

Audit Commission Annual Lecture and Debate

Speech by The Rt Hon David Miliband

Wednesday 19 July 2006

Introduction

This year's event is the second Annual Lecture and Debate to be hosted by the Audit Commission. As an independent organisation with a remit across public services, the Commission seeks to encourage open and informed dialogue with the widest range of people engaged in issues of public concern. The audience was drawn from all sectors of public services, together with the voluntary sector, private sector companies and think tanks.

The Great Stink: Towards an Environmental Contract

Rt Hon David Miliband MP

Secretary of State for Environment, Food and Rural Affairs

In the summer of 1858, the House of Commons fell victim to what became known as the Great Stink. As the Times wrote at the time, “Parliament was all but compelled to legislate upon the great London nuisance by the force of sheer stench. The intense heat had driven our legislators from those portions of their buildings which overlook the river. A few members, indeed, bent upon investigating the matter to its very depth, ventured into the library, but they were instantaneously driven to retreat, each man with a handkerchief to his nose.”

The response was remarkably swift. Just 18 days after the chamber of the House of Commons had to be evacuated due to the stench of effluent in the Thames, a Bill was passed. The great engineer, Sir Joseph Bazalgette, was asked to draw up a massive new sewer scheme; and his project was responsible for successfully banishing cholera from the capital and serves London to this day.

Today, I want to discuss how we can deal with today’s Great Stink, climate change, and how we can mobilise the same combination of political will and practical innovation to address it. Today’s Great Stink will not be solved by a single engineer, or a bill drawn up in 18 days. Furthermore, if we wait until the problem is at crisis point, it will be too late to put right. We need to seek other parallels. For our inspiration, we need to turn from environmental policy to social policy.

I believe the environmental movement represents as big a challenge to the way we live our lives and earn our livings as the movement for social welfare in the 19 th and 20 th century; its effects will be as far-reaching, its implications as radical. Economically, the movement for social reform in the UK led to the birth of Trade Unions and laws to protect workers; politically, to the Labour party; and socially, to the development of a welfare state. It resulted in a different balance of power between the citizen and the state, a different balance of rights and responsibilities, and a new set of norms and expectations.

In the 21st century, we need a similar response to address the environmental costs of industrial development – an environmental contract that will have the same effect on our institutions, norms and values as the social contract developed in the last century, an environmental contract that will make economic development as economically sustainable as it is socially sustainable.

My argument is this.

- The challenge of climate change is bigger, more immediate and will result in more human suffering than most people realise.
- The practical solutions, however, are increasingly available and cost effective, from advances in energy efficiency to renewable fuels for electricity, heat and transport.
- The challenge is for politics and policy to catalyse and diffuse these practical innovations in a way that fundamentally changes the way we live and work, pricing into our decisions, for the first time, the costs of climate change.
- However, if citizens, businesses and nations are to change their behaviour, they must be confident that their actions will be reciprocated. That is why I believe we need an environmental contract that ensures people have the confidence to act, knowing their actions will be matched by others.
- In framing an environmental contract there are three issues we need to negotiate our way through:
 - finding a global deal that is equitable to all nations;
 - a business deal that is fair to UK businesses;
 - and a deal for citizens that is empowering not paternalistic.
- In each, we need to test our thinking against radical and novel options. Tonight I will present a thought-experiment about the role of tradeable personal carbon allowances in driving down carbon emissions.

The challenge

Let me begin by setting out the problem. The basic facts are these:

- We are seeing a significant rise in CO₂ and other greenhouse gases. Atmospheric CO₂ is now around 40% higher than before the industrial revolution. (Appendix – Slide 1)
- This is resulting in a rise in temperature at the earth's surface of 0.7 degrees in the last century, almost certainly unprecedented in human civilisation, and caused by human activity. (Appendix – Slide 2)
- This is likely to be partly responsible for the rise in extreme weather in terms of heat waves, droughts, storms and floods. (Appendix – Slide 3)
- If it carries on unchecked, it will probably push many of the great eco-systems of the world to irreversible decline. (Appendix – Slide 4)
- The effects will be on people not just nature; immediate as well as long term. (Appendix – Slide 5)
- The challenge is made all the greater by rapid population and economic growth in the developing world. (Appendix – Slide 6)

The idea that has captured the scale of the challenge and the interdependence of our action is what the WWF called One Planet living. The idea is simple: if everyone in the world were to consume natural resources and generate carbon dioxide at the rate we do in the UK, we'd need three planets to support us. We are depleting our natural resources at a far faster rate than we are replenishing them. We need instead to move towards a one-planet economy and one planet living – where there is balance between what we give and what we take. This means deep reductions in CO₂ and other greenhouse gas emissions to a level the planet can sustain. It means a different way of living, working and travelling. (Appendix – Slide 7)

Practical solutions

So the challenge is immense – especially when we consider China is opening one gas-fired power station every four days. But the positive news is that the solutions are increasingly available and increasingly cost-effective. Three trends are emerging.

First, we are doing more with less. The first industrial revolution saw mechanisation and mass production revolutionise labour productivity. A similar revolution is now underway in resource productivity, as economic growth becomes decouple from energy growth. For instance, a hybrid car is about 30 per cent more efficient than its petrol-only equivalent. Changes since 2002 to the building regulations will deliver a 40 per cent improvement in the energy efficiency standards of new houses. Within the home, new appliances are also driving up efficiency. An A++ rated refrigerator is 46 per cent more efficient than an A-rated equivalent.

Second, we are increasingly designing out waste and reusing and recycling materials. In many countries, products from cars to computers are being designed with a view to disassembling the parts as well as assembling them. Packaging is being minimised, and recycling rates are rising. In the UK, household recycling has tripled since 1996, though we have a long way to go to compare with the best in the world. It is not just that technical solutions are emerging; public opinion is slowly becoming more conscious.

Third, we are also seeing the potential for low carbon fuel sources to become a major part of our energy production. Renewable electricity sources are becoming more widely available at reasonable prices; decentralised power including wind turbines and biomass powered combined heat and power stations are becoming a serious option; there is even the prospect of diverting the carbon emissions from coal-fired power stations underground via carbon capture and storage; and of course there is the nuclear debate.

Towards an environmental contract

So the science is increasingly stark. The potential to solve climate change increasingly in our hands. Public awareness and concern has never been higher. The challenge is to translate awareness into action.

This requires all the familiar tools of behaviour change – information, incentives, role models and making change as convenient as possible. But it requires more than that. If citizens, businesses and nations are to change their behaviour, they must be confident that their actions will be reciprocated. Citizens need to know their neighbours are committed and that together their actions will have critical mass. Business need to know that the bar is being raised, but it is being raised for all businesses. Nations need to know that others will follow suit.

That is why we need mechanisms that clarify the rights and responsibilities of citizens, businesses and nations to one another; from legal frameworks provided by global treaties to financial frameworks provided by emissions trading; both of which are the basis for developing the less formal parts of an environmental contract – the expectations and norms of behaviour.

In developing an environmental contract, there are three areas we need to work through: a deal that is equitable globally; a deal that is fair to business; a deal that is empowering to citizens.

Equity between nations

Our strategy internationally is clear. Last year, we set out to get agreement on the scientific basis for climate change and the urgency of the need to address it. The debate has now moved on from whether climate change is happening to how it can be arrested and how quickly.

This year our aim is to promote debate about a goal for stabilising climate change, the fundamental objective of the Framework Convention on Climate Change to which almost every nation on earth is signed up.

Without greater clarity on what we are trying to achieve in the long term, it is very unlikely that our short term efforts will put us on the right path. A long term goal would guide action to tackle both emissions and the impacts of climate change. It would send a signal to the private sector who have key role in delivering low carbon technologies. It would guide planning for adaptation - critical for those developing countries that suffer from the impacts of climate change most.

Our task will then be to strengthen the international framework to deliver the required international action. That means that we have to look at further action by China, India, and the United States. We need to consider a better and more sensitive set of mechanisms than we have at present to achieve our goals and enforce our mutual obligations.

Developments like the EU Emissions Trading Scheme show that it is not fanciful to think of all major emitters in the global economy being covered by a scheme of tradeable allowances.

In developing a global framework, there are major questions of equity. The more advanced industrialised nations emit far more CO₂ per person than the developing world. Historically, they have used up far more of the earth's resources. The costly adaptation that will now be needed in developing countries – to deal with the climate change that will already be in train – has been caused by the developed world.

So setting targets for reduction based on each country's current levels of emissions would only deny the developing world the opportunity for economic development and wealth creation that we have long enjoyed. We need to look seriously at questions of equity, in particular the balance of responsibility between North and South; between Government, the private sector and citizens; and the extent to which we should help developing nations adapt to the now inevitable changes in climate that have resulted from our actions.

A fair deal for UK business

Whatever the answer we reach over global equity, there is a strong case for the UK going further. We have a moral duty to do so, but it also presents us with opportunities. Commitment nationally strengthens our capacity for leadership and

negotiation internationally. Putting ourselves at the forefront of an economy that is much less dependent on carbon will give us first-mover advantages as we develop new industries and business models. Even now, we have seen a 25 per cent rise in GDP since 1997, but only a 2.3 per cent rise in carbon emissions. Our next challenge is to decouple fully economic growth and carbon. Indeed, some countries are going further. Sweden, for example, has set an objective of being oil independent by 2020.

The first priority must be to secure win-wins for business through energy efficiency. The evidence suggests that investment in energy efficiency can bring a double dividend through lower fuel costs for business and lower environmental emissions. As energy prices rise, all businesses should be looking to improve resource productivity alongside labour productivity.

But we also need to look at where environmental sustainability will incur genuine costs. In the short to medium term, new renewable sources of energy supply will cost more than traditional fossil fuels, imposing a higher cost on society. We must face the fact that as a planet we have not been paying the full cost of the natural resources we are using. But equally we must do what we can to mitigate the effects for UK business. If we can act at a European or global level, we keep business on a level playing field and we do not harm competitiveness. Where we are going further as a nation, we must differentiate between the sectors exposed to international competition, particularly energy-intensive companies, and domestic industries. Where we create new policies and incentives, we must keep compliance costs and bureaucracy to a minimum.

Emission trading will be central to this. The European Union Emissions Trading Scheme is the world's first attempt to place a cap on carbon emissions, and enable companies to buy and sell carbon allowances. The scheme is still in its infancy. It needs to be extended to cover aviation and we have also asked the European Commission to give serious consideration to including surface transport in future phases. The mechanisms for allocating permits need to be improved. Its long term future needs to be secured to provide certainty for business investment in low-carbon technologies. But the prize is great. Emissions trading offers the best way of driving lowest cost solutions for business. That is why we chose to cap our emissions in the next phase of the EUETS at the most ambitious end of

the range on which we consulted – with carbon emissions expected to be reduced by 8 million tonnes of carbon each year, roughly equivalent to the emissions of 4 ½ million households.

But as set out in the energy review, we should look to go further. Our aim should be to ensure the vast majority of economic activity in this country is covered by emissions trading. That is why we are consulting on a UK emissions trading scheme – the energy performance commitment – that would cover businesses and large public sector organisations, including most local authorities. It is also why we are examining the potential to bring home energy suppliers under a cap and trade scheme. This regulatory reform could help to transform our energy companies from organisations that make profit by selling more units of electricity or gas, to organisations that make profit by providing services, like warmth or light.

Individual empowerment

So far, I have talked about changing the framework for nations and business. But as citizens and communities we must do much more to change our behaviour.

As the IPPR have calculated, individuals' electricity, gas and transport decisions make up 44 per cent of total emissions. Our decisions – the home we buy; what we eat and drink; how we travel and where we holiday - can have a major impact. Numerous small measures – from turning your TV off rather than leaving it on standby to turning your heating down a couple of degrees can have some impact, which if aggregated across a whole population would be significant. But if individuals are to make a major impact on their carbon footprint, they need to focus on a few major changes.

For instance, the average household is directly responsible for about 10 Tonnes of CO₂ per year. If they did four major things, they would be able to reduce their carbon footprint by nearly a third. Changing to a hybrid car, installing cavity wall insulation, fitting a wind turbine and solar panels can save over 3 tonnes of Carbon for each household. Each of these investments offer financial returns for the consumer through lower energy bills, and well as environmental returns for society.

The question is how to enable people to move towards one-planet living.

This raises a profound question about the balance between paternalism versus individual freedom. People face a mass of complex information and advice that fails to provide the simple rules of thumb that can help guide behaviour. Added to inertia, inconvenience and the sense that their actions will only have a minor effect unless backed up by others, and you get inaction.

There is a sliding scale of Government intervention.

Better information and labelling preserves choice but guides it. From real-time information on energy use to carbon-ratings for products.

Changing the burden from having to opt in to sustainable behaviour to having to opt out, capitalises on the power of inertia. Instead of being given the option of opting into a scheme that offsets your carbon impact, you could be given the option of opting out.

Financial incentives ally self interest with public interest. As the Treasury set out in 1997, "Just as work should be encouraged through the tax system, environmental pollution should be discouraged."

Regulating products out of existence also has a role in driving the market. As the Prime Minister has set out, our vision must be a society where "consumers can expect that environmental responsibility is as fundamental to the products they buy as health and safety is now." For example last year's update of the Building Regulations means that most householders can now only install the most efficient, condensing boilers, and already nearly 90% of all boilers sold are either "A" or "B" rated."

In the short term, it is likely that a mixture of the above tools will be needed. But in the long term, we need to test our solutions against the scale of the problem, and specifically test them against the most radical options. As set out in the Energy Review, DCLG, Defra, DTI and HM Treasury will undertake a joint study to look at the role of 'community level' approaches to mobilising individuals and will examine what new policy options, such as tradeable personal carbon allowances, could contribute.

A variety of models of tradeable personal carbon allowances have been proposed. But the basic elements are easy to describe. It is a compelling thought experiment – limit the carbon emissions by end users based on the science, and then use financial incentives to drive efficiency and innovation.

Imagine a country where carbon becomes a new currency. We carry bank cards that store both pounds and carbon points. When we buy electricity, gas and fuel, we use our carbon points, as well as pounds. To help reduce carbon emissions, the Government would set limits on the amount of carbon that could be used.

Imagine your neighbourhood. Each neighbour receives the same free entitlement to a certain number of carbon points. The family next door has an SUV and realise they are going to have to buy more carbon points. So instead they decide to trade in the SUV for a hybrid car. They save 2.2 tonnes of carbon each year. They then sell their carbon points back to the bank and share the dividends of environmental growth.

The granny next door doesn't drive and doesn't do much air travel. So she has spare carbon points that she can sell. But she doesn't want to be handling two currencies so she cashes in all her carbon permits as soon as she receives them. When she pays her electricity bill, her energy company builds in the price of carbon to her total bill. She simply pays carbon as she uses it. At the end of the year she finds herself better off.

It is easy to dismiss the idea as too complex administratively, too utopian or too much of a burden for citizens. Do we really want another Government IT programme? Are there not simpler ways of achieving the same objective by focusing on business to change their behaviour not citizens? And will it ever be politically acceptable?

But, as the Tyndall Centre's work shows, in the long term, there may be potential to make a system work, and in a way that is arguably more equitable, more empowering and more effective than the traditional tools of information, tax, and regulation.

It could be more equitable because instead of tax increases which hit all

consumers of products, personal carbon allowances provide free entitlements and only offer financial penalties for those who go above their entitlement. People on higher incomes tend to have higher carbon emissions due to higher car ownership and usage, air travel and tourism, and larger homes. People on low incomes are likely to benefit as they will be able to sell their excess allowances.

It could be more empowering than many forms of regulation because instead of banning particular products, services or activities, or taxing them heavily, a personal carbon allowance enables citizens to make trade-offs. It is also empowering because many citizens want to be able to do their bit for the environment, but there is no measurable way of guiding their decisions.

It could be more effective because unlike taxes or attempts to ban products, personal carbon allowances regulate the outcome to be achieved, not the means of achieving it. Carbon trading fixes the outcome to be achieved, and leaves the price of carbon to adjust to the necessary level to change behaviour. By intervening downstream, it enables each part of the supply chain to adapt – consumers change their preferences which has a domino effect throughout the system. By focusing on just the energy a citizen buys – their electricity, gas, petrol and air travel – not the energy used already to make food, cars or domestic appliances – the complexity is reduced. However, vast majority of individual emissions are captured which in turn make up 44 per cent of the economy's total emissions.

Personal carbon trading is not for the short term, nor is it a silver bullet. Changing behaviour will require the full range of tools to be employed. Major questions would need to be answered about its impact and feasibility in comparison with other measures. And of course it would only cover individuals not businesses or the public sector, though as I said earlier they are increasingly covered by emissions trading schemes of their own.

Conclusion

My first job in Government, as Minister for Schools, focussed on the idea of how we personalise public services for the modern age. My second job, as Minister for Communities and Local Government, was dedicated to the proposition that we needed devolution of power to communities as well as individuals to meet modern

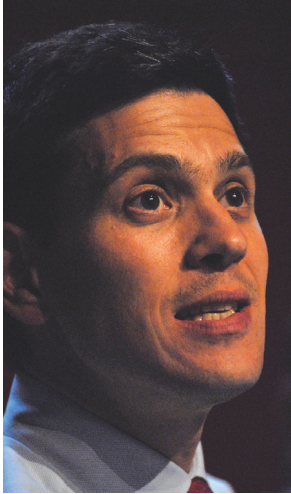
challenges. My current job, in some ways, brings those questions together. Its essence is whether we can apply some of the principles of public service reform, many of them charted by the Audit Commission, to the great debate about the sustenance of public goods, of which the environment is a prime example.

Our aim must be to create an environmental contract that provides an equitable deal between nations, a fair deal for UK business, and an empowering deal for citizens. Big questions remain in each of these areas. If we are to succeed, the debate on these questions should be held outside the traditional forums of the environmental movement, and engage a broader coalition for change. That is why I chose to come here, to the Audit Commission, to give this speech.

The movement for social welfare took off after the Franco-Prussian War in Continental Europe, and after World War Two in the UK. It is not clear at what stage we are at in the movement for environmental sustainability. Some people say we are in the equivalent of the 1890s – the environmental movement seeking a home in one of the major parties, and in some countries creating its own party. Others say we are in the 1930s – appeasing the problem before the great storm. Others say we are in the 1960s – ready for the equivalent of a war on poverty.

What is clear is that we need to act with imagination and innovation, and we need to do so sooner rather than later. The alternative is a Great Stink from which there will be no escape.

Biography



The Rt Hon David Miliband was appointed as Secretary of State on 5 May 2006.

He entered the Cabinet as Minister of Communities and Local Government in May 2005, supporting the Deputy Prime Minister on housing, planning, regeneration and local government.

He was previously appointed Minister for the Cabinet Office in December 2004 and Minister of State for Schools in June 2002. He has been Member of Parliament for South Shields since June 2001.

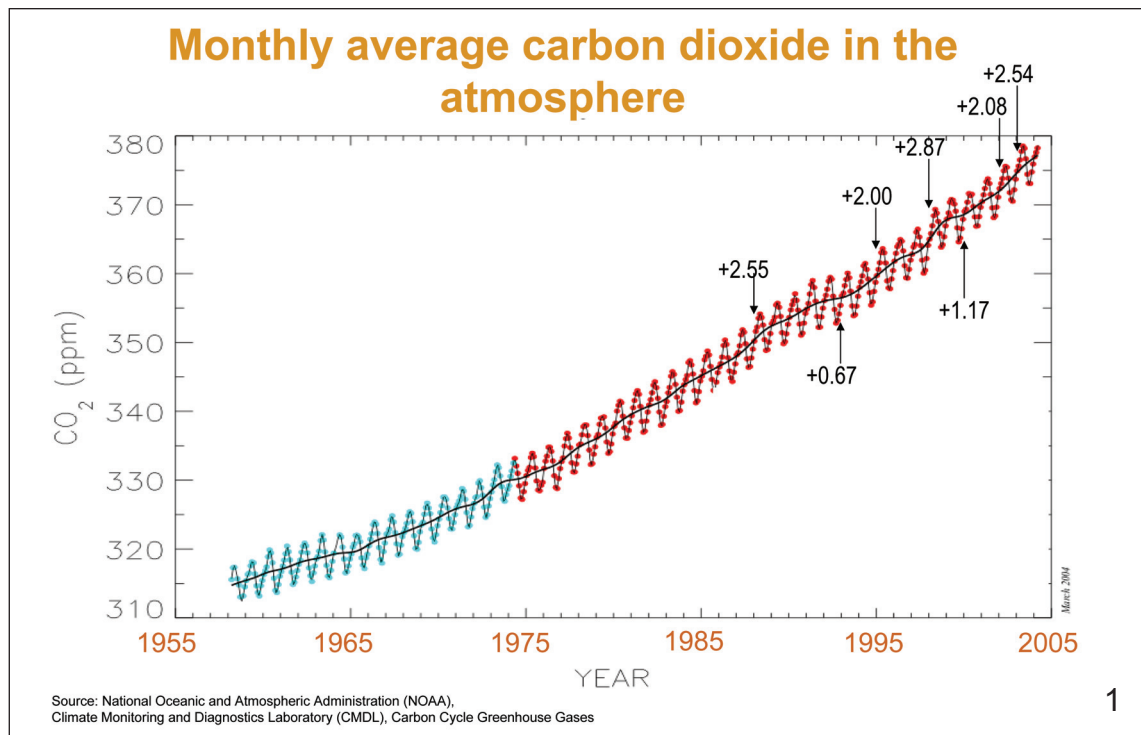
He was previously Head of the Prime Minister's Policy Unit and Head of Policy in the Office of the Leader of the Opposition. From 1989 to 1994 he was Research Fellow at the Institute for Public Policy Research (IPPR) and from 1992 to 1994, Secretary of the Commission on Social Justice.

Born on 15 July 1965, David Miliband was educated at Haverstock Comprehensive School in London. After graduating with first class honours in Philosophy, Politics and Economics from Corpus Christi College, Oxford University, David completed a masters degree in Political Science at the Massachusetts Institute of Technology, where he was a Kennedy Scholar.

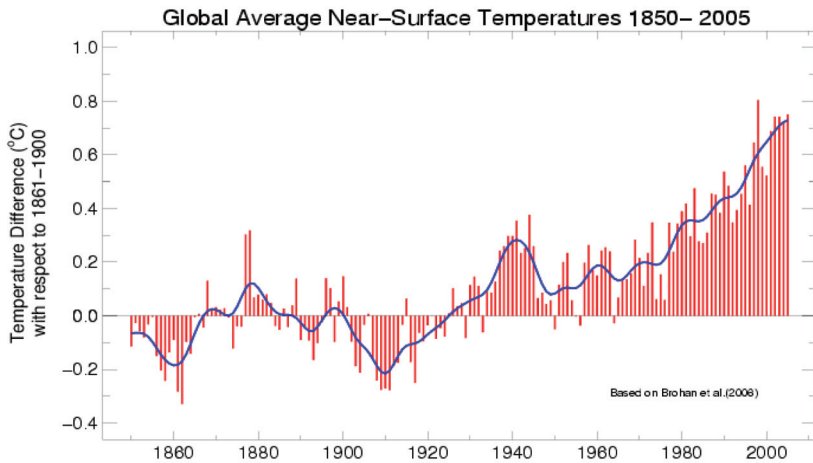
He is President of South Shields Football Club, and a member of the Whiteleas and Cleadon Social Clubs.

He is married to violinist Louise Shackelton and they have one child, Isaac.

Appendix



Observed Global Temperature Change 1850-2005 (Hadley Centre)



Met Office

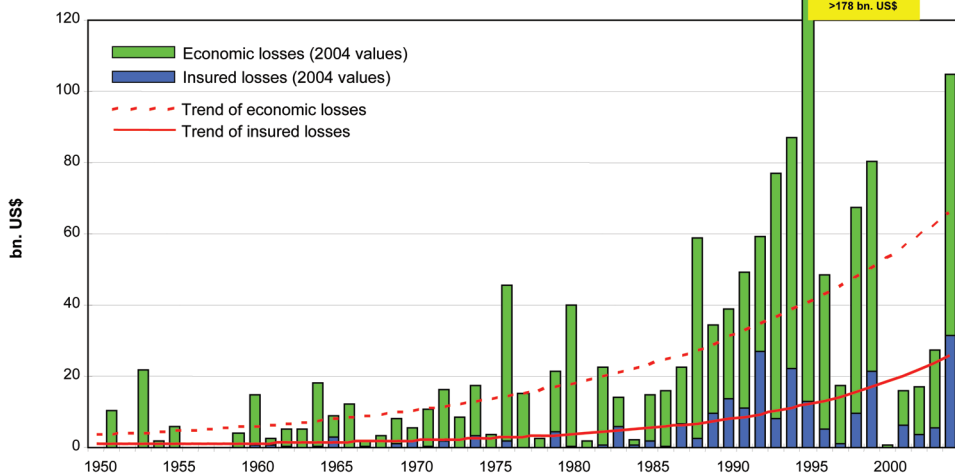
Hadley Centre for Climate Prediction and Research and CRU, University of East Anglia

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Great Natural Disasters 1950 – 2004 Economic and insured losses



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Department for Environment
Food and Rural Affairs

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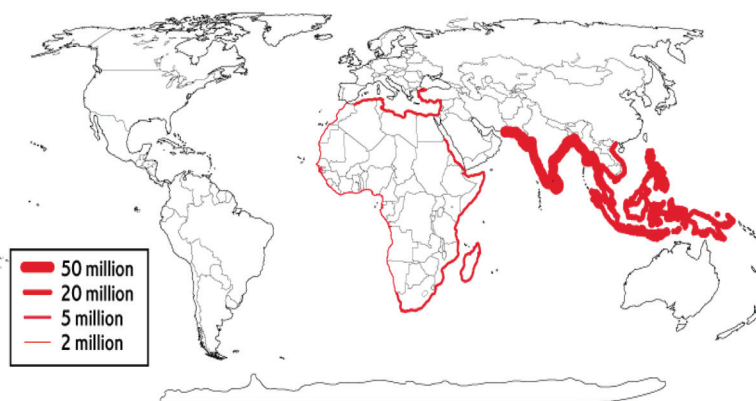
"Tipping Points" of the Climate System.....



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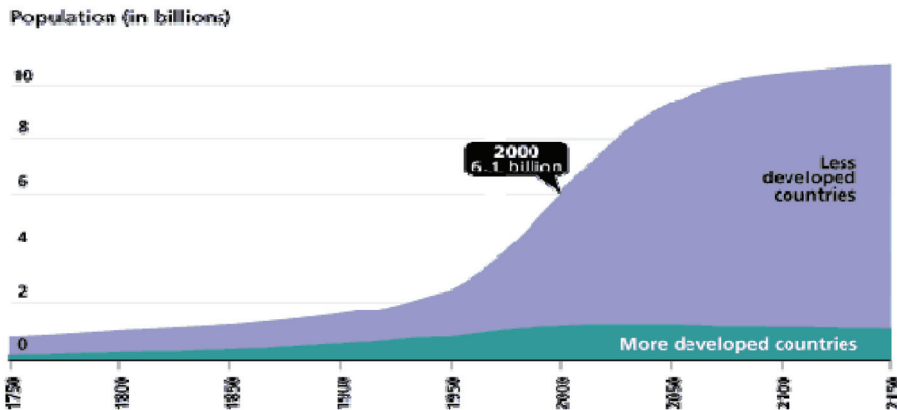
Millions at risk of coastal flooding

- change from present day to 2080s under an unmitigated emissions scenario



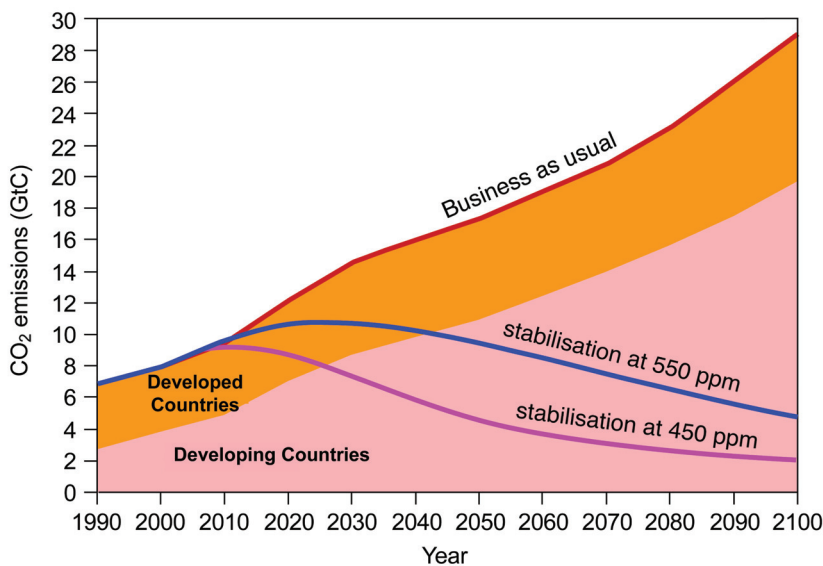
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Global Population Growth



Source: United Nations, *World Population Prospects, The 1998 Revision*; and estimates by the Population Reference Bureau.

The rise in emissions to 2100



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