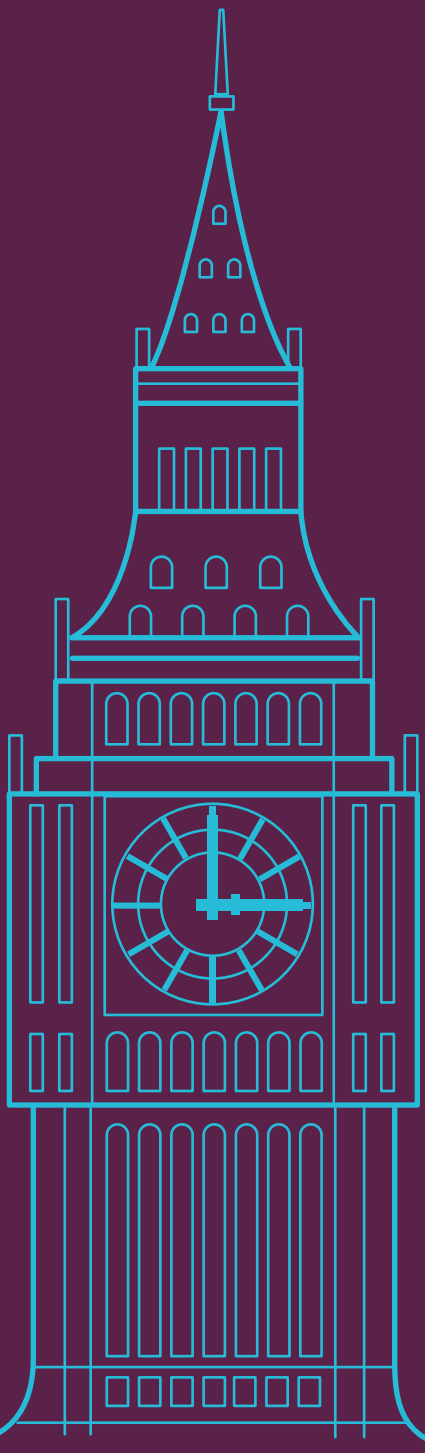
ALDERSGATE GROUP

ACCELERATING THE TRANSITION:
PRIORITIES FOR THE FIRST 100 DAYS OF THE NEW GOVERNMENT



Foreword

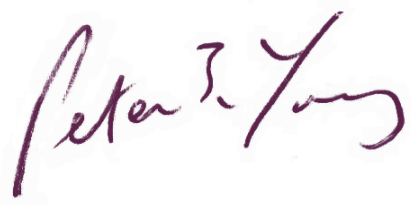
No-one expects the Government elected in May 2010 to enjoy an easy ride. It will inherit a financial deficit which will dominate policy thinking for years to come.

Yet this deficit was brought about because the banks were acting unsustainably, beyond the security of their true assets, just as today we consume resources way beyond the sustainable asset base of our planet. If reducing our financial deficit is a key priority for the new Government, addressing our environmental deficit should be too. Indeed the urgency is greater as prevention is always more palatable than cure.

Over the last year the Aldersgate Group has spent the greater part of its effort addressing the three biggest obstacles we saw to accelerating the pace of transition to a low carbon and resource efficient economy, namely finance, skills and efficient use of resources. Since writing our three individual reports last autumn it has been heartening to see a growing policy coherence on these issues, such as the announcement of the Green Investment Bank, the consultation on Meeting the Low Carbon Skills Challenge and the serious consideration given to resource efficiency in Defra's recent Climate Change Plan. But these are merely the first tentative building blocks placed on the sound foundations of the Climate Change Act. The storm is brewing and we are nowhere near putting a roof over our heads.

For that reason we wanted to update and consolidate our recent thinking into a series of recommendations to help the new Government understand what we need to do to change pace at this vital time. If you look at any graph on greenhouse gases, carbon or resource management, one thing is universal: during the next five years, the likely lifespan of this next parliament, the lines all need to change direction. We need to stop the past profligacy and start building a future economy which can bring growth, wealth, jobs and exports without living beyond our asset base, or for the UK, our fair share of the planet's assets. Our demand is to use the first 100 days to set the course irrevocably towards a low carbon and resource efficient future.

One point I want to highlight is that no-one must use the reduced emissions caused by the recent recession as evidence of less urgency to act. Quite the contrary, this is an opportunity to accelerate the transition by building new jobs and consumption habits which are sustained by realistic demands on our climate and resources. Low carbon investment is still a good proposition even in financially stringent times, because building low carbon power generation, closing the circuits of our resource flows, investing in economy-wide energy efficiency, decarbonising transport, enhancing our green skills and fairly pricing carbon emissions will all help solve the financial deficit, and build up our resilience and competitiveness. We can and must out-pace our competitors in these new markets. The new Government must be swift and committed, and I hope that this report gives some directions for early actions. We need that green roof in place, so we can enjoy a vibrant, sustainable and inclusive economy.



Peter Young
Chairman, Aldersgate Group

Executive Summary

The environmental deficit is as big an issue for our wellbeing as the financial deficit.

Addressing the long-term environmental challenges of climate change, energy security and resource depletion are just as critical for the new administration as its response to the global recession and reducing the budget deficit. The cross-party commitment to a radical low carbon and resource efficient economy is welcome and the new Government must ensure it is delivered in an efficient and cost-effective way. Driving a positive agenda will help to increase public engagement, particularly in light of the recent controversies over climate science and the UN negotiations in Copenhagen. A successful transition will ensure secure energy, fulfilling jobs, insulated homes, competitive businesses, healthier lifestyles and increased prosperity.

This report is the culmination of an investigation over the last year into how the transition to a low carbon, resource efficient economy can be accelerated, and economic benefits maximised, by government intervention. The main focus was on three very evident barriers; finance, skills and resource efficiency. *Accelerating the Transition* builds on the conclusions from these studies and proposes priorities for the first 100 days of the new administration.

Some of our recommendations will require spend in the short term to save money and create wealth in the longer term. Despite the pressure on public finances, only bold action will enable the UK to meet its legally binding climate change targets. Transition is also an economic imperative, as government intervention and early mover advantage are essential to drive investment and stimulate innovation in environmental markets. The race to develop domestic environmental industries will help define economic prosperity in the twenty-first century. The new Government can build on some positive policy developments over the last few years but the UK must do considerably more to catch up with international competitors.

The priorities for the first 100 days of the new Government should be:

1 Get the price right

Prices must reflect environmental realities. The current carbon price is not sufficiently stable, high or credible to stimulate the required investment in low carbon technologies. The first Budget of the new parliament should include a floor price mechanism to underpin the EU ETS carbon price, reduce perverse subsidies for environmentally damaging activities and issue a long-term commitment and timetable for green fiscal reform.

2 Don't rely on pricing alone

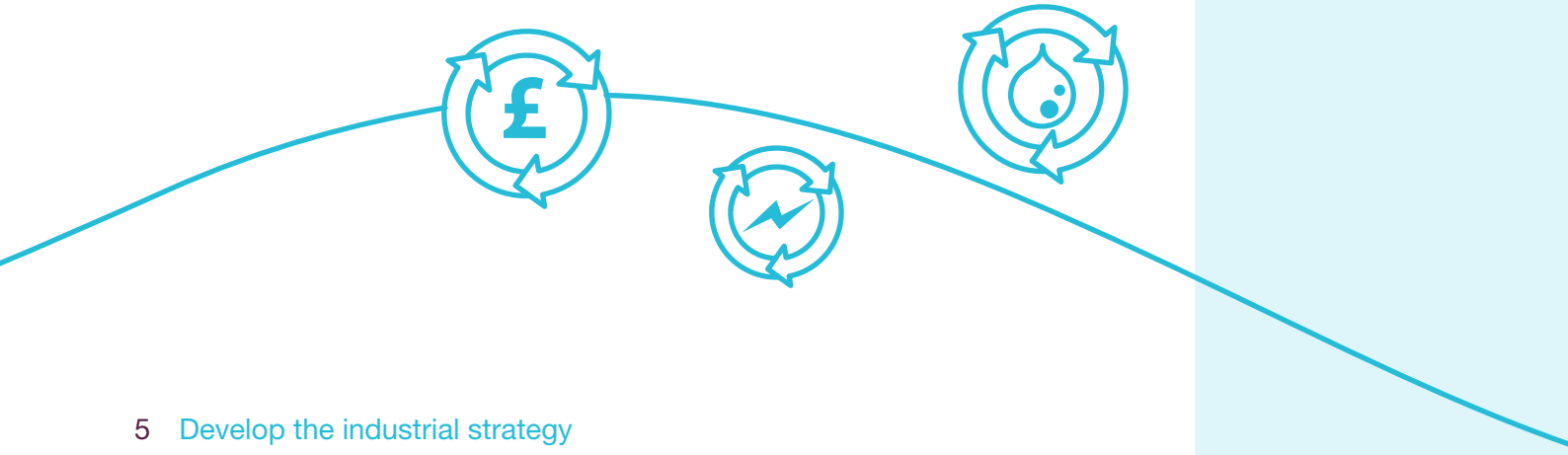
Although important, pricing remains a blunt instrument. We think government should aim both to reduce the UK's carbon intensity and to help UK business become a world leader in resource efficient products and services. Well designed and effective regulation is necessary for both these objectives. The new Government should publish an immediate national energy efficiency delivery plan and make a clear commitment to mandatory carbon reporting that would help drive competitiveness through greater transparency and comparability.

3 Simplify the regulatory framework

Too often, environmental policy has been an ad hoc response to an isolated challenge. This is rarely effective and often creates unintended consequences elsewhere. The Government should publish a review on how to rationalise the large number of complex environmental regulations (and regulatory bodies) that are creating unnecessary administrative burdens and ensure public spending reductions include rigorous analysis of potential long-term environmental benefits.

4 Mobilise the finance

A more effective approach to pricing and regulation would still leave significant barriers to a rapid economic transition. For example, the achievement of carbon targets for 2020 and beyond presents a major financing challenge for the UK economy, estimated at over £70 million a day. To help bridge this gap, we welcome the cross-party commitment for the creation of a Green Investment Bank but urgent action is now needed. The new Government should set up a shadow institution without delay, rather than waiting on asset sales to make finance available. The level of capital should be increased using revenue from the sale of EU ETS auction permits, and primary legislation passed within a year of the election.



5 Develop the industrial strategy

Alongside an upgraded Low Carbon Industrial Strategy, the UK should develop its strategic planning for technologies post-2020 and initiate a supply chain strategy with specific targets for job creation, manufacturing capability and export growth in targeted industries. It should also enhance its skills strategy to accelerate ambition and delivery. To help meet these new targets, the first Budget of the new parliament should include enhanced capital allowances, tax breaks and National Insurance reductions for green industry. As resource efficiency and related innovation increasingly become primary benchmarks of a successful economy, the UK will need to expand its industrial strategy to address critical resource constraints and ensure long-term competitive advantage.

6 Improve accountability across government

Wide-ranging environmental challenges cannot be effectively addressed through segmented government. Departmental carbon budgets are welcome and should be monitored by the Climate Change Committee. The Treasury should assume a greater leadership role, expanding the scope of its carbon budgets and making the design of environmental regulation a key objective in the management of the economy. A resource productivity drive must also be supported across all government departments.

7 Incorporate a lifecycle approach

Effective management of resources necessitates a consideration of the whole resource cycle. UK waste policy must move away from a linear model and look towards 'closing the loop'. More progress would be made by expanding the remit and resources of the Sustainable Consumption and Production Unit in Defra. The UK's £175 billion public procurement budget is a massively underused lever for progression towards a low carbon, resource efficient economy. The new Government should implement an immediate policy of serious and lasting carbon reductions across the government estate that seeks to outperform carbon budgets.

8 Plan a just transition

The radical decarbonisation of the economy has the potential to be a major source of wealth and employment. It will also involve massive and complex changes that will create losers as well as winners. The role of the Forum for a Just Transition should be expanded, so that it reviews the social impact of carbon budgets and has a formal advisory role to the Green Investment Bank. The Goverment should also initiate a comprehensive street-by-street domestic energy efficiency scheme to reduce carbon emissions and fuel poverty.

Accelerating the Transition has built on the broad political commitment for more active industrial intervention in environmental sectors to accelerate the economic opportunities of the transition to low carbon and resource efficiency. This political shift, in part, vindicates a core Aldersgate Group position; high environmental standards are essential for long-term economic growth, competitiveness and prosperity. There is a persistent misconception that environmental regulation can often place an exorbitant burden on industry, stifling growth and competitiveness. In reality, quite the reverse is true: well designed and cost effective 'smart' regulation drives innovation and provides the 'green foundations' essential to underpin the growth and jobs in the years to come – while also presenting more immediate business opportunities. Governments' approach to this regulatory framework will have a significant bearing on leadership in the global economy of tomorrow.

This report sets out clear priorities for a new administration with the ambition to be one of those leaders. It is by no means an exhaustive list but gives an indication of the scale and complexity of the challenge at hand. The Government cannot leave these things wholly to the market and just as it is its job to regulate, it is also its job to develop consistent, holistic policy to provide absolute certainty on the direction of travel. Only then can the private sector invest and drive to maximum pace the industrial transition to a low carbon and resource efficient economy.

Acknowledgement

The Aldersgate Group is a high level coalition of progressive businesses, NGOs, professional bodies, MPs and others who promote the case that high environmental standards will be a major part of future economic growth and international competitiveness.

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Our Aim

To engage actively with government and other key decision makers to contribute to the future development of UK economic, environmental and sectoral policies, as well as providing a distinct voice that advances the better regulation and sustainability agendas.

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While Aldersgate Group members support this publication and provided extensive input, individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.

Introduction

Recovery from the financial crisis and the global recession will dominate economic policy in the new Government's term in office.

Whatever the election result, an overriding priority will be to reduce significantly the budget deficit, forecast at a record £167 billion[1], while ensuring efficient public services, macroeconomic stability and reduced unemployment. A new economic model that encourages savings and investment must replace the old model that is too reliant on unsustainable debt-fuelled growth and the success of financial services.

Just as critical as these short-term priorities is the need to address the longer-term challenges of climate change, energy security and resource depletion. Environmental consolidation, just as much as fiscal consolidation, should be the overarching theme of the next parliamentary term. Time is running out. Global greenhouse gas (GHG) emissions must peak within the decade and then rapidly decline to increase our chances of avoiding dangerous climate change. The economic costs associated with dealing with the consequences of failure far outweigh the more manageable, if still significant, costs of early action to prevent it. In addition, the UK economy is increasingly dependent on fossil fuel imports and there is a growing need to replace the electricity generating capacity that is due for retirement over the next decade.

These challenges may be severe but they also represent exceptional opportunities. Prompt action will enable companies to become more competitive and create new opportunities to secure the jobs and wealth of the future. A more positive vision, based on these opportunities, will help drive engagement with a public that has been increasingly marginalised by the recent controversies over climate science and the UN negotiations in Copenhagen. The focus must be on the economic benefits of a successful transition; secure energy, fulfilling jobs, insulated homes, competitive businesses, healthier lifestyles and increased prosperity.

This report is the culmination of an investigation over the last year into how the transition to a low carbon, resource efficient economy can be accelerated, and economic benefits maximised, by government intervention. The main focus was on three very evident barriers: finance[2], skills[3] and resource efficiency[4]. For each work stream, the Aldersgate Group hosted roundtables with experts in the related field and published its conclusions in independent reports (each launched by Government and Shadow Secretaries of State). Combined with additional analysis from our membership, *Accelerating the Transition* builds on the conclusions of these studies and proposes priorities for the first 100 days of the new administration.

Some of our recommendations will require spend in the short term to save money and create wealth in the longer term and we appreciate that the pressure on public finance is considerable. We are also aware that the scale of the task is enormous and the timetable we set is formidable. However, it is inconceivable that the carbon reduction targets be met, or domestic environmental businesses flourish, without substantial and swift government action at the start of the new parliament.

1 HM Treasury (March 2010) *Budget 2010: Securing the recovery.*

2 Aldersgate Group (October 2009) *Financing the Transition: A strategy to deliver carbon targets.*

3 Aldersgate Group (November 2009) *Mind the Gap: Skills for the transition to a low carbon economy.*

4 Aldersgate Group (February 2010) *Beyond Carbon: Towards a resource efficient future.*

Benefits to the UK economy

There is cross-party consensus on the need for the UK to drive major changes in energy supply, delivery and usage. The Climate Change Act sets out ambitious, legally binding carbon targets for reducing GHG emissions and commits the UK to a radical transformation of its energy infrastructure at immense scale and speed.

This is not just an environmental imperative in response to the challenges of climate change, energy security and resource depletion, but also an economic imperative. The race to develop low carbon technologies will help define economic prosperity in the twenty-first century.

Alongside the consensus for steep reductions in GHG emissions, there is also broad political agreement on the need for active government intervention to stimulate growth in environmental sectors. It is widely recognised that competitive markets require additional investment for the early stages of innovation and that Government must play a key role to ensure that successful low carbon companies can access finance as they grow.

The policies required to drive the low carbon transformation are not cost free and emerging challenges must be addressed, but there are considerable gains for the economies that create the right conditions for environmental markets to prosper. The global environmental goods and services sector is currently valued at £3.2 trillion[5] and strong growth is expected. The UK's share is £112 billion and it employs an estimated 900,000 people. In addition, as water and other resources come under stress, resource efficiency and innovation will increasingly become the primary benchmarks of a successful economy.

Environmental policy is a key driver to support these markets, which would otherwise not exist or would develop too slowly. It is the Government's responsibility to set a framework that drives investment and enterprise in environmental technologies and provides more effective support for the development and commercialisation of environmental innovation. Competitive advantage can be gained by anticipating future environmental needs and undertaking bold and prompt action[6]. Germany and Denmark have shown that stringent environmental regulations which force the pace of adoption of renewable energy generation can help foster rapid industrial expansion with high export growth potential. The UK is now scrambling to import wind turbines and solar panels from its European neighbours and paying a higher price when the pound is weak.

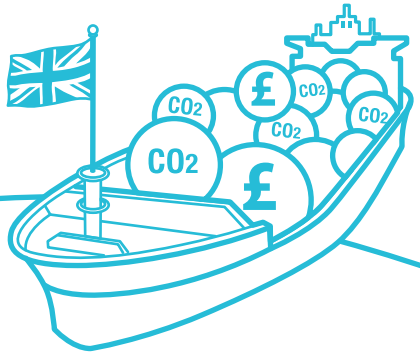
5
Innovas (March 2010) *Low Carbon and Environmental Goods and Services: an industry analysis – Update for 2008/9.*

6
For more information, see Aldersgate Group (June 2009) *Commission Statement: Driving Enterprise and Investment in Green Markets.*

Failed UK environmental policies over the last few decades have resulted in a relatively low level of renewable manufacturing and jobs in the UK. It has also resulted in a poor performance in meeting climate change targets[7]. We cannot afford for this record to continue. The passage of the Climate Change Act and other recent developments imply a significant turning point in terms of commitment and leadership. The new Government must build on these foundations. The UK is still behind in the global low carbon investment race and must do more to catch up with its international peers. Aggressive policies pursued by China[8], the United States, Germany and others in response to the recession set the bar even higher[9].

Major challenges require major solutions. The low carbon transition represents one of the most radical economic transformations in history and is the upper limit of what can feasibly be achieved given constraints in resources, labour, skills, capital and equipment. Incremental improvements at the margins of policy will not deliver the required change. Bold policies are required to shift the UK's current GHG emissions trajectory. If enacted, large-scale programmes, such as street-by-street energy efficiency retrofits, will provide more jobs and reduce costs through economies of scale.

The recommendations in this report are directed at Government. If the private sector is to invest in the economic transformation, it needs to be sure the transition will be carried through with determination and that an appropriate timetable of regulation and capacity building will be set and adhered to. While Government must set the overall framework, clearly the responsibility for delivery is shared by businesses, communities and individuals.



"We are at a critical point in the UK where we can make sustainability really stick. The challenge and opportunity is not to reduce carbon or cost; but to reduce carbon and cost. The proposals within this report can only help make this a reality and deliver a true low carbon economy for UK PLC."

Ruby McGregor-Smith, Chief Executive, MITIE Group

"If you create the right conditions, the private sector will invest and create a low carbon economy. This must involve measures by Government to create a catalyst for change, such as setting legislation rather than ambitions for non-domestic buildings to achieve carbon targets by 2020."

John Frankiewicz, Chief Executive Officer, Willmott Dixon

7
For example, in 2010 the UK is set to miss its own targets for reducing carbon emissions by 20 percent and generating 10 percent of its electricity from renewables by wide margins. See Cambridge Econometrics (April 2009) *UK Energy and the Environment.*

8
China spends $9 billion a month to diversify and improve its clean energy supply and has a goal of generating 10 percent of its electricity from renewable sources by this year and 15 percent by 2020. See Julian Wong and Andrew Light (June 2009) *China Begins Its Transition to a Clean-Energy Economy.*

9
For example, analysis by HSBC shows that the UK compares relatively poorly in terms of the proportion of its stimulus package directed towards environmental investments. HSBC (November 2009) *Taking stock of the green stimulus.*

1 Get the price right

Environmental policy must ensure that prices reflect environmental realities.

While it is invariably complex to price environmental externalities (by which we mean environmental changes that impact human welfare and the biosphere but are not reflected in markets), current prices are a long way off providing a sufficient incentive for investments at the pace and scale required to meet environmental challenges.

This can most clearly be illustrated by the inadequacy of current policy to create a sufficiently stable, high and credible carbon price. Our report on finance[10] demonstrated that investment decisions for low carbon projects are strongly dependent on government policy to create markets that would otherwise not exist or would develop much too slowly. This produces risks for investors which adversely affect the commercial viability of low carbon investments; profitability is reduced if carbon emissions are higher, or the carbon price lower, than anticipated.

Political failure is the principal reason why the single most important mechanism to drive investment in low carbon technology, the EU Emissions Trading Scheme (EU ETS), has been ineffective to date. A previous Aldersgate Group study[11] shows that the scheme has been hampered by design flaws and poor implementation (particularly in setting emission caps and regulating offsets). Many of these inefficiencies persist and have been compounded by the global recession. The unforeseen fall in economic activity across the continent has made emission caps far too generous and led to a dramatic fall in the carbon price (to around 13 Euros/tCO_2). As a result, the Committee on Climate Change estimates that the carbon price in 2020 will be 20 Euros/tCO_2 as opposed to their previous projection of 50 Euros/tCO_2[12] (the International Energy Agency estimates that the carbon price must be 33 Euros/tCO_2 in 2020 and 73 Euros/tCO_2 by 2030 to make low carbon technologies economic[13]).

How should the new Government respond? It must adopt a two-tiered approach. Firstly, the UK should work with its European partners to tighten the EU ETS cap, principally by increasing the EU's overall emissions reduction target for 2020 from 20 percent to 30 percent (a less onerous task post recession). This must be leveraged to the maximum possible effect to incentivise other nations to increase their own emissions targets in the ongoing international negotiations for a new UN climate change treaty. Further EU ETS reform should aim to tighten limits on the use of carbon offset credits[14], introduce the auctioning of permits at a faster pace[15] and introduce an auction reserve price[16]. As these measures will require pan-European agreement when there is currently little political appetite for reform, the second part of the UK's strategy should be immediate action to underpin the domestic carbon price by creating a price floor in the first Budget of the new parliament.

10 Aldersgate Group (October 2009) *Financing the Transition: A strategy to deliver carbon targets.*

11 Aldersgate Group (November 2007) *Trading for Growth.*

12 Climate Change Committee (October 2008) *Meeting Carbon Budgets – the need for a step change, p17.*

13 International Energy Agency (December 2009) *World Economic Outlook 2009.*

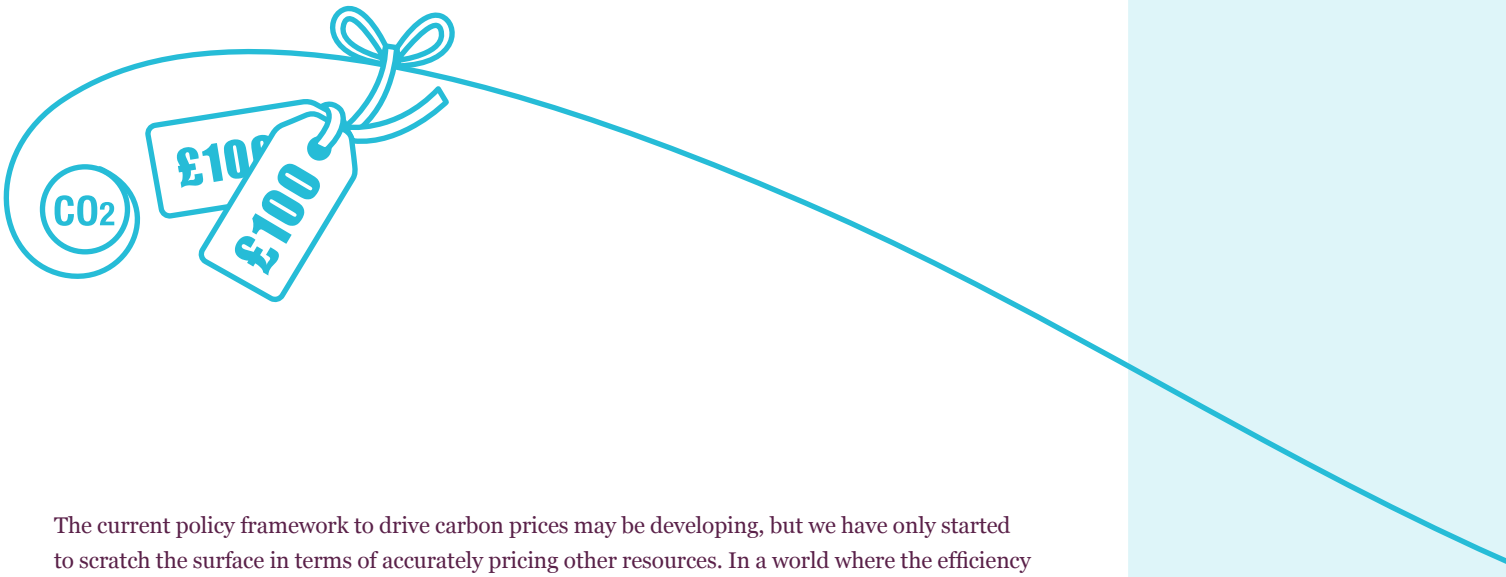
14 Carbon offsets incentivise cheaper emission reductions through investments in projects outside of the EU ETS. However, they generally lower the carbon price and can reduce potential benefits for the domestic economy.

15 A new Carbon Trust study finds that low carbon manufacturing would be severely weakened if all sectors currently deemed at risk of carbon leakage by the European Commission received free allocation of permits. See Carbon Trust (March 2010) *Tackling carbon leakage: Sector-specific solutions for a world of unequal carbon prices.*

16 Alternatively, a floor price could be underwritten by revenues generated through the auctioning of permits.

Reform of the EU ETS is the most urgent priority in terms of carbon pricing, due to the extent to which UK policy relies on the scheme to achieve its climate change objectives, but it is not the only one. Carbon prices are generated from a host of other regulations and subsidy schemes, including the CRC Energy Efficiency Scheme (£12/tCO_2 in the first phase), the Renewables Obligation (where the associated carbon price can reach £90/tCO_2[17]), Climate Change Agreements (trading at below £1/tCO_2) and the price of carbon for non-traded sectors (currently £52/tCO_2). While these should be streamlined (see Recommendation Three on simplifying the regulatory framework), the price of carbon for non-traded sectors needs particular focus. This is based on estimated abatement costs that will need to be incurred to meet specific emissions reduction targets and is used in all government policy appraisals[18]. Not only should the new Government undertake a review to ensure that the relatively new guidelines are being used correctly and rigorously in practice but it should also be applied to standard public procurement analysis. The public sector spends over £175 billion a year and must factor in the embedded carbon costs to transform the market and stimulate sustainable innovation (see Recommendation Seven).

The other widely used market-based price mechanism to change behaviour is taxation. Extensive research by the Green Fiscal Commission[19] shows that environmental taxes are effective in reducing the environmental impacts in sectors which are targeted; achieve environmental improvement at lower cost than other instruments; can raise stable revenues; would stimulate investment in the low carbon industries of the future; and can mitigate both the impact of high global energy prices and effects on competitiveness. The new Government should confirm its commitment to green fiscal reform by publishing a commitment, at the first Budget of the new parliament, to more than double revenues from environmental taxes from their current seven percent share in overall tax revenues by 2020. The Government should also end perverse subsidies for environmentally damaging activities[20] and apply this to key resource challenges (such as materials, water and biodiversity).



The current policy framework to drive carbon prices may be developing, but we have only started to scratch the surface in terms of accurately pricing other resources. In a world where the efficiency of resource use matters more and more, this is critical. Our Beyond Carbon report notes that there are significant political and economic difficulties in pricing externalities even when we think we understand them, but that there are also many externalities which are poorly understood. A major international research effort on the economics of ecosystems and biodiversity (TEEB)[21] draws attention to the long-term costs and benefits of ecological systems but we are a long way from being able to calculate or allocate the external costs. Another difficulty will be strong resistance to price shifts from those interests which benefit from the status quo. A new UN study, to be published by Trucost in the summer, finds that the cost of pollution and other damage to the natural environment caused by the world's biggest companies would wipe out more than one-third of their profits if they were held financially accountable[22].

17
Current ROC prices are £49 per MWh. Using a grid average carbon emission of 0.54 kg CO_2 per kWh, this is equivalent to a CO_2 price of just over £90 per tonne.

18
See DECC (July 2009) *Carbon Valuation in UK Policy Appraisal: A Revised Approach.*

19
Green Fiscal Commission (October 2009) *The Case for Green Fiscal Reform.*

20
For specific recommendations, see Green Alliance (February 2010) *Cutting back on carbon spending.*

21
www.teebweb.org.

22
Juliette Jowit, The Guardian (18th February 2010) *World's top firms cause $2.2tn of environmental damage, report estimates* (full report to be published in the summer).

Recommendations:

1 Push for pan-European reform of the EU ETS to drive carbon emission reductions.

2 The first Budget of the new parliament should include tax adjustments to underpin the EU ETS carbon price, reduce perverse subsidies for environmentally damaging activities and issue a long-term commitment (and timetable) for green fiscal reform.

3 Review the application of the non-traded price of carbon to policy appraisal and apply to public procurement.

4 Industry and government should work together to develop a consistent approach to monetising and hence internalising the environmental and social impacts of our decisions, that goes beyond the current approach to policy impact assessments.

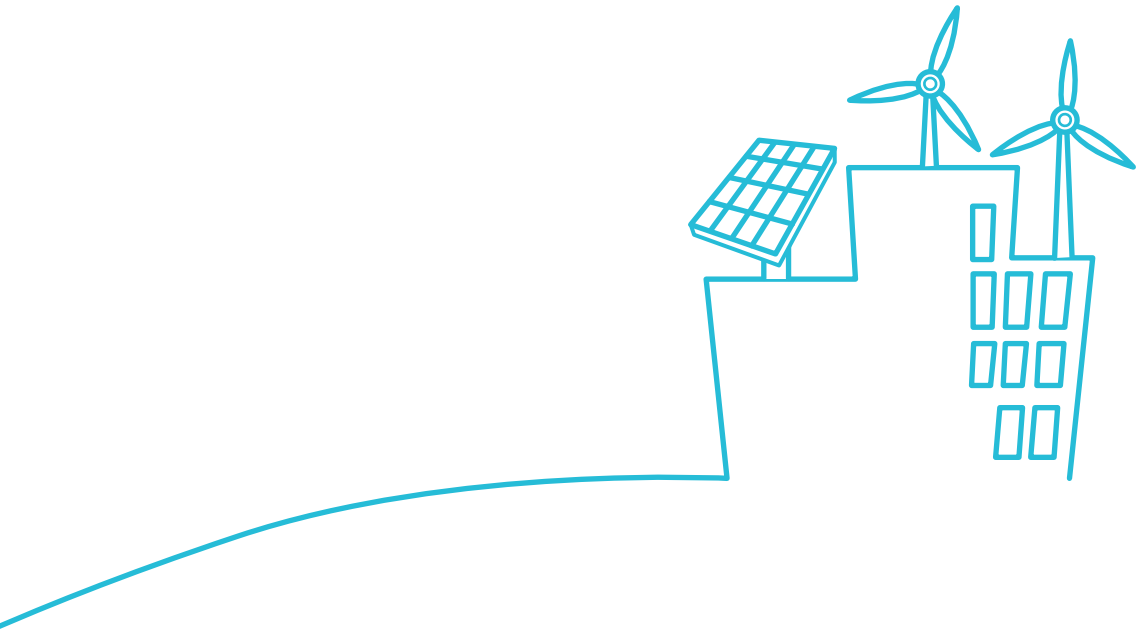
> *"There is no effective price on carbon, no penalty for the laggards, and little reward or predictability for those who invest in solutions. In the words of Al Gore: we should tax what we burn, not what we earn."*
>
> ***Richard Evans, President, PepsiCo UK & Ireland***

2 Don't rely on pricing alone

The new Government must not rely on price to drive investments in environmental technologies and resource efficiency.

This is because current pricing policy is inadequate, as outlined in the previous section, and more fundamentally because pricing policy alone is not sufficient to drive investment. Prices only work through markets and depend for their effect on markets working efficiently. There are many examples, not just in the environmental field, where this does not happen and other policy instruments are necessary to correct these market failures. In the power sector, for example, Emissions Performance Standards are essential to prevent locking into high carbon technologies and more radical reform of the electricity markets is required[23].

In our work stream on resource efficiency we argued that, to achieve the desired behavioural change, good resource management requires a combination of price, regulation and information. The mix was perhaps easiest to see in our case study on the water sector, where water management is affected by regulation of water rights, pricing of water services, and campaigns aimed at general attitudes to water use or metering in areas of water stress[24]. This led us to conclude that changing consumer, producer and investor behaviour are all important for a successful resource efficiency strategy and policies to reduce demand must be pursued with vigour. Historical evidence from WRAP supports the view that the UK cannot rely on resource efficiency improvements alone to reduce carbon emissions, but must pay attention to what and how much we consume[25].



An immediate priority for the new Government should be energy efficiency, as this offers the biggest scope for cutting GHG emissions and boosting competitiveness. The Government has been moving in the right direction[26] but much more aggressive policies are required to reduce emissions and stimulate growth in local jobs and the whole economy[27]. The CBI estimates that the UK unnecessarily wastes £15 million a day on energy from households and businesses[28]. As investments typically have short pay-back periods and negative net abatement costs[29], overcoming non-financial barriers is essential. In the non-domestic sector, these include the scarcity of time and capital, limited awareness, low prioritisation from senior management and a complex regulatory framework. In the domestic market it is often inability or unwillingness to pay for the initial capital outlay despite the long-term pay back. The new Government should immediately publish a national energy efficiency strategy and delivery plan.

23
The AG welcomes the Budget 2010 commitment to reform the energy market, bringing forward a White Paper to Spring 2011 and publishing a summer consultation on mechanisms to provide greater certainty for low carbon investment.

24
The recent Walker Review (*The Independent Review of Charging for Household Water and Sewerage Services*, December 2009) undertaken by Defra deals with the balance between at least two of these elements.

25
WRAP (November 2009) *Meeting the UK Climate Change Challenge: The contribution of resource efficiency*, p36.

26
For example, the introduction of 'Pay as You Save' financing models in HM Government (March 2010) *Warm Homes, Greener Homes, A Strategy for Household Energy Management.*

27
Energy and Climate Change Committee (March 2010) *Low carbon technologies in a green economy.*

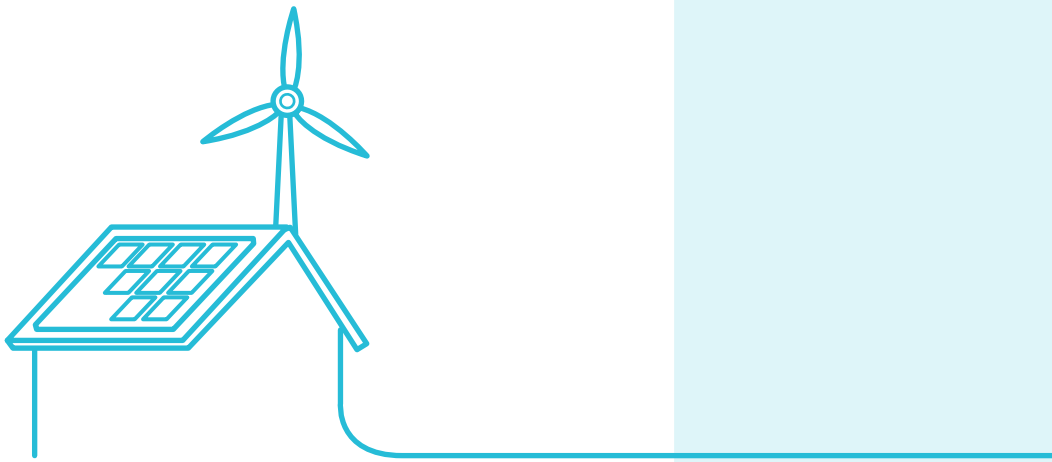
28
CBI (December 2009) *Time to prioritise energy efficiency: saving carbon and money.*

29
International Energy Agency (December 2009) *World Economic Outlook 2009.*

Information can be a key driver for radical change and its potential is often underestimated. A good example of how transparency has driven pollution reduction is the 1988 Toxic Release Inventory (TRI) in the United States, a seemingly innocuous provision which required that manufacturers disclose information on chemical use. Ten years later, toxic emissions had been reduced by more than sixty percent, saving companies millions of dollars in the process. Hence according to Professor Stuart Hart, a leading authority on sustainable development, it is "one of the most important and effective pieces of social legislation ever passed"[30]. The potential benefits derived from increased transparency, accountability and comparability is why the Aldersgate Group has been leading the campaign for a common and mandatory carbon reporting standard in the UK. This would help drive efficiency savings and GHG emission reductions. Now that voluntary GHG reporting guidance has been published (October 2009)[31], we need an immediate commitment by the new administration for mandatory corporate reporting (enacting provisions that are already enshrined in the Climate Change Act and would not require further legislation).

Key Recommendations:

1. Immediately publish a national energy efficiency strategy and delivery plan.
2. Make a clear commitment for mandatory carbon reporting in the UK.
3. Ensure that carbon reporting includes Scope 3 emissions so that lifecycle impacts are taken into account.



"Improving the energy efficiency of existing property is already one of the most cost-effective ways of reducing carbon emissions in the UK economy, but often doesn't happen because of a range of barriers in the real estate market. Whilst a more realistic carbon price would certainly increase the pressure on building owners and tenants to act, a simplified approach to regulation, fiscal stimuli, and disclosure is needed to unlock the true potential of the sector in delivering deep and rapid emissions cuts."

Nick Shepherd, Managing Partner, Drivers Jonas Deloitte

30 Hart, Stuart (2005) *'Capitalism at the Crossroads'* (Wharton School Publishing).

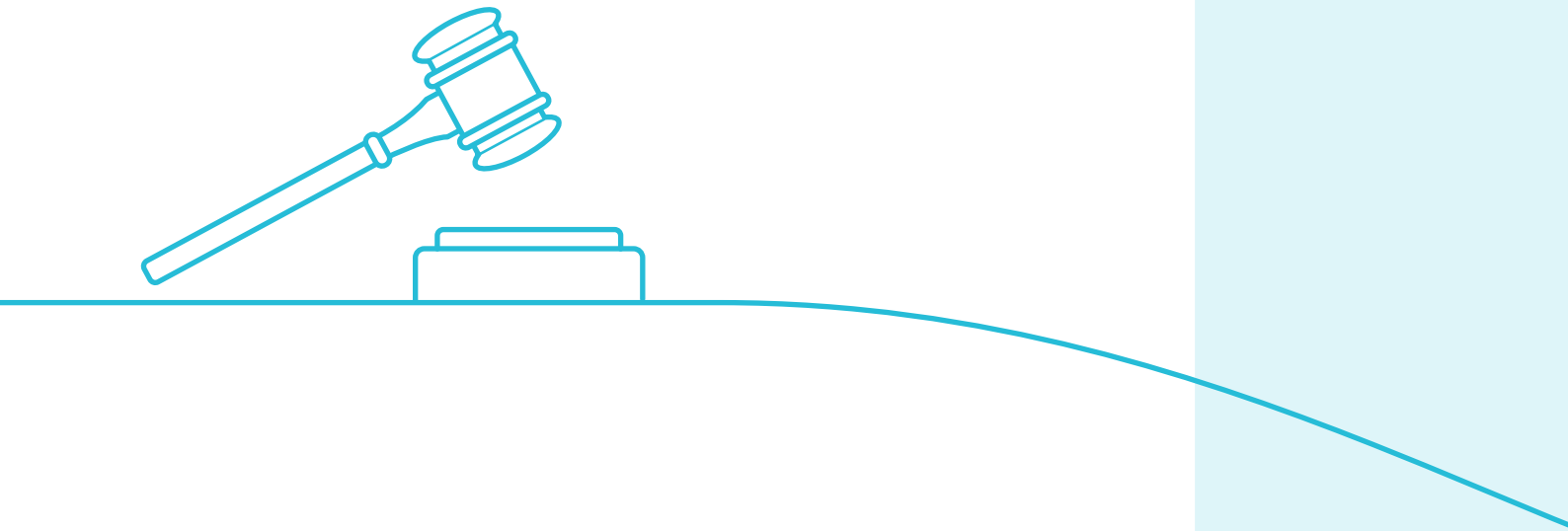
31 Defra and DECC (October 2009) *Guidance on how to measure and report your greenhouse gas emissions.*

3 Simplify the regulatory framework

Environmental challenges necessitate one of the most radical economic transformations in history. It will not be possible to micromanage such fundamental change.

Too often, environmental policy has been an ad hoc response to an isolated challenge. This is rarely effective and often creates unintended consequences elsewhere. The regulatory framework needs to be reformed and rationalised so that it can deliver in a more strategic and synchronised way.

The section on pricing shows how a myriad of different government schemes are creating carbon prices ranging from £12/tCO_2 to over £100/tCO_2. This proliferation has led to perverse incentives and unintended consequences. Perhaps the most pertinent example is the treatment of renewables in the CRC Energy Efficiency Scheme, the UK's mandatory climate change and energy saving scheme for all large non-energy intensive organisations. Companies that invest in on-site renewables (and receive a subsidy) must take the carbon emissions associated with the electricity generated as grid average (as opposed to its true zero carbon content). This effectively removes a potentially significant incentive for corporations with typically large customer bases (such as supermarkets and banks) to invest in renewable technologies. A key government justification for this is to ensure the scheme focuses on energy efficiency but it is not prudent for a single objective to be isolated in this way. There should be more scope for the market to respond to the carbon price in the most effective way.



The large number of government initiatives and legislation is leading to administrative burdens and impeding progress. For example, an article in Environmental Finance finds that there are over thirty different guidelines for reporting carbon emissions[32]. Companies are spending more and more time and resources to adhere to different regulations that have similar objectives (and with very little extra environmental benefit). Not only would a commitment for mandatory carbon reporting help to develop a common standard (see previous section) but the Government should also initiate a review on how to simplify the numerous government initiatives, regulations and incentives (as well as regulatory bodies). Environmental policy must be rationalised to arrive at a more uniform carbon price (both regulatory and fiscal), alleviating the need for some environmental regulations and reducing administrative burdens.

32
Environmental Finance
(25th February 2010)
30+ carbon footprint guidelines baffle companies.

Public spending reductions are set to be a defining issue for the new parliament. The Government must ensure a thorough assessment of any spending cuts on potential long-term benefits to society. Environmental outcomes that are essential for future wealth and prosperity cannot be put at risk. At the same time, a number of sensible efficiency improvements can be made. A good example is the streamlining of various resource efficiency bodies into WRAP under a single umbrella.

Key Recommendations:

1 Publish a review on simplifying the regulatory framework, including the CRC Energy Efficiency Scheme.

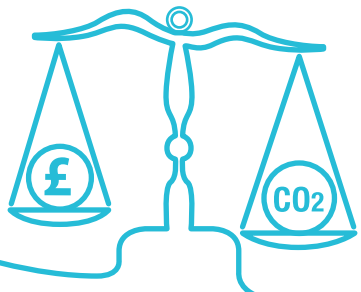
2 Ensure spending reductions include rigorous analysis of potential long-term benefits.

"The Climate Change Act commits the UK to one of the most ambitious short-term targets of any country – a 34 percent cut in emissions by 2020. For that to happen, we need a coordinated approach from government that drives businesses and citizens to embrace the change we need."

Steve Holliday, Chief Executive, National Grid

"The legislation and policy need to be simplified, clarified and harmonised. It all needs to work like a well written recipe with easily accessible ingredients, clear measures that are easy to understand and which all leads to an presentable end product."

Robert Bond, Partner, Speechly Bircham LLP



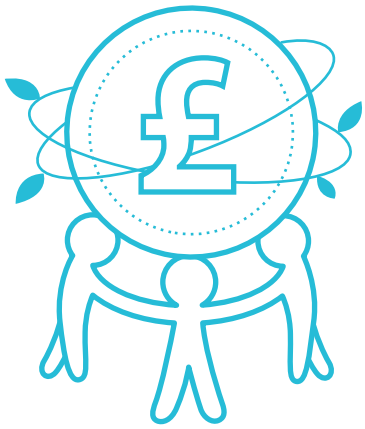
4 Mobilise the finance

A more effective approach to pricing and regulation would still leave significant barriers to a rapid low carbon and resource efficient transition.

In terms of stimulating domestic growth and job creation, the UK is competing in global markets and must address a number of impediments to investment, such as supply side infrastructure, grid access and planning legislation. While these are all being tackled with various degrees of effectiveness, our work over the last year identified project finance, in particular, as a significant barrier to the rapid mobilisation of low carbon technologies.

Financing the Transition demonstrates that meeting carbon targets for 2020 and beyond will present a major financing challenge for the UK economy. It is estimated that the investment in low carbon energy infrastructure required by 2020 will be at least £260 billion[33] (over £70 million pounds a day). The majority of this will need to be delivered by the private sector during a time of economic restraint. To achieve this, significant amounts of capital must be mobilised from institutional investors. This will require new market structures so that funds can invest, at scale, in tangible assets that are capable of delivering stable, competitive and long-term returns.

To bridge the financing gap, the Aldersgate Group has been advocating the creation of a Green Investment Bank (GIB) and we welcome the recent cross-party commitments to create one. The Government[34] recently published a proposal for a GIB which has a clear mandate to invest in the low carbon sector and operate on a commercial basis, involving both public and private sector capital (with an initial equity of £2 billion). It will initially focus on energy and transport projects where the equity gap is likely to be most critical, such as offshore wind.



This needs to be scaled up rapidly, to give it a major role in financing a whole suite of low carbon technologies, from energy efficiency retrofits to smart grids and renewable heat networks. One major source of funding should be auction revenues from the EU ETS which the Committee on Climate Change estimates could be £40 billion by 2020[35]. This would not cost the taxpayer anything or divert money from other parts of the economy, as the money would come straight from polluting companies[36]. This capital could in time potentially leverage up to fifty times more investment from the private sector on the basis of European Investment Bank ratios[37]. The bank's

33
This includes renewable energy generation, energy efficiency and the roll out of smart meters. For a detailed breakdown of costs, see Dieter Helm, James Wardlaw and Ben Caldecott (2009) *Delivering a 21st Century Infrastructure for Britain* (Policy Exchange).

34
Infrastructure UK, HM Treasury (March 2010) *Strategy for national infrastructure.*

35
Committee on Climate Change (December 2008) *Building a low-carbon economy – The UK's contribution to tackling climate change.* Section 11, "Economic Costs and Fiscal Implications."

36
James Cameron in The Times (9th April 2010) *Use polluters' cash to create a green bank.*

37
For an updated proposal for a GIB, see E3G (April 2010) *Accelerating the transition to a low carbon economy: The case for a Green Infrastructure Bank.*

role should also be expanded to consider not only equity investment but also debt products such as green bonds which could raise billions in additional investment from pension funds and insurance groups. Given the urgency, the Government should aim to pass primary legislation within a year of the election and set up a "shadow" institution without delay (fast tracking the funds from asset sales such as the Channel Tunnel rail link).

Key recommendation:

1 Immediately publish a consultation on a Green Investment Bank, set up a shadow institution without delay and aim to pass primary legislation within a year of the election.

2 Commit to capitalising the GIB with all the auction revenue from the EU Emissions Trading Scheme.

"The agreement amongst the main political parties on the need for a Green Investment Bank and the £2bn starting fund set out in the Budget is certainly a positive start. However, government must continue to work with industry to significantly increase the volume of investment."

Tom Foulkes, Director General, Institution of Civil Engineers

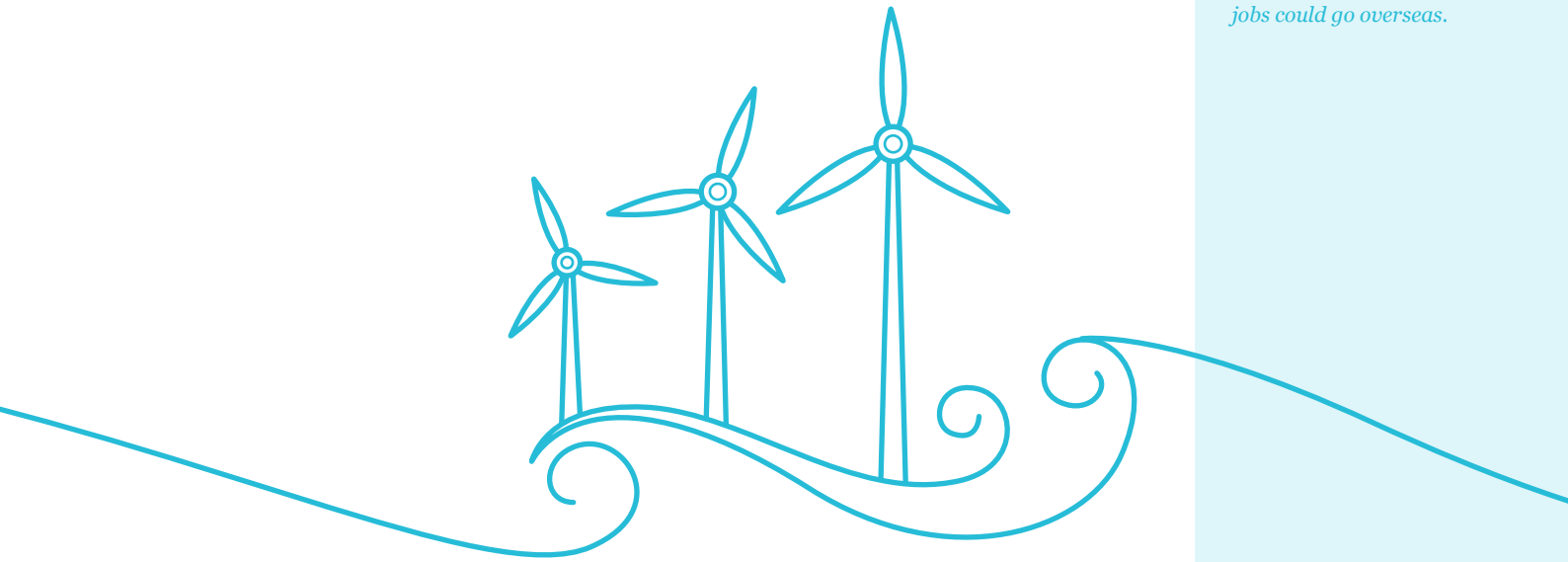
£ £

5 Develop the industrial strategy

The cross-party support for the Low Carbon Industrial Strategy (LCIS) is welcome. This aims to maximise the economic opportunities of the transition and ensure support for British based firms through active intervention.

The UK is behind in the race to develop domestic manufacturing, services and jobs in a global environmental sector that, already valued at over £3 trillion, will have a significant bearing on economic prosperity in the twenty-first century. Acting early with public investment and access to finance is essential to exploit these opportunities.

For the LCIS to achieve its objectives, it requires a more dynamic and comprehensive approach. Certain areas, such as energy efficiency, public procurement and skills policy, need more attention. Other areas such as smart grids will require more extensive financial support if the UK is going to compete internationally[38]. The timeframes must also be extended. The LCIS is focused on the achievement of 2020 targets but many technologies that will be important post-2020 have long lead-in times. Strategic planning is required in the short term, particularly in terms of skills development and infrastructure spending. For example, the announcement by Nissan to site European production of its Leaf electric car is very welcome. The Government should build on its commitments, including building a network of 1,300 charging points in the north east, by publishing a long-term vision for electric cars[39] that considers their interaction with the electricity system and provides greater certainty[40].



Above all, environmental policy must by complemented by investment in supporting infrastructure to enable the desired transition to be made in the most economically beneficial way. So, for example, low carbon targets in the domestic sector need to be supported by investment in the supply chain, skills and new technology, or incentives for offshore wind need to go hand in hand with explicit development of UK-based engineering and construction capacity. Too often, this has not been the case. For example, the 6,000 wind turbines required for a £75 billion UK investment in offshore wind capacity are likely to be built overseas, with no obligation to source any parts from domestic manufacturers[41] The tide, however, may finally be beginning to turn, with positive announcements from Siemens, Clipper Windpower and Mitsubishi about building wind turbine factories in the UK.

38
For example, China is expected to invest $7.3 billion in smart grid systems this year.

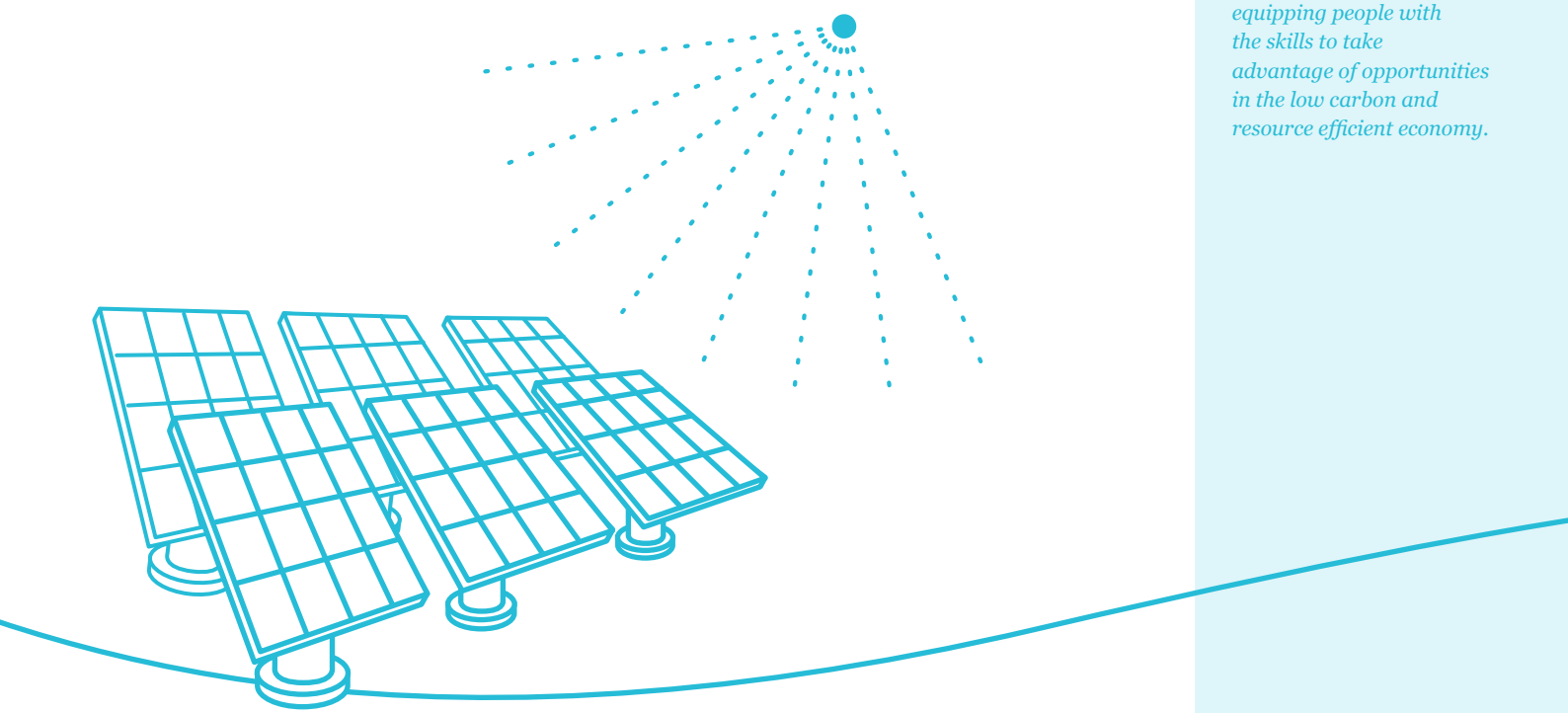
39
Chris Tighe, Financial Times (18th March 2010) *North-east hails Nissan's electric car move.*

40
Green Alliance (March 2010) *Future proof: an electricity network for the 21st century.*

41
Ben Webster, The Times (8th January 2010) *Wind farms could power half of Britain's homes, but jobs could go overseas.*

To accelerate progress, the UK requires an explicit supply chain strategy. The LCIS should incorporate specific targets for job creation, manufacturing capability and export growth in targeted industries. Outlining how capacity in each renewable technology is to be sourced will help create domestic competition for existing oversees providers supplying the required surge of capital to meet carbon targets. The first Budget of the new parliament should provide greater support for domestic industry to achieve these new targets, including enhanced capital allowances, tax breaks and national insurance reductions[42].

Another critical component of the economic transition is the development of new skills in rapidly growing low carbon sectors, and of generic skills across the economy. Strong evidence suggests that the UK does not have the necessary skills to make the transition at the pace required, or the training arrangements in place to fill the gap. An enhanced skills strategy should aim to provide more support for training, reform the skills delivery system, drive demand through public procurement and engage with the general public in a more productive way. A number of these issues have been addressed in a recent government consultation on low carbon skills[43].



Our *Beyond Carbon* report also argues that as resource efficiency and related innovation increasingly become primary benchmarks of a successful economy, the UK will need to expand its industrial strategy to address critical resource constraints and ensure long-term competitive advantage. This would adopt general resource efficiency principals (such as resource pricing, lifecycle management and innovation) and stimulate economic development for wider environmental industries, in areas such as: marine and terrestrial pollution control; energy efficiency; and waste management, recovery and recycling. Above all, it will ensure sustained economic growth and competitive advantage as the demand for increasingly scarce global resources grow.

42
A new report by Friends of the Earth by climate changematters limited (publication date May 2010), *Renewables Fit for 2050* recommends providing strong incentives to establish or grow manufacturing enterprises for at least five years by annually allocating up to £1 billion of 100 percent capital allowances (with cashback for SMEs) for new manufacturing facilities; a 50 percent reduction in corporate tax on profits for renewable manufacturing businesses; and lower National Insurance for employees in renewables manufacturing.

43
BIS & DECC (issued March 2010) *Meeting the Low Carbon Skills Challenge. A consultation on equipping people with the skills to take advantage of opportunities in the low carbon and resource efficient economy.*

Key recommendations:

1 Develop a supply chain strategy with domestic capacity targets.

2 First Budget to increase support for UK green industry, including enhanced capital allowances, tax breaks and national insurance reductions.

3 Build on the current skills strategy to accelerate ambition and delivery.

4 Publish a long-term vision for electric cars.

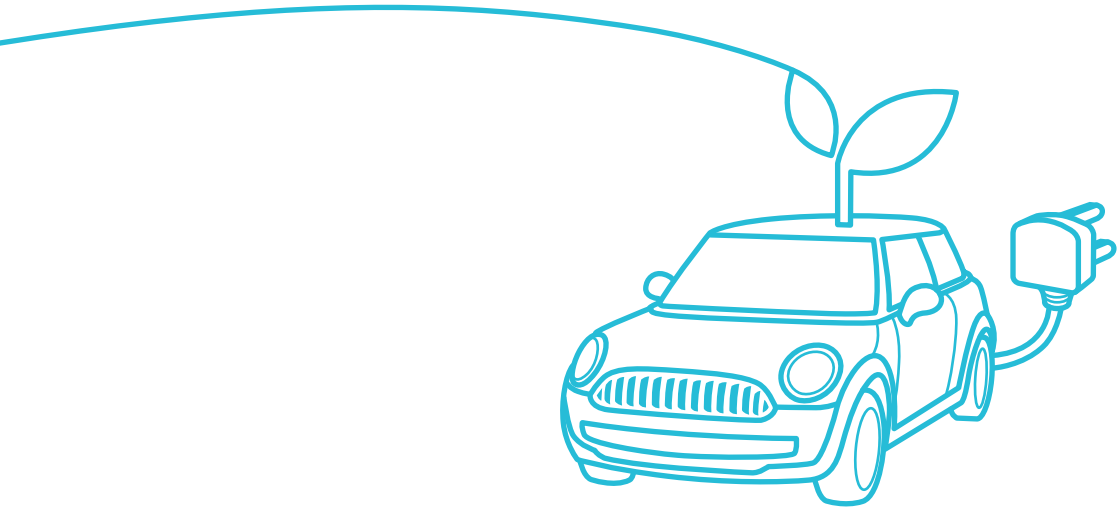
5 Initiate work on a resource efficient industrial strategy.

"The UK has the skills and the know how to be a major player in the coming low carbon world economy but government support should extend beyond the narrow focus on renewable energy if these opportunities are to be grasped."

Neil Carson, Chief Executive, Johnson Matthey

"We need an entire workforce of policy makers, company directors, engineers, accountants, scientists, teachers, journalists and retailers, that understand, think and 'do' low carbon."

Sir Michael Rake, Chairman, BT Group plc



6 Improve accountability across government

The transition to a low carbon and resource efficient economy affects every sector in the economy and requires unprecedented cross-departmental co-ordination.

Wide ranging environmental challenges cannot be effectively addressed through segmented government. This is most clearly demonstrated in our investigation into environmental skills. The skills delivery system, led by Sector Skills Councils (SSCs), is ill equipped adequately to anticipate, identify and respond to the generic skills needs of the low carbon transition.

Progress can be hampered by civil service officials all too often only responding to the narrow set of interests of their function and department without sufficient incentive to consider the broader picture. Accountability and responsibility should be greatly improved with the introduction of departmental carbon budgets with targets to reduce emissions from the sector of the economy relative to its degree of influence. With the first budgets being published this year, the delivery process should be more robust. It should be monitored by an independent body such as the Climate Change Committee and the achievement of targets should be clearly linked to annual performance reviews (that determine the career prospects of senior civil servants).

HM TREASURY

HM Treasury also needs to take greater responsibility. Its departmental carbon budget is based solely on the carbon savings it expects to make on its own estate. This is inadequate given its role as manager of the economy and extensive influence over the public sector. Its carbon budget should also include changes in taxation and spending that could have a major impact on carbon emissions and on levels of investment in low carbon industries. This is a key recommendation from a report by the Environmental Audit Committee, which rightly states that the "management of the carbon budget is as vital as the management of the fiscal budget", and so requires the same level of political attention and civil service commitment[44].

More generally, environmental standards are important today for economic efficiency as well as public protection. Undoubtedly, good environmental regulation is an economic as well as a social imperative. While, in the past, the design of environmental regulation had to consider the best way of delivering environmental benefits for the public, it now also has to consider how it can best deliver economic benefits. Thus, the role of good regulation in forcing the pace of industrial change should be a central element of economic policy and become a key objective for HM Treasury's management of the economy.

Beyond Carbon demonstrates that acting on resource constraints ahead of the market will become increasingly essential for economic competitiveness. Resource efficiency must be supported across government departments through policies on spatial planning and business support, the remits of the regulators and specific targets for resource efficiency in key sectors. The Government should publish a review that looks at how this could be implemented in practice.

44
Environmental Audit Committee (January 2010) *Carbon Budgets*, p 34–36.

Key recommendations:

1 Carbon budgets to be monitored by the Climate Change Committee and form a central part of performance appraisals for civil servants.

2 Taxation and spending announcements in first fiscal budget to be incorporated in Treasury's carbon budget.

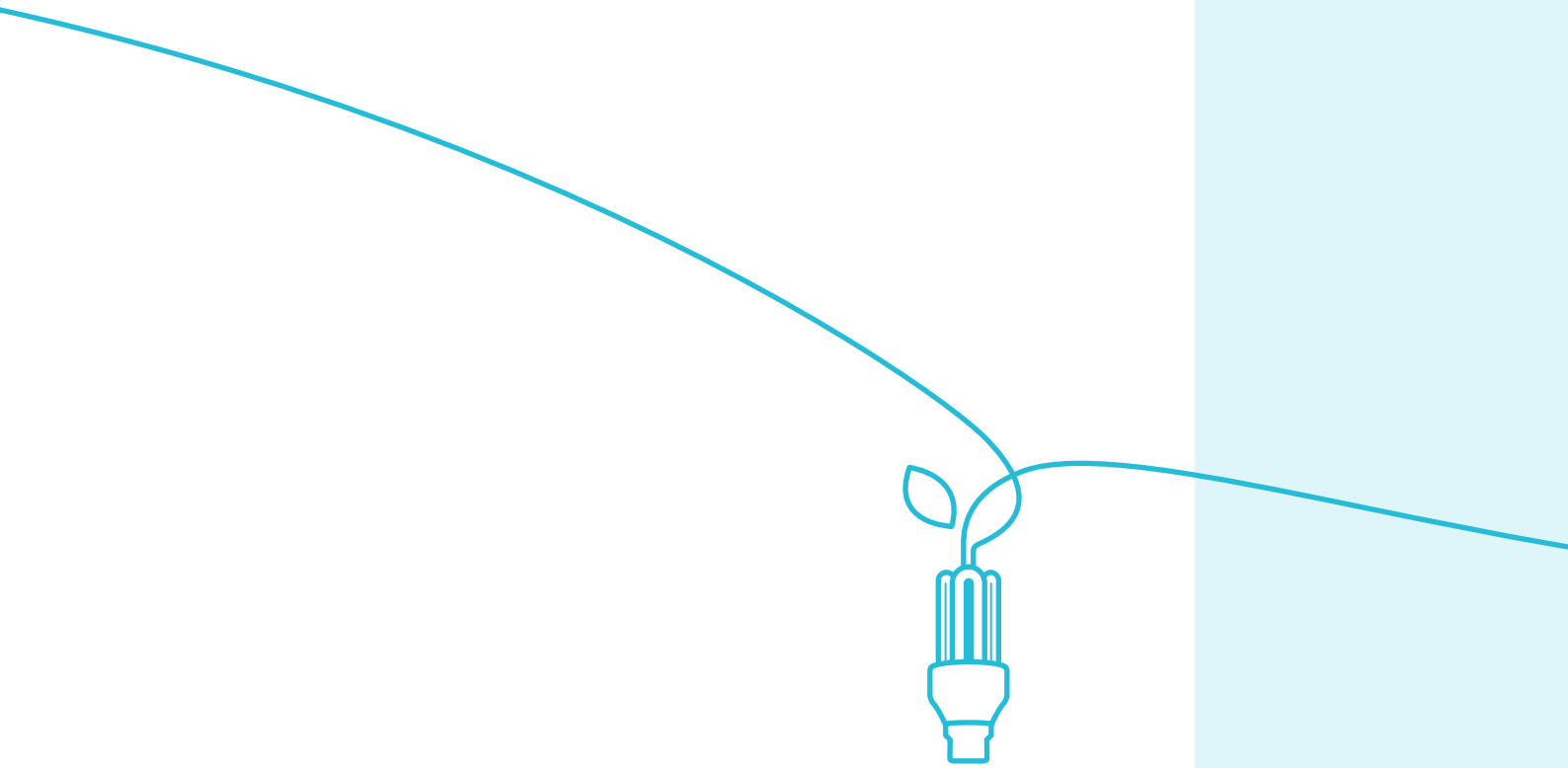
3 Initiate review of how resource efficiency can be supported across government departments.

"Treasury has a crucial role to play for the UK to stay within carbon budgets. Implementing a rising carbon tax to give incentives for increased carbon productivity and providing longer-term support for green innovation will ensure that the green technologies of the future are ready when we need them."

Professor Paul Ekins, Director, Green Fiscal Commission

"Sustainability is part of our everyday discussions at National Grid. Linking executive pay and climate change deliverables has increased accountability and positively impacted our culture. Employees across the company are increasingly incentivised to put sustainability at the heart of the way we do business."

Tom King, President, National Grid US



7 Incorporate a lifecycle approach

Effective management of resources necessitates a consideration of the whole resource cycle. Isolated interventions are rarely effective and often create unintended consequences elsewhere.

This point was most apparent in our case study on material flows as part of our resource efficiency work stream. It shows that UK waste policy is generally based on a linear model, targeting extraction, production, consumption and waste management as if they were separate entities. The Government targets efficiency gains at each stage of the waste cycle, rather than "closing the loop". Conservation of existing resources would lead to significant economic and environmental benefits. In this model, the economy should extract only what is strictly necessary and return secondary materials (such as products that have finished their useful life) back into the production cycle, either through reuse, recycling or transformation into energy. Understanding the resource flows through the UK economy by expanding the remit of the Sustainable Consumption and Production Unit in Defra would be an important part of any new framework and should include an analysis of embedded carbon.

The issue of embedded carbon is not, of course, just limited to resource flows. More honesty and transparency about the UK's carbon footprint is required for a system of domestic carbon budgets to effectively address an international challenge such as climate change. It is an uncomfortable truth that if carbon emissions are calculated on the basis of consumption rather than production (allowing and adjusted for carbon intensive imports and international travel), the UK's performance on carbon emissions between 1990 and 2005 is transformed from a 19 percent reduction to a 15 percent increase[45]. New research by the Carnegie Institute of Washington in California finds that UK demand for imported goods is responsible for more GHG emissions abroad than any other European country, and is third worldwide, behind only the US and Japan[46]. This does not justify weakening climate change policy and, for example, the threat of climate leakage is not as serious as often claimed[47]. It does, however, put greater responsibility on an increasingly service-based economy to help developing countries reduce their GHG emissions. It also emphasises the importance of securing a just international climate change treaty via COP16 later in 2010.

45
Dieter Helm, Jonathon Phillips and Robin Smale (2007) *Too good to be true? The UK's climate change record.*

46
Carnegie Institute of Washington (March 2010). Reported in the Guardian: *UK import emissions are the highest in Europe, figures show* (8th March 2010).

47
In truth, when businesses decide on a production location, environmental costs, for 90 percent of UK manufacturing, tend to be low relative to considerations of the cost of capital, fiscal regime, wage costs, workforce skills, exchange rate fluctuations, infrastructure and proximity to the market. See Aldersgate Group (December 2008) *Green Foundations 2009.*

Public procurement is a massively underused lever for progression towards a low carbon, resource efficient economy. The UK's £175 billion per annum public procurement budget represents a major opportunity to boost competitiveness, stimulate the market for environmental technologies and drive demand for low carbon skills. Full analysis of lifecycle costs must be considered, saving taxpayers money in the long term. Despite its vast potential to drive change, the reform of public procurement practices remains a relatively low priority for Government and only modest developments are incorporated in the Government's climate change strategies. Both the Environmental Audit Committee[48] and Sustainable Development Commission[49] find that the Government has performed badly in meeting its own targets for sustainable procurement and reducing carbon emissions from its own buildings. Bold measures are required, such as immediate, serious and lasting carbon reduction across the government estate measured on a lifecycle basis (outperforming emission reductions under carbon budgets).

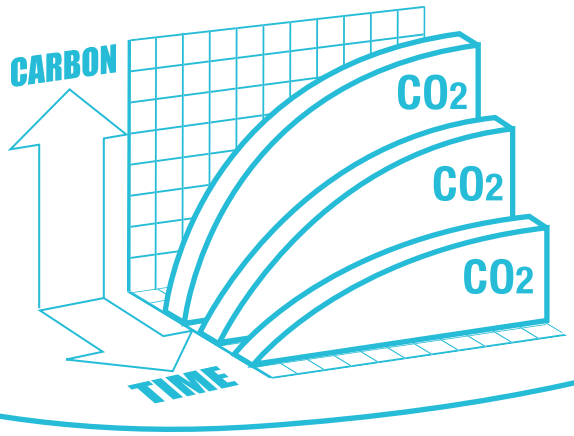
Key recommendations:

1 Expand remit and resources of the Sustainable Consumption and Production Unit in Defra.

2 Initiate work on a "National Resource Dashboard".

3 Implement an immediate policy of serious and lasting carbon reductions across the government estate.

> *"Carbon may be the most immediate resource issue, but resource efficiency will be a political theme replayed in one resource area after another. We must work out how we will manage our entire economy efficiently, and not by serial attention to each problem resource as the problem becomes critical. This present economic imperative carries within it the shape of politics to come."*
>
> ***Sir John Harman, AG Chair Resource Efficiency***



48 Environmental Audit Committee (July 2009) *Greening Government.*

49 Sustainable Development Commission (May 2009) *Sustainable Development in Government (SDiG) 2008: Challenges for Government.*

8 Plan a just transition

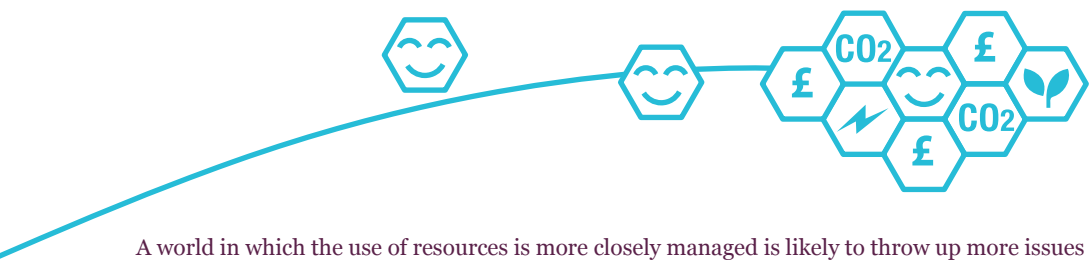
The radical decarbonisation of the economy has the potential to be a major source of wealth and employment. It will also involve massive and complex changes that will create losers as well as winners.

The Government needs to engage actively with the nation's workforce about the widespread implications of the transition and accept the need to intervene to provide the necessary level of social protection that is expected of a government in a civilised society.

The concept of a "just transition", developed by the TUC, is about recognising and planning fairly and sustainably for the huge changes that climate change policies will have for our whole economy. In the past, significant periods of economic restructuring have often left too many individuals and communities behind. Not only will the nature of all jobs change (requiring the development of more generic low carbon skills) but so too will the relative importance of sectors. There are significant challenges for the UK's energy-intensive heavy industries, such as iron and steel, aluminium, cement and lime manufacture, pulp and paper making, basic inorganic chemicals and nitrogen fertilisers, which collectively employ around 220,000 workers, mainly in highly skilled jobs[50]. The Government must ensure that new jobs and occupations are developed ahead of the decline of old ones associated with resource intensive activities, which the new low carbon economy will no longer demand.

To achieve this goal, the creation of a Forum for a Just Transition as part of the Low Carbon Industrial Strategy is positive. This body includes representatives from central government, national, regional and local bodies, trade unions, business organisations, and third sector bodies and advises the Government mainly on the development of low carbon skills. It now needs to play a much more fundamental role in driving forward the UK's industrial strategy. For example, it should review the social impacts of carbon budgets and have a formal advisory role to the Green Investment Bank, linking investment decisions to social objectives. There is an urgent need for action due to the unemployment impact of the recession.

This needs to be coupled with a more transparent approach about the costs of the low carbon transition. Many policies, such as incentives for renewable technologies, either pass on costs to the public through higher future energy bills or involve upfront costs that are prohibitive to lower income families. If part of the economy is ill-equipped for the transition, it will result in communities missing out on the prosperity on offer and lead, inevitably, to social tensions. This will also make future policy harder to implement. In the United States, a group of Senators are calling for a suspension of President Obama's clean energy programme as a significant proportion of funds are supporting foreign manufacturing and jobs[51]. As with the UK, greater transparency on how public subsidies are being spent is required.



A world in which the use of resources is more closely managed is likely to throw up more issues of equity of access to those resources, if productive efficiency fails to keep pace with resource pressures. Not only is this effect very present in debates about fuel poverty (see below), but also water pricing. This would be exacerbated exactly in proportion to the degree to which price is used as the primary control and underlines the requirement that resource efficiency decisions cannot be taken in isolation from consideration of their equity effects.

50
TUC (February 2010) *A Budget for Growth, p28.*

51
This is a direct result of the failure to develop US clean tech manufacturing during the George W Bush Presidency. See Senator Sherrod Brown (March 2010) *Senators Urge Administration to Suspend Stimulus Program Funnelling Billions Overseas.*

Fuel poverty, particularly in the context of the coldest winter for over three decades, is a significant social problem. Due to the increase in fuel prices and more recently a difficult economic period, the number of households in fuel poverty has actually increased, leaving the Government with a much bigger gap to close if it is to achieve its target of eradicating fuel poverty in all households by 2016. Fuel poverty is caused by three main issues; the cost of fuel for the home, the level of income of the occupier and the energy efficiency of the home. Of these three issues the one that is the easiest to treat and also offers long-term protection from fuel poverty is that of tackling the energy efficiency of the home. Paradoxically, those that are most vulnerable to the impacts of increasing energy costs are those least able to access the capital needed to improve their home's energy efficiency. In response, the Government's fuel poverty strategy should prioritise long-lasting energy efficiency measures[52] that are delivered on a comprehensive, street-by-street basis[53].

It is imperative that the low carbon and resource efficient transition is delivered in a fair and equitable way. Employees in high carbon sectors at most risk need to be protected, as well as those in low-income households who will face increasing energy costs. Revenues generated from environmental taxes and regulations must help reduce these impacts.

Key recommendations:

1 Expand the role of Forum for a Just Transition, so that it reviews the social impact of carbon budgets and has a formal advisory role to the Green Investment Bank.

2 Initiate a comprehensive street-by-street energy efficiency scheme to reduce carbon emissions and fuel poverty.

"The transition to a low carbon economy will create many new business opportunities but will also force major changes in employment, wealth and expenditure. Government has a responsibility to ensure that the benefits are spread throughout society and that people are not left high, dry and unprotected as employment patterns change and fuel costs rise. The transition will not be widely supported unless the policy includes a strong and effective social dimension."

John Edmonds, Former President, TUC & AG Chair, Environmental Skills

"Radically improving the energy efficiency of our existing 26 million homes and nearly 2 million buildings is an essential part of the transition to a low carbon economy. This is as much about ensuring affordable warmth and enabling energy security as it is about tackling almost half of the UK's carbon emissions. Those least able to afford to improve their leaky homes and buildings currently have to pay the most for their energy, while the wealthiest and biggest energy users enjoy significantly reduced prices, offering little incentive for them to reduce waste. Removing the barrier of upfront capital costs by introducing Pay As You Save schemes that enable people to save money and reduce energy use from day one, is an essential first step in making energy efficiency easy, affordable, attractive, and also more equitable."

Paul King, Chief Executive, UK Green Building Council

52 This is the headline finding in a recent report by the IPPR that argues for maximising the use of technological innovations, such as smart meters, microgeneration technologies and community-scale heating: IPPR (March 2010) *The Long Cold Winter: Beating fuel poverty.*

53 Energy and Climate Change Committee (March 2010) *Fuel Poverty.*

Conclusion

"We need to invest in the jobs of the future and in the industries of the future, because the country that leads in clean energy and energy efficiency today, I'm absolutely convinced, is going to lead the global economy tomorrow." [54]

Barack Obama, President, United States

This report has built on the broad political commitment for more activist industrial intervention in environmental sectors to accelerate the economic opportunities of the transition to low carbon and resource efficiency. The UK is currently behind some critical international competitors in the global clean energy race and there is only a small window of opportunity to catch up. Bold and urgent action is required. The new parliament is the ideal (and, most likely, last) opportunity to build on positive developments over the last few years to make rapid progress towards achieving ambitious environmental targets for 2020 and beyond[55].

This political shift, in part, vindicates a core Aldersgate Group position; high environmental standards are essential for long-term economic growth, competitiveness and prosperity. There is a persistent misconceived perception that environmental regulation can often place an exorbitant burden on industry, stifling growth and competitiveness. In reality, quite the reverse is true: well-designed and cost effective 'smart' regulation provides the 'green foundations' essential to underpin the growth and jobs in the years to come – while also presenting more immediate business opportunities.

Naturally, in response to the global recession, there is a renewed drive to reduce costs for business. Whereas removing unnecessary regulation and reducing the cost of compliance improves the overall productivity of the economy, the vital role that regulation plays in correcting market failures, promoting fairness and protecting the environment must also be a priority. The 2008 financial crisis is a stark reminder of how the unregulated excess of the free market and banking system, governed by a 'light touch' and 'hands off' approach that does not adequately address market failure, can have devastating economic and social consequences. The benefits of better environmental regulation, as the quote from President Obama testifies, could have a significant bearing on leadership in the global economy of tomorrow.

This report sets out clear priorities for a new Government with an ambition to be one of those leaders. It is by no means an exhaustive list but gives an indication of the scale and complexity of the challenge at hand. The Government cannot leave these things wholly to the market and just as it is their job to regulate, it is also their job to make consistent and holistic policy to create absolute certainty on the direction of travel. Only then can the private sector invest and drive to maximum pace the industrial transition to a low carbon and resource efficient economy.

54
President Barack Obama (5th March 2010) The White House: *Remarks by the President on Clean Energy Jobs.*

55
March 2010 (Green Alliance) *The Last Parliament: priorities for urgent action on climate change.*

Aldersgate Group

Providing the economic case for high environmental standards.

Who We Are

The Aldersgate Group is a high level coalition of progressive businesses, environmental groups and MPs who believe that high environmental standards will be a major part of future economic growth and international competitiveness.

By presenting objective evidence based on the diverse experience of our members, we promote the case that there is no inherent contradiction between regulating for high environmental standards at the same time as maintaining economic growth and stimulating wealth creation. Quite the reverse: no economic policy which sacrifices environmental quality can succeed in the long term.

Our Aim

To engage actively with government and other key decision makers to contribute to the future development of UK economic, environmental and sectoral policies, as well as providing a distinct voice that advances the better regulation and sustainability agendas.

Our Members

The Group brings together a broad range of players including major corporations, professional bodies, industry leaders, public sector organisations, NGOs, Parliamentarians and others who press for better, smarter environmental regulation that will help manage the transition to a more eco-efficient economy. By combining resources and expertise, the Aldersgate Group is an authoritative and distinctive voice which influences current political debates and government policy.

Key Messages

1. Our long-term economic success depends on a healthy environment and the sustainable use of natural resources.
2. At the company level, good environmental performance translates to tangible economic benefits and is a major source of competitive advantage.
3. Better environmental regulation creates new business and employment opportunities in a fiercely competitive global marketplace.
4. Policy appraisals must accurately assess environmental costs and benefits.
5. The better regulation agenda must not lose sight of the need to maximise outcomes in the drive to reduce unnecessary costs.

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