‘carbon price’ is applied to Agriculture and trade-exposed industry.

We are also proposing that some revenue is used to help lift barriers to low-carbon behaviour change and to ensure compatibility with just transition ambitions. Specifically, by compensating low-income households for negative cost impacts, supporting general government priorities - such as infrastructure investment and job creation - and supplementing energy efficiency finance for households.

What is wrong with the Government’s current approach?

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[9] “57% of poll respondents said they would support a policy that increased taxes on polluting businesses.” Public First (2020). Public Insights Briefing. Available here.
[10] Including Carbon Price Support and the Climate Change Levy

Some will argue that UK carbon pricing is already being addressed, with BEIS having released their proposal for a future UK ETS,[11] and HMT recently issuing a consultation on the introduction of a carbon emissions tax.[12] However, we are concerned about the proposals outlined in both of these documents:

BEIS Future of UK carbon pricing:

- The proposed Auction Reserve Price (£15) is substantially lower than the EU ETS traded carbon price before COVID-19, which constitutes a reduced abatement incentive for all actors involved
- The government has decided against increasing the scope of a UK ETS to new sectors, meaning approximately only ⅓ of UK emissions will be covered, and those that are priced will be cushioned by the provision of ‘free allowances’
- The UK’s emissions are substantially lower than its share of the EU ETS emissions cap on which the UK ETS is being modelled[13], which means there is likely to be a surplus of credits on the market

HMT’s recently announced carbon tax consultation:

- The proposal to allocate ‘free allowances’ - and to enable an allowance increase for those actors who continually fail to meet their emissions targets - is a further instance of the Government failing to effectively price pollution where it occurs, and instead facilitating subsidies for polluting sectors.
- As the Committee on Climate Change[14] has argued, industrial competitiveness can be maintained without free allocation of permits (and therefore emissions). Government should instead consider policies to ensure a level playing field with other countries while encouraging action to reduce emissions.

5. **What sustainability conditions should be attached to Government bailouts for high-carbon industries?**

Whilst we defer to others to comment on overarching frameworks for conditionality, we would propose that one feature of such frameworks should be a compulsion on all companies receiving public financial support to make commitments to achieving net zero emissions across scope 1, 2 and 3 emissions by 2050 by the mid 2020s.

The specific changes that companies are required to make and dates by which targets need to be achieved could vary depending on the abatement challenges faced by each sector, but should follow the general example established by the French government’s bailout of Air France which requires the airline to halve its footprint by 2024, and to commit to sourcing 2% of its fuel requirements from sustainable sources by 2025.[15]

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[11] BEIS (2020). The future of carbon pricing: consultation response. Available here.
[12] HMT (2020). Carbon emissions tax. Available here.
[13] CCC (2020), Reducing UK Emissions: 2020 Progress Report to Parliament. Available here.
[14] Annex: The Future of Carbon Pricing. Available here.
[15] Flight global (2020). French government sets green conditions for Air France bailout. Available here.

Frameworks also need to support the overarching imperative to reduce the cost of green products and services - and should therefore explicitly prevent revenues being channeled into “brown” investments. We acknowledge that this could have potentially negative consequences for jobs. However, if governments structure bailouts in a way that prioritises the protects workers’ livelihoods for as long as possible, while providing them with the retraining tools required to enter the low-carbon energy market, then it could be a good opportunity to ensure a managed decline and just transition.[16]

Finally, governments should include bailout clauses that prevent public and private attempts to delay emissions reductions in favour of highly contingent future technologies or rates of offsetting. Agreements must not allow emissions reduction targets to be framed as far away ‘ends,’ rather, they should form part of a specific measurable roadmap which outlines the means by which companies plan to achieve deep decarbonisation.

6. **How can the economic recovery stimulus be used to deliver green jobs at a time of potentially high unemployment?**

The economic recovery stimulus should be formulated as a combination of policy signals and regulation which clearly establishes the Government’s direction of travel,changes behaviour of actors and can ensure green job creation. The effect that this can have in terms of directing funds into emerging low-carbon markets and industries is already being seen. Not only has Nest - the UK’s biggest pension fund - committed to shifting £5.5bn into “climate aware” investments as it anticipates a green economic recovery from coronavirus[17] - impact investing as a whole has seen a surge in momentum; with the average ethical fund experiencing almost 3 times the level of growth as non-ethical propositions in the last year.[18]

That this momentum is being credited to changing regulation, new initiatives and shareholder activism off the back of consumer demand for sustainable products, demonstrates the importance of the government taking the lead on green job creation.

Not only would a carbon tax act provide long-term signals that give investors and businesses the confidence to orient toward a low-carbon future, it can also raise revenue as a means of directly funding job creation in areas of acute need. For example, Carbon Charge revenues could provide funding towards energy efficiency upgrades and contribute to the creation of up to 150,000 skilled and semi-skilled jobs across the entire UK construction supply chain.[19] This could be a particularly lucrative investment in areas worst hit by the financial impacts of COVID-19 - including the so called ‘red wall’ constituencies, which suffer from high levels of unemployment among skilled labourers; and contain lower than average levels of Band C housing stock.[20]

[16] New Economics Foundation (2020). Bailouts: Creating the New Normal. Available here.
[17] The Guardian (2020). UK’s biggest pension fund begins fossil fuel divestment. Available here.
[18] The Independent (2020). The Ethical Funds come out on top in the battle for returns. Available here.
[19] Business Green (2020). How a greener homes drive could hold the key to over 150,000 post-Covid jobs. Available here.
[20] ECIU (2020). Britain’s homes hold the key to rebooting the economy. Available here.

7. **The pause in economic activity, fall in traffic and increase in working from home during the lockdown has resulted in rapid reductions in air pollution and greenhouse gas emissions; what measures can be utilised in the recovery to continue these trends as economic activity resumes?**

Our opinion research revealed strong support for prioritising environmental policy to secure the continuation of these trends in the post pandemic period; with 52% considering the environment as one of the most pressing issues facing the UK, and 65% agreeing that Coronavirus has shown we can run our society in a more environmentally friendly way.[21] Climate rhetoric was strong in the 2019 general election in response to public appetite, which is clearly even stronger in the wake of the current crisis. The government should capitalise on this, and move quickly to turn net zero 2050 rhetoric into action to maintain the momentum of emissions reduction, and drive accountability where targets fail to be met.

In practice, this means applying a 'climate lens' to all policy decisions and recovery packages; and enshrining intermediate targets in law, as with UK carbon budgets. They should also prioritise measures like the carbon charging proposals we have outlined - which can simulate the conditions that delivered deep reductions in the lockdown period - but in a way that protects people from negative societal impacts and allows people flexibility in choosing how to shift to a net-zero world.

Finally, government should take advantage of the perfect storm of contextual factors - low oil prices, Brexit, international agitation for a green recovery and COP26 - to drive through ambitious measures policies to encourage fossil fuel divestment, climate and environment focused trade, international carbon pricing agreements and the roll out of low-carbon infrastructure.

8. **In the run up to Conferences of the Parties to UN conventions on climate change and biodiversity next year, how can the UK use its influence, as both host of COP26 and when holding the Presidency of the G7 in 2021, to influence the nature of economic rescue packages around the world?**

With regards to COP26 ambition and rescue packages, the UK needs to get its own house in order before we can truly influence others to do the same. This specifically means:
Raising Domestic Environmental Ambition: The Government's 2050 net zero commitment is very welcome, but by the time COP26 comes around it will be two years old, with very little concrete action to back it up.

First and foremost, the Government must recognise this and, at the very least, commit to the early announcement of an ambitious UK NDC - which includes a revised approach towards emissions pricing - whilst ensuring all COVID-19 rescue packages are net zero aligned. The UK has a strong track record of leadership here: we led the way with the introduction of the Carbon Price Floor, which contributed to our success in pricing coal out of our energy mix; and we are now in a prime position to repeat this trick across the rest of our economy. If we take these steps to drive domestic emissions reductions, other countries are much more likely to listen and follow suit. Just as our climate change act framework is studied by other

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[21] Public First (2020). Public Insights Briefing. Available here.

administrations, so could a future UK carbon charging system serve as an example to be modelled across the globe.

Taking responsibility for environmental impacts abroad: Nearly half of the UK's carbon footprint comes from emissions released overseas to satisfy UK-based consumption, and this is to say nothing of the emissions attached to our investments overseas.[22] These are crucial blindspots that must be addressed as a matter of urgency.

The UK can take the lead by:

1. **Building a coalition of countries who pledge support for the introduction of environmentally-focused border measures**. This could include Border Carbon Adjustments or equivalent international agreements to price the externalities associated with carbon intensive consumption.
2. **Committing to ending its financing of fossil fuel projects abroad**. The imminent FCO / DFID merger is an opportunity for the UK to reassess our negative climate financing - which has seen 96% of recent UKfinancing for global energy projects go to fossil fuel ventures.[23] The recent backlash and subsequent government U-Turn on the proposed gas pipeline project in Mozambique demonstrates the strength of public feeling on this topic. People understand climate as a global issue and are understandably incredulous at the idea of being asked to participate in decarbonisation efforts at home, only to see their tax receipts channeled into projects that will contribute to a near fiftyfold increase in emissions in other parts of the world.[24] Unequivocal action to end this practice is clearly required; not only to mitigate climate risks, but also reputational ones.

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[22] WWF UK (2020). Nearly half the UK's footprint down to emissions from abroad. Available here.
[23] LabourList (2020). UK must align export finance with Paris agreement obligations. Available here.
[24] The Times (2020). PM cleans up UK's reputation on environment by defunding global oil projects. Available here.