

**COMING TOGETHER FOR CLIMATE
CHANGE EQUITY**

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OUTLINE OF PRESENTATION

- Climate change policy in the UK and EU
- Fuel poverty policy in the UK
- Equity implications of some specific policies in the UK and EU :
 - Energy efficiency
 - Renewable energy
 - Emissions trading
- Personal carbon allowances
- Conclusions

EQUITY AND CLIMATE CHANGE

- "Socially, climate change raises profound questions of justice and equity: between generations, between the developing and developed worlds; between rich and poor within each country. The challenge is to find an equitable distribution of responsibilities and rights." (Rt Hon David Miliband, 2006 - former UK Secretary of State for Environment, now Foreign Secretary)
- Lower income and vulnerable households will be less well equipped to cope with climate change impacts
- Policies to mitigate climate change will also have equity implications

UK CLIMATE CHANGE AND ENERGY POLICY

- Climate change policy sits within four long term energy policy goals :
- 60% reduction in carbon emissions by 2050;
- maintain reliable energy supplies;
- promote competitive markets;
- **ensure every home is adequately and affordably heated**
- Climate Change Bill – statutory emissions reduction targets and carbon budgeting ; powers to introduce new trading schemes

FUEL POVERTY IN THE UK

- Fuel poor households have to spend more than 10 % of their income on energy
- Causes - low income, homes that are difficult/expensive to heat, fuel prices
- UK Government Fuel Poverty Strategy - 2001
- Legislative requirement - Warm Homes and Energy Conservation Act 2000
- Statutory targets - to end fuel poverty for vulnerable by 2010 and in other households by 2016
- Fuel Poverty Advisory Group (FPAG) – energy companies, consumer groups, local government and charities

FUEL POVERTY TRENDS AND POLICIES

- Households in fuel poverty in the UK fell from 4 million in late 1990s to 2 million in 2004 but rose to 3 million by end 2007 as energy prices have increased.
- Energy efficiency programmes aim to tackle fuel poverty, along with welfare benefits
- Current price trends mean spending on energy efficiency needs to increase from £700m in 2007 to £1 billion per annum from 2008-16 (FPAG) – but current budget is £770 million per annum

CLIMATE CHANGE PROGRAMME IN THE UK

Measures targeted at households, businesses and power generation :

- European Emissions Trading scheme – power generation and large businesses
- Climate change levy and incentives –business and public sector (households exempt – fuel poverty)
- Renewables target (20% of electricity by 2020) and Obligation on energy retailers
- Carbon Emissions Reduction Target (CERT) – household sector - obligation on energy retailers
- Warm Front – mainly to tackle fuel poverty but delivers carbon savings as well
- Building regulations, appliance standards and labelling

EU EMISSIONS TRADING SCHEME

- Started 2005 – applies to industry and power generation
- Allowances not auctioned in Phase 1; 10% will be auctioned in Phase 2 (2008-12)
- Windfall profits for generators estimated €6-15 billion in UK in Phase 2
- 100% auctioning for generators from 2013 – could raise €50 billion per annum across EU
- EU recommends revenues be used for further climate change policies – source of funds to tackle fuel poverty and help deliver equity ?

RENEWABLE ENERGY INCENTIVES

- Incentives in the UK : Renewables Obligation – creates a consumer funded subsidy ; grants for small scale renewable generation
- In many EU countries the key incentives are feed-in tariffs that pay above market prices for renewable electricity and provide a right of connection – very effective at stimulating renewables
- Feed in tariffs in the 1990s (Denmark, Germany) were very expensive – costs were borne by all electricity users – but rates paid have been reduced as the technologies become more efficient
- Equity - renewable energy generators are usually relatively well off, but receive public subsidy (grants, tax relief, feed-in tariffs etc) that all (including on low incomes) are paying for as consumers and/or taxpayers.

CARBON EMISSIONS REDUCTION TARGET

- Formerly known as the Energy Efficiency Commitment (EEC) - mainly a carbon saving scheme
- Energy suppliers required to achieve specified levels of energy savings - provide incentives to their customers to invest in energy saving measures
- Under EEC at least 50% of activity for Priority Group – low income and vulnerable households – reduced to 40% under CERT
- Priority Group (PG) requirement is an equity issue – all customers pay for CERT, but retailers unconstrained would do more work for better off who need less subsidy
- Debate over PG– retailers argue it is difficult (costly) to achieve and it reduces the carbon saving (better off use more energy)

WARM FRONT PROGRAMME

- Owner occupiers and private tenants -elderly, disabled or with children and on low incomes
- Grants for heating and insulation improvements - up to £2500 per house
- Since launch in 2000 has assisted more than 1.5 million households in England, cutting fuel bills by £200 on average
- Current funding - £270 million per annum in England
- Similar schemes in Wales, Scotland, Northern Ireland

COST IMPACTS ON CONSUMERS OF CLIMATE CHANGE POLICIES

- Measures that impact on gas and electricity bills – annual cost per household in mid-2008 (average bill about £1100 for gas and electricity)
- EU ETS - £31
- Renewables Obligation - £10
- CERT - £38
- Total - £79
- 2015 costs will be around £140
- 2020 costs likely to be £250 – 350 or higher
- These costs have most impact on low income households

COST EFFECTIVENESS OF CARBON SAVING

- Assessments by DEFRA and National Audit Office reveal the following net costs or benefits per tonne of carbon saved :
- Warm Front – net benefit £420
- EEC – net benefit £270
- Grants for solar panels – net benefit £68
- Renewables obligation – net cost £175
- Warm Front is therefore more cost effective than most other policies (only appliance and building standards are better) and the RO is not cost effective (but the RO also contributes to diversity and security of supply)

PERSONAL CARBON ALLOWANCES

- A personal carbon allowance (PCA) scheme would allocate every individual an annual allowance of carbon – household use and poss. transport as well.
- Those who wanted to use more than their PCA would have to buy further allowances and those who used less would be able to sell the unused part.
- Theoretically good for equity – low income households produce lower emissions than the better off (esp. if transport included), so could have allowances to sell.
- Some low income households would be worse off – especially those in hard to heat properties

PCAs – PRACTICAL CONSIDERATIONS

- How easy will it be to trade – crucial for equity
- Work on financial literacy suggests that some low income and vulnerable households may be less able to manage a carbon budget and trading than the better-off
- How to ensure effective access to trading for low income and vulnerable households ?
- UK Government has “parked” PCA idea
- Can carbon offsetting deliver equity benefits – e.g. funds for renewables and energy efficiency for low income households and communities ?

EQUITY IMPLICATIONS

- Policies are needed to tackle climate change
- However, climate change policies impose costs on consumers and taxpayers
- To ensure equity - need to avoid subsidies going mainly to the better off and need effective policies to protect low income households
- Key to this is support for energy efficiency and use of renewables (where practical) to reduce the impact of rising energy prices – to “fuel poverty proof” homes of those on low incomes
- Where resources are scarce subsidies should be focused on low income and vulnerable

CONCLUSIONS

- Climate change will have equity impacts but in short term the policy responses will have the most impact
- Some policies that mitigate climate change can have positive social benefits as well – notably energy efficiency for low income households
- Emissions trading schemes should auction allowances - some of the revenue can be used to mitigate impact of rising prices for the poor through energy efficiency and also help tackle climate change
- Policy design needs to take account of equity to avoid conflict between environmental and social goals

CONTACT DETAILS

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