



House of Commons
Treasury Committee

Climate change and the Stern Review: the implications for Treasury policy

Fourth Report of Session 2007–08



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*Report, together with formal minutes, oral and
written evidence*

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The Treasury Committee

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The current staff of the Committee are Colin Lee (Clerk), Sïan Jones (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young and Jay Sheth (Committee Specialists), Lis McCracken (Committee Assistant), Caroline McElwee (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

Contacts

All correspondence should be addressed to the Clerks of the Treasury Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is treascom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
Our inquiry	5
Previous work by the Treasury Committee	6
Relevant work by other select committees	6
2 The economics of the Stern Review	8
The Stern Review	8
Background	8
Overall analysis of the Stern Review	8
Key findings of the Stern Review	8
The international nature of the climate change problem	10
Criticisms of the Stern Review	12
The independence of the Stern Review	12
Discount rates	13
Relying on adaptation	16
3 The Government's approach to reducing emissions	19
Coordinating climate change policy	19
Seven tests for better regulation	20
HM Treasury's role and the regulatory mix	21
4 Emissions Trading Schemes	23
Theoretical considerations	23
European Union Emission Trading Scheme	25
Background	25
Challenges for the EU ETS	26
Successes of the EU ETS	27
Moving to a global emissions trading scheme	28
Inclusion of airlines in the EU ETS	29
Introduction	29
Problems with including aviation	30
Eco-labelling	30
5 Environmental taxes	33
The rationale for environmental taxation	33
Problems with environmental taxes	33
The Government's Statement of Intent on Environmental Taxation	34
The Statement	34
Defining environmental taxes	35
Progress against the Statement	37
Conclusions	39
Hypothecation of tax revenues	40

The social impact of environmental taxation	41
Aviation taxation	42
Introduction	42
Air Passenger Duty	43
Is APD an environmental tax?	44
Changes to the APD regime prior to aviation's inclusion in the EU ETS	45
Conclusions	46
6 Adaptation	47
Adaptation in the United Kingdom	47
Coordination of adaptation efforts across government	47
Government expenditure on flood defence	49
Adaptation in developing countries	52
Conclusions and recommendations	54
Formal Minutes	59
Witnesses	61
List of written evidence	62

Summary

Climate change is one of the biggest challenges facing the world today and requires an urgent response from Government, industry and the individual. Our inquiry was triggered by the publication of the *Stern Review on the Economics of Climate Change* in late 2006, which stressed the need to stabilise carbon emissions sooner rather than later, and warned of potentially catastrophic impacts if that was not achieved. The *Review*, which this Report welcomes, framed the climate change debate in terms of economic choices, and considered the use of economic tools such as environmental taxation and permit trading schemes as economically-efficient mechanisms for cutting emissions. This Report recommends that the Government give primary consideration to the use of economic tools in combating climate change: The Treasury's policies and action in this regard were the main focus of our inquiry.

This Report expresses regret that Phase I of the European Union Emissions Trading Scheme over-allocated permits, and stresses the need for the Government to strive for a much tighter allocation in Phase II.

This Report also considers the issue of environmental taxation. At the moment, confusion reigns over the definition of environmental tax, with the Office of National Statistics (ONS) and the Treasury using different measures, and we urge the Treasury to come into line with the ONS. In our view, the Government's commitment to the 1997 *Statement of Intent on Environmental Taxation* has not been maintained and we express our disappointment at this.

Prior to the proposed inclusion of aviation in the EU ETS, the Government must ensure that airlines are at least covering the environmental cost of their actions. We express concern that airlines are dragging their feet in cooperating on environmental schemes, and recommend that airlines adopt a system of eco-labelling, so that consumers can compare the environmental footprint of each airline when purchasing their tickets.

We welcome the Government's proposal that Air Passenger Duty (APD) be replaced by 'Per Plane Duty', but regret that the Government has taken so long to do so. APD does not currently differentiate between full and half-empty planes, between flights to Morocco and flights to Australia, or between clean planes and relatively dirty planes. We urge the Government to ensure that cargo flights and private planes are included in the new regime and that tax differentials be introduced to encourage investment in cleaner technologies.

We do not agree with the suggestion that the UK's response to the climate change threat can rely solely on adaptation measures, but instead recommend the Government pursue a twin-track approach, including both adaptation and mitigation. Nevertheless, adaptation is crucial, because climate change is affecting the UK now. We recommend that the Treasury track and publish public spending on adaptation, and, in the specific area of flood risk management, give early notice of spending plans beyond 2011 prior to the next Spending Review. We also recognise that many of the world's least-developed countries face more urgent and profound threats than the UK from climate change, and call on the Treasury to

specify and ring-fence part of the Department for International Development's budget for overseas climate change adaptation.

Many Government departments are involved in Climate Change programmes and we welcome the establishment of the Office for Climate Change (OCC), which seeks to promote cross-departmental cooperation. We recommend that a Minister should take responsibility for the OCC, in order to create an effective Champion of Climate Change across Government.

