



**Local Authority
Pension Fund
Forum**

Draft Climate Change Bill

***Response by the
Local Authority Pension Fund Forum
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THE CLIMATE CHANGE BILL: A CONSULTATION DOCUMENT

1. Background

LAPFF, which was set up in 1991, is a voluntary association of 40 local authority pension funds based in the UK. LAPFF exists 'to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.' The Forum's members currently have combined assets of about £75 billion. PIRC is the Research and Engagement Partner to LAPFF.

As part of its focus on long-term shareholder value, the Forum has, for many years, undertaken engagement activities with companies on issues related to climate change. We recognise there is currently a need for the Government to send clear signals with regard to its long-term climate change policy, and to provide companies with the certainty and stability necessary to make long-range investments. On this basis we welcome the introduction of the draft Climate Change Bill as a step in this direction.

The Forum has taken the opportunity below to provide our view on those consultation questions, which we consider relevant to our activities.

2. Responses to specific questions

Question 1: Is the Government right to set unilaterally a long-term legal target for reducing CO₂ emissions through domestic and international action by 60% by 2050 and a further interim legal target for 2020 of 26-32%?

Although the Forum is fully supportive of the establishment of long-term targets, we consider that the 60 per cent target for emissions reduction by 2050 does not reflect the current consensus. In March of this year, the Select Committee on Environmental Audit published a report noting that that the target of 60 per cent reduction is not in line with the Stern Review, which concludes that an 80 per cent reduction target on 1990 levels by 2050 would be needed to prevent the worst effects of climate change.

Therefore, we strongly encourage the adoption of an 80 per cent reduction target for the UK in line with the global target range of between 450-550ppm CO₂ as set out in the Stern Review.

However, in principle we welcome the establishment of long-term targets by the Government. In our view, such targets have the potential to provide two key benefits:

1. Legally binding targets will provide UK listed companies with certainty regarding the Government's intended course of action with regard to CO₂ emissions over the long term. Until now, the lack of certainty beyond initial commitment periods under the Kyoto Protocol and the EU Emissions Trading Scheme has significantly limited companies' ability to plan for future emissions reductions and to make the long-range investments that will be necessary in order to contribute to the reduction of the UK's CO₂ emissions.

2. The establishment of clear targets and emissions reduction strategies may provide benefits to UK companies in the form of increased efficiency and first-mover advantage. If adequate policies are established in order to meet the proposed targets, UK companies will be well placed for an increasingly carbon-constrained future and may gain competitive advantage through increased efficiency and early adoption of emissions-reduction measures.

Question 2: Is the Government right to keep under review the question of moving to a broader system of greenhouse gas targets and budgets, and to maintain the focus at this stage on CO₂?

As recognised in the consultation document, the decision on whether to legislate solely for CO₂ emissions or whether to consider the wider grouping of greenhouse gases, is a complex one. The Forum considers the government should address this issue in the current bill, especially in view of the fact that some of the other greenhouse gases have a far higher global warming potential, for example one tonne of methane is equivalent to 23 tonnes of CO₂ in terms of global warming effects. As identified, this would capture approximately an additional 15% of the UK's overall impact on climate change and would ensure greater reductions for a given cost. The argument that setting a greenhouse gas target 'may be unhelpful given the preliminary nature of the current efforts to secure multilateral agreement on this issue' (source: partial regulatory impact assessment), does not carry great weight, given the fact that overall budgets and targets can be amended.

We note that the emissions reduction targets do not currently apply to CO₂ from international aviation and shipping, and recognise that there is scope in the bill to include these sectors in the legislative framework should international policy change. However, we consider that this would not prevent a more robust approach to these industries being taken now. For example, the current situation of the aviation industry being zero-rated for VAT seems at odds with the overall thrust of curbing emissions, especially from fast-growing sectors such as aviation.

Question 3: Should the UK move to a system of carbon management based upon statutory five-year carbon budgets set in secondary legislation?

The carbon budgets proposed in the Bill need to ensure the UK plays its part in keeping global temperatures from rising two degrees above pre industrial levels - the temperature rise recognised by the EU as a 'danger level' that should not be breached. Annual targets would provide a framework to ensure that future Governments are held to account for progress in meeting targets.

Rolling annual targets could be revised depending on progress and outside economic factors and would allow for short-term changes in the economic cycle and for fluctuations in the weather. Annual targets would also enable the Government's progress on climate change to be properly assessed and would increase certainty amongst business and investors on the Government's willingness to implement mitigation policies, with strong impacts on incentives to invest and innovate.

Question 4: Do you agree there should be at least three budget periods in statute at any one time?

In our view one of the key advantages of the proposed Bill is its ability to provide businesses and investors with certainty over the medium to long-term. To meet this objective, it will be crucial to provide a sufficiently long time horizon. We consider that a fifteen year budget period in total, in conjunction with appropriate interim and long-term targets will provide companies with a sufficient medium to long-term time horizon.

Question 5: Do you agree there should be a power to review targets through secondary legislation, to ensure there is sufficient flexibility in the system?

The Forum recognises that at present there is considerable uncertainty surrounding future international policy frameworks, including the post-2012 phase of the Kyoto Protocol and the EU ETS. Therefore we consider it crucial to allow sufficient flexibility in the system to adapt to potential developments in both policy frameworks and scientific knowledge. We consider that this is particularly important given that the UK is at present acting on a unilateral basis. Allowing flexibility should lower the risk of placing UK companies at a competitive disadvantage; if for example, there is little international action post-2012.

However, in our view there is a careful balance to be struck between flexibility and credibility if the proposed Bill is to succeed in meeting the desired aims. If the Government is seen to be overly flexible in reviewing targets and budgets, there is a danger that the Bill will not be taken seriously. Therefore, we consider it

highly important that the Government ensure consistency in its treatment of potential adjustments to targets and minimise any potential shock to companies or the markets. To this end the Forum considers that the circumstances under which the Government would consider adaptation to the targets and budgets should be clearly delineated.

Question 7: Do you agree that, in line with the analysis in the Stern Review and with the operation of the Kyoto Protocol and EU ETS, effort purchased by the UK from other countries should be eligible in contributing towards UK emissions reductions, within the limits set out in international law?

The Forum has noted that the Stern Review emphasised the importance of carbon trading, such as currently occurs under the EU ETS and the Kyoto Protocol, in successfully stabilising emissions. Therefore, we consider it wise to encourage the further development of these mechanisms, and, in turn, to allow the inclusion of credits in meeting carbon budgets and targets.

Furthermore, the inclusion of international credits in emissions reduction strategies will enable reductions to be made in the most economically efficient manner, which will benefit UK companies and reduce potential risks to economic competitiveness in instances where cost-effective emissions reductions may not be available.

Question 8: Do you agree it should be permissible to carry over any surplus in the budget? Are there any specific circumstances where you consider this provision should be withdrawn?

The Forum is of the view that carrying over any surplus should be encouraged, particularly given the importance of encouraging early, strong action to reduce emissions. Allowing a surplus to be carried over will provide an incentive to exceed stated budgets.

Question 9: Do you agree that limited borrowing between budget periods should be allowed?

If the committee were to recommend, and the government adopt, the setting of annual targets, the rationale for borrowing becomes stronger. If borrowing were to be limited to the annual equivalent of one percent over the five year period, this might ease the adoption of the yearly budget/targets. However, borrowing in one period reduces the potential of Government to meet subsequent budgets (as set out in the Partial Regulatory Impact Assessment) and for this reason the Forum is not supportive of this measure over the five year time period. For

companies and their investors, the key issue is to have certainty and a level playing field, at least within sectors.

Question 10: Is it right that the Government should have a legal duty to stay within the limits of its carbon budget?

Given the importance the Forum places on the provision of certainty regarding long-term emissions reduction goals, we consider the adoption of a credible enforcement mechanism that provides a sufficient deterrent to missing the targets to be crucial. This is particularly important, as the Government has acknowledged it will not meet previous targets, such as the intended 20% reduction in emissions by 2010. Therefore, we welcome the commitment to annual reporting on emissions reductions and the inclusion of judicial review where there is a failure to meet the proposed targets.

In addition, the Forum considers that the Government should take early, credible action to demonstrate its commitment to meeting the proposed targets.

Question 11: Do you agree that establishing an independent body will improve the institutional framework for managing carbon in the economy?

The Forum supports the establishment of an independent body that will report annually on progress and considers that this transparency is crucial to the acceptance of the bill, the targets set within it, and delivery by all parts of the economy of the measures required.

Question 12: Do you agree that the Committee on Climate Change should have an advisory function regarding the pathway to 2050?

As acknowledged, the Government has the hard task of reaching its stated goal of cutting CO₂ emissions by 20% by 2010, and will need to achieve emission reductions as cost-effectively as possible. An independent and strong committee is vital to holding the government to account and in maintaining an advisory role on the reduction pathway to 2050.

We note that, as set out in the partial regulatory impact assessment, in amending carbon budgets, the Government would be required to seek published advice from the Committee on Climate Change. The need to provide for targets and budgets for greenhouse gas emissions other than CO₂ should also be prioritised in the remit of the committee.

Question 13: Do you agree with the proposal that the Committee on Climate Change should have a strongly analytical role?

In view of the weight of ongoing publications of climate-related scientific evidence and continual academic studies, and an equally weighty lobby of vested interests, both politically and in business, the need for the committee to have a strongly analytical role in addition to its independence is essential.

Question 14: Are these the right factors for the Committee on Climate Change to take into account in assessing the emissions reduction pathway? Do you consider there are further factors that the Committee should take into account?

The first factor cited is 'scientific knowledge about climate change.' This is a crucial factor for the Committee to monitor constantly in order to ensure all appropriate inputs are considered in setting reductions and time frames.

Even current research needs to be applied appropriately; for example, reliance on the Stern report should be tempered with an understanding of the context in which it was written. A key conclusion from the Stern review was that stabilising greenhouse gas concentrations at a particular level is not dependent solely on how much annual emissions are cut, but by how quickly this is carried out. Stern repeatedly emphasises the dangers of going above a certain level of greenhouse gases in the atmosphere: as once these limits have been passed, it could take a prolonged time to reduce levels. This is supported by other evidence around carbon sinks.

Question 15: Do you agree the Committee on Climate Change should be comprised of technical experts rather than representatives of stakeholder groups?

One of the rationales for the legislation is 'to provide greater clarity and certainty for UK industry, households and individuals to effectively plan for and invest in a low carbon economy'. With a committee comprising five to eight members, technical expertise within the membership is essential. However, if industry and investors are to 'buy in' to the proposed emission reductions, some consideration must be given to representing their views as 'stakeholders' in order to ensure the creation of legislation that will have a wide support base.

Question 17: Do you agree with the principle of taking enabling powers to introduce new trading schemes?

While the Bill is useful as a broad framework, companies and investors are still lacking specific information as to how the targets will be met. The Forum is supportive of the adoption of enabling powers, as these will assist in the prompt

adoption of mechanisms that will be used to meet the proposed targets. This in turn will provide the business community with an increased degree of confidence in making long-term investments.

Question 18: Do you consider that these powers are sufficient to introduce effective new policies via secondary legislation? If not, what changes would you make?

The powers that would exist to set up trading schemes via secondary legislation seem detailed, and would appear to allow for the inclusion of sectors such as international aviation in the future. It is less clear if this would allow for measures such as individual carbon rationing, which could be a cost-effective method of tapping into the most accessible reductions, through energy savings.

Question 19: Do you agree that the Committee on Climate Change should be responsible for an independent annual report on the UK's progress towards its targets which would incorporate reporting on a completed budget period every five years?

The Forum welcomes the provision for annual, transparent reporting on progress. As we have stated earlier, we consider effective compliance mechanisms to be crucial to the attainment of the proposed targets. In our view, the process by which reports would be placed before parliament on an annual basis may act as an additional means of ensuring transparency, and that targets are met.

Climate change and greenhouse gas emission reporting has been a focus of the Forum's work for a number of years. In autumn 2001, the Forum undertook research into the reporting of greenhouse gas emissions by FTSE100 companies according to the then DEFRA guidelines. This showed that half of FTSE 100 companies followed none of the guidelines at all.

Since then there has been progress in the numbers of companies reporting, but the Forum's current climate change engagement programme with companies shows that there are still a large number of companies that are not addressing the risks posed by climate change, nor indeed the opportunities presented, and that investors would be better served by fuller reporting on this issue.

The Forum believes that the government should take the bill as an opportunity to make corporate reporting on greenhouse gas emissions mandatory by integrating a standard into corporate reporting guidance, specifically in the narrative reporting guidance for the Business Review and in the stock exchange listing requirements.

Question 20: Is statutory reporting the best way to drive forward progress on adaptation while at the same time ensuring Government is able to develop flexible and appropriate measures reflecting developments in key policy areas?

As the physical impacts of climate change begin to impact business more over time, statutory reporting of the governments' work on risk assessment and progress made on developing and implementing measures related to adaptation, would serve to highlight risks for business and provide a national context for measures that they might need to consider.

This would support work by DEFRA already in progress, on the draft National Adaptation Policy Framework adaptation scenarios, for which LAPFF was involved in the consultation process.