

The Future of Carbon Pricing | A speech by Rt Hon Lord Darling of Roulanish at Policy Exchange | 10 October 2018

Thank you very much for your introduction and thank you for inviting me to be here today. I'm very happy to follow Michael Howard. I think one of the things which is I think recognised certainly in this country, is that if you want to do anything constructive and meaningful about tackling climate change and reducing carbon, you need political consensus, because the timescales over which you operate in most countries will mean that you have governments from different political colours, and different persuasions, and you've got to maintain that.

Like Michael Howard, I was also responsible for the UK's energy policy I think for a much shorter period in 2006 – 12 years ago. I can't claim that my term as the Minister responsible for Energy was the most dramatic in my political life – I kept that for the next job!

But I very much welcome this report, because frankly I do think we need some fresh thinking as to how we continue the work that has been started. But I think we must acknowledge before we get to that, that it would be a mistake to assume that we haven't done that much in the last twenty years, because we have. Our emissions have fallen dramatically – 40% as Michael Howard said, in **power (unclear)** some 62% reductions in emissions. Because successive governments since the 1990s have followed a policy of introducing measures to reduce carbon emissions, to encourage new technology, in particular if you look at what can now be done with wind and solar energy it would have been unimaginable 25 years ago

The Climate Change Act introduced in 2008 has been accepted by all political parties and added to in various ways. So therefore we can look back over the past 25 years and acknowledge that changes have been made. But I think that we can equally say that report is necessary, regardless of Brexit. Even if Brexit wasn't happening, there would be a very strong case for making reforms and for looking at ways in which we continue the drive to reduce carbon emissions not just here, but elsewhere as well.

And just looking at where we are at the moment, one of the things that is very striking about the mechanisms that we use in the United Kingdom is just how complex they are, how overlapping they are, how opaque they are, particularly with regard to the costs. One of the things that people would say in relation to a carbon tax is that "ah yes, but it will cost". But at the moment, the policy measures introduced by successive governments are costing: it's just that it's terribly difficult to see them.

And you see that, when you read this report, the authors make the point that the opacity of the **costs (unclear on meaning)** is a problem that we need to deal with. I'd also commend to you the House of Lords Economic Committee on which I sit – its report into the price of energy that was published last year. Which makes exactly the same point, that this is something that we ought to pursue, that this is extremely complex and difficult to understand, and that when you get policies like that sooner or later it will run into difficulties. I think the other thing that I would just observe in passing. It is striking but certainly taking part in the House of Lords Economic Committee examination of the electricity market, this is no normal market. It is not like a market for cars or soap powder. This market is very heavily regulated. What is required is **inaudible** in relation to security supply, affordability, and the need for **rearranging (unclear)** energy is very heavily regulated, and ultimately it's the responsibility of the government, and it's something that needs to be looked at

There's a first step, I think we should look at the way we deal with the price of carbon, which I think most people would accept has to be tackled. And I think the attraction for me,

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for a carbon tax – it is much simpler, it is more transparent than other mechanisms. Now let me say it before other people do: there's no doubt that ex-chancellors are much courageous, as *Yes Minister* would say, than those who are in office, and that once you've left office therefore it's much easier to stand back and look objectively at what might be good for the country in the long term. I don't for a moment argue that it would be easy to do this, because frankly the arguments are not being made at the moment.

But I believe that the value of this paper published by Policy Exchange is that we do need to think about something that is simpler, more transparent, so that we can see what we're actually doing, we could get rid of some of the more cumbersome and complex regulations that would not be necessary if you had this sort of system and that, to my mind, is something that is very important.

But equally important is the idea that there would be a dividend for people who would actually be paying the tax. Now it is a fact, I think, that those who are better off generally speaking have a bigger carbon footprint than those who are low incomes. An the problem is that if you simply have a tax and you don't have any form of rebate or any form of reward, is that the people who are paying more are the people who are paying more at the moment – the very people who are on low incomes and are least able to do that.

Which is why I think that more work needs to be done to develop this, but the idea of saying “yes, there's going to be a carbon tax but we can reduce the volume of carbon emissions, we can see what is being done far more clearly” has got to be matched by a reduction in the things that people particularly on low incomes are paying. And that is why the two things go very much together.

The second thing that I think appeals is the fact that there is clearly some degree of momentum internationally to do the same or similar things in other countries as well – I welcome what's being done in the United States at the moment, but also elsewhere as well. When you bear in mind that something like 85% of global emissions are not covered by such schemes, there is an awful lot more work to be done in every part of the world. The risk of offshoring the problem, whereby we do things here and say “aren't we doing well”... but all we've done is simply move the carbon generation offshore is something that clearly needs to be tackled as well. Michael Howard mentioned the interconnectors and there are two things I'd say about that. I very much hope that whatever else happens on Brexit there is some agreement on the interconnectors because we rely on them very heavily to get *inaduble* especially at certain times of the year

But also it would be a ridiculous situation to get ourselves into whereby we import electricity that has been generated by carbon producing generation but we say our emissions have not gone up because it wasn't actually generated within the territory of the United Kingdom. So it clearly needs to be looked at, whether or not we have Brexit it is something that needs to be looked at.

The last thing I wanted to say is the importance of political consensus - not just domestically which I think there largely is in this country but you can't be complacent about that - but also internationally too. We've come a long way from Michael Howard's trip to speak to George Bush Sr. – the President-incumbent of the White House I think takes a slightly different view on these matters, but this is something that we quite clearly need to build on. Monday's report was a reminder that we've achieved a great deal but in some ways we're still in the foothills of the battle to reduce carbon emissions and tackle climate change and that work needs to be redoubled. And I very much hope that in the United

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Kingdom that the argument over the next few years doesn't get tied down whether or not who should be owning the production of electricity and so on... I've said what I think about the present market system, that it is not working. It's not just affordability that's an issue, it's also the question of security of supply and also the question of carbon reduction.

So the reason I welcome this is that its simpler, it's more transparent, more work needs to be done on how actually there would be a dividend and how the people can share in the rewards of reducing carbon emissions. And we do need to do far more to build a consensus – we can't be complacent about this. This is a growing problem, it's going to be economically damaging, it's going to be socially damaging if we don't deal with it. The prize is great, and that's why this report is well worth welcoming, and well worth doing a lot more work on, to see if we can't move things forward. Thank you very much.