

ALDERSGATE **GROUP**

Economic Appraisal of Environmental Policies

- The Aldersgate Group's View

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Who we are

- Founded in 2006
- A broad coalition of businesses, NGOs and government agencies
- We believe that high environmental standards are vital to future economic growth and competitiveness
- Engage actively with government and other key decision makers
- Over twenty members and growing

Our main members



Johnson Matthey



What we aim to do

- Raise awareness in the UK and Europe of the wide ranging (economic and social) benefits of high environmental standards.
- Build political support for smarter environmental policymaking that is based on a thorough assessment of these wider benefits
- Develop a broad coalition of stakeholders to encourage policy makers to act early and strongly

Green Foundations

- Argues that high environmental standards are essential for the UK's long-term economic competitiveness and a high quality of life
- Presents the case for smarter policy making to manage the transition to a more resource-efficient economy
- Shows the broad range of actors in the UK who believe that the better regulation debate needs to be better informed and based on quality economic evidence
- Raises the awareness of five key messages and presents evidence which supports them



The five key messages

1. Long term economic success depends on sustainable resource use
2. Good company environmental performance makes business sense
3. Environmental regulations create innovation and opportunities across the economy
4. Policy appraisals and regulatory impact assessments should be balanced and objective. They should neither undervalue benefits nor overplay costs
5. Better regulation means: proportional, accountable, consistent, transparent, targeted, efficient and effective.

Current initiatives

- *Carbon Costs* - making the case for a common carbon reporting standard
- *Trading for Growth* – analysis of potential of EU ETS to drive resource efficiency and contribute to economic growth.
- Transitional policies – keystone policies that have the power to transform the economy to deliver a shift change in carbon emissions and resource use
- Building for the Future – making the economics work for the best sustainable built environments in all new build and refurbishments, not just a few flagship projects

CEMEP

- CEMEP established by Gordon Brown after Stern and reported November 2007, government response due soon
- CEMEP's goal: UK to become best at low-carbon and resource efficient activities to attract investment, and create prosperity and high quality employment
- Requires policy makers to be able to measure the trade off between short term costs and long term benefits
- Presented evidence underpinned by case studies and made 24 specific recommendations
- Future policies will require standard instruments of regulation, market-based incentives and innovation support

6 policy challenges from CEMEP

1. Creating durable, credible goals for environmental policy underpinned by national consensus
2. Use more market-based instruments including environmental taxation and (auctioned) cap and trade systems
3. Introduce dynamic performance standards in regulation and implement all regulation to timetable
4. Develop ways to value the future benefits of innovation
5. Promote environmental innovation through Departmental/Agency Science and Innovation Strategies
6. Use Forward Commitment Procurement, regulation driven early markets and options support for new technologies to create market pull and supply push

Where are the Banana Skins?

1. Industry lobbying exaggerates costs and IAs habitually ignore business opportunities and consequent wealth creation
2. Cap and trade systems are particularly vulnerable to the above and can undermine the polluter pays principle
3. Beware static assumptions - a failure to value the benefits of innovation can lead to stagnation of standards
4. Be clear if economic analysis of policy choice is to find the cheapest route to the goal or to bring more options into play for the future

Overall the stakes have never been higher to raise the confidence and durability of Economic Appraisals and Impact Assessments

Example 1: EU Car Emissions

- UK: EU proposals would export 1000s of jobs and ‘drive European car makers to brink of extinction’
- Italy: ‘unprecedented high level’ of penalties
- Germany: ‘hinder innovation, threaten jobs and fail to be an effective instrument of climate protection’

VS

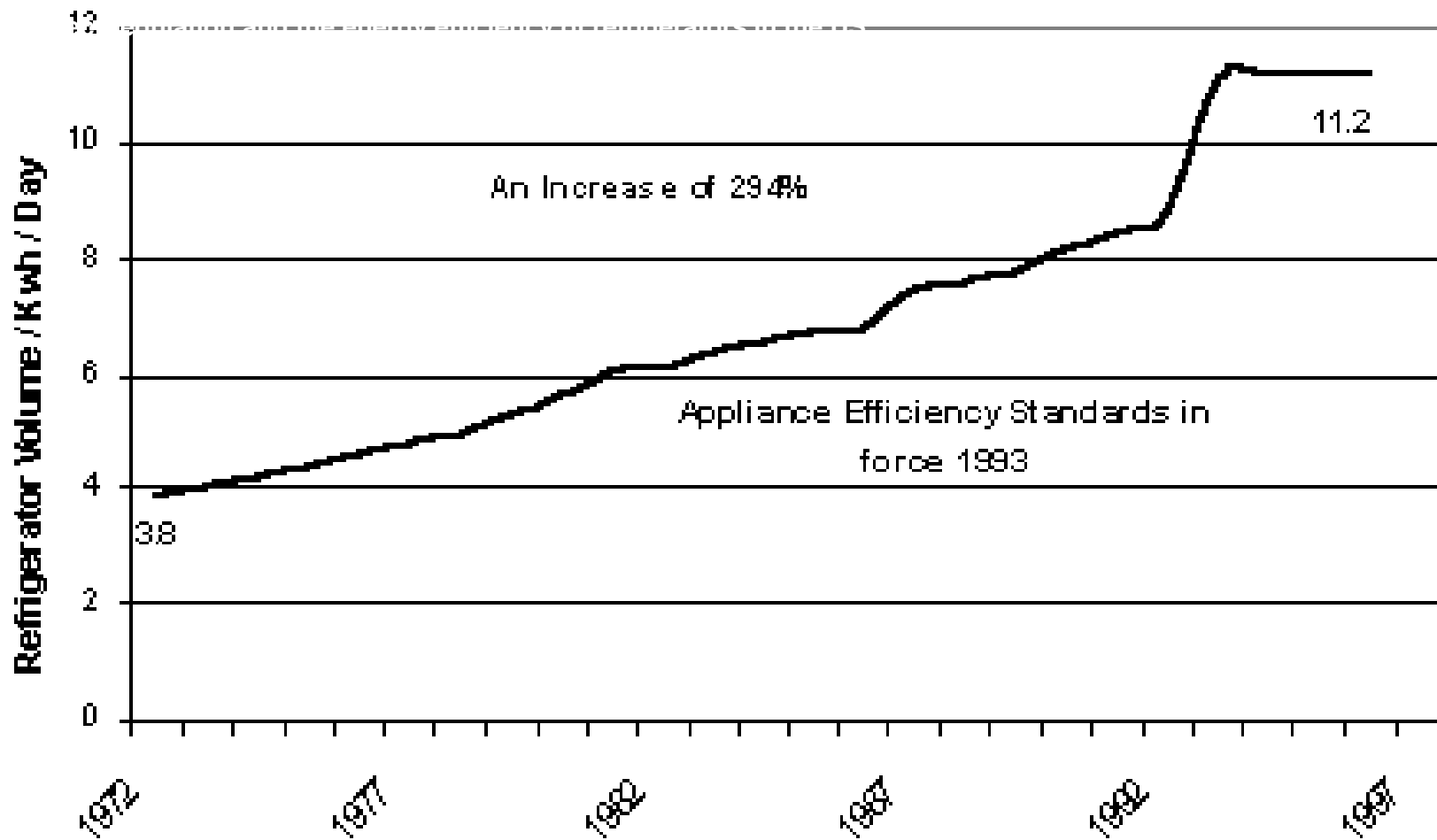
- Stimulate innovation and reduce cost of compliance
- US impact of similar proposals calculated to create 241,000 jobs and reduce oil by 1.6m barrels per day
- Remember catalytic converters – industry priced at £400-£600 but now £30-£50 each and drove fuel efficiencies

2: EU ETS Allocations

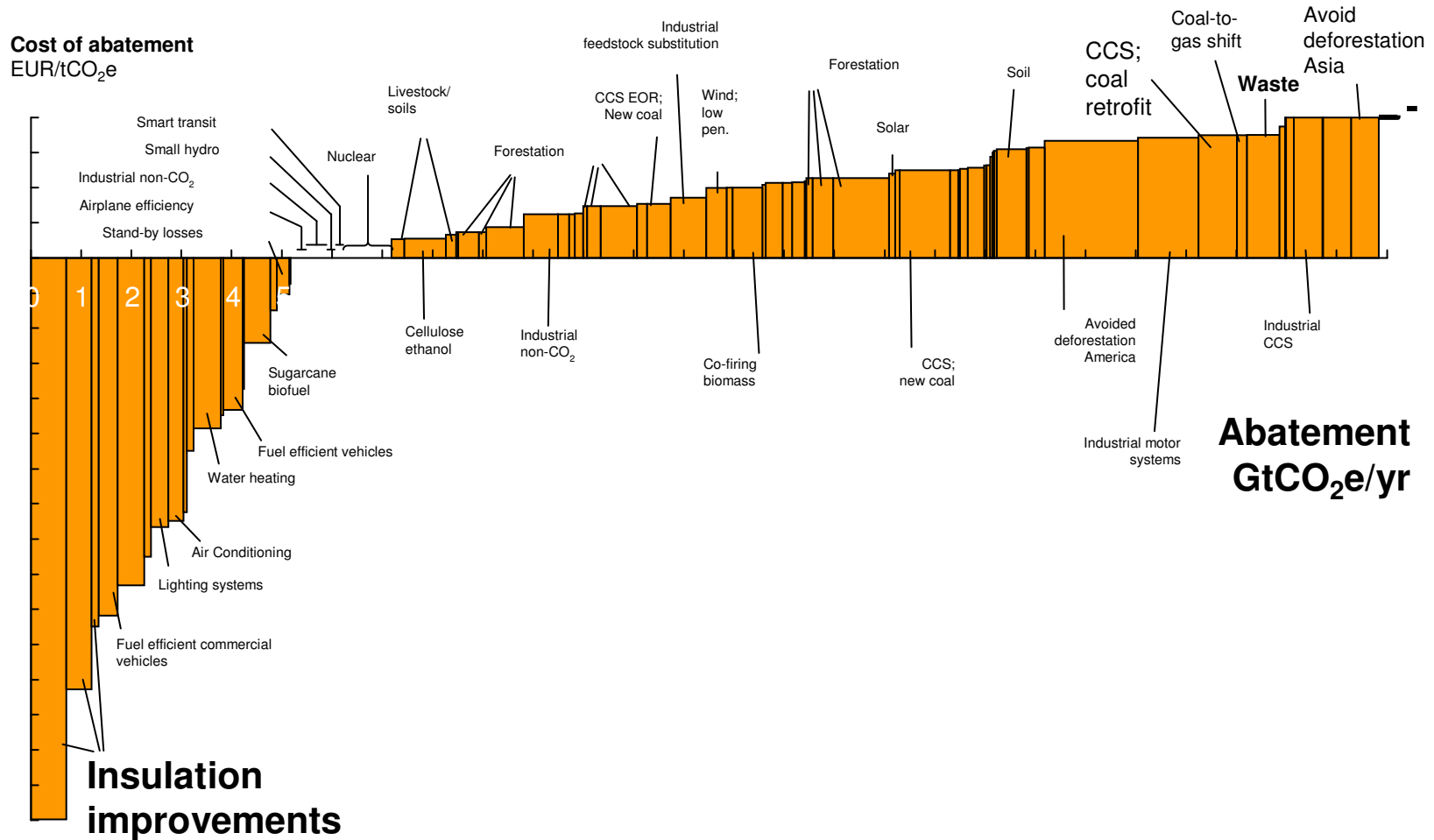
- **Free allocation** transfers wealth to emitters (a profit) – Phase 2 estimated at euro 9 to 15 bn windfall for European power companies
- Profit from free allocation creates incentive for strategic behaviour between firms, sectors, countries - to exaggerate allowance needs
- **Auctioning** transfers wealth from polluters to society (in line with the polluter pays principle)
- Auctioning creates market with incentive for emitters to reveal their allowance needs earlier and more accurately
- In the long-term, it should be the EU's ambition for its ETS to be the basis of a global system, in which competitiveness considerations will be left to market forces to resolve.

3. Direct regulation and the energy efficiency of refrigerators in the US

Box 2



4: Costs of Carbon Abatement



Conclusions

- 1 Economic Appraisals and IAs must become more dynamic, comprehensive and inclusive
- 2 More research is needed to crystallise the wider benefits of high environmental standards and to predict the economic effects of innovation....
- 3 ...but beware that weak regulation leads to clinging on to the status quo and industry will habitually over-estimate costs using straight line predictions
- 4 An era of increasing fiscal and regulatory interventions to achieve environmental goals is here – we need world class economic skills and evidence to make the right choices and we need them now!

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