

The Future of Carbon Pricing | A speech by Rt Hon Lord Howard of Lympne CH QC at Policy Exchange | 10 October 2018

I suppose I must begin by congratulating Policy Exchange on the timing of this event. It is quite extraordinary, as you already heard we have a report of the at the beginning of this week and we've had the announcement this morning of the ExxonMobil million-dollar contribution to funding research on carbon pricing, and the absolute supreme plaudit of all, I heard on Radio 4 this morning that tonight's edition of the Moral Maze, no less, is going to be a discussion of this subject, so the timing of Policy Exchange has been truly remarkable.

The panel report, which came out at the beginning of the week, was a very significant milestone in what for me personally has been quite a long journey. Immediately after the 1992 General Election, John Major appointed me Secretary of State for the Environment, and the first thing that I had to do was to go to Washington, to persuade the Administration of George Bush Sr. to sign the Climate Change Convention, the forerunner of the first international agreement on climate change, which was to be sealed, signed, and delivered at the Earth Summit in Rio, which was then just a couple of weeks away. And, it was very unspoken as to whether the Administration would sign the Climate Change convention, and it was certainly not going to sign the other Convention, which was up for discussion at the summit which was the biodiversity Convention, and it was understood that if they didn't sign the climate change Convention, that the whole significance of the summit would be significantly undermined.

And it was in many ways the most interesting day in my entire Ministerial career. I was to go to Washington, and visited several heads of Department, the Energy Secretary, the Head of the Environmental Protection Agency, other. They were completely in disagreement ... The only thing that they could agree on was that whether or not they signed it depended entirely on the meeting which I had with the Head of the State Department at the end of the day, so there was no pressure!

I went to the State Department, and I sat down a gentleman who was then number three in the State Department called Bob Zoellick *inaudible* changing a comma, putting in a parenthesis in there, and in the end he said "I think we've got it". And we went on to the White House, and I saw Brent Scowcroft, who was at that time Chief of Staff to the President, *inaudible 10s* and Bob Zoellick was on the phone. And he said that President wants a change *inaudible 5s*. And I said "you can't have that change, the Europeans wouldn't have that. And he [Zoellick] said "I knew you'd say that - it will be alright". And it was alright, and President Bush went to Rio.

We have come a long way since then. And in many ways the United Kingdom is ahead of the pack. We have received a 40% reduction in our carbon emissions compared with 1990 levels, and one of the many things which have contributed to that is the extent to which we have introduced carbon pricing. It is mechanism for achieving emission reductions which consists of effectively harnessing market forces to achieve your objective. And as an old-fashioned free-marketeer, you would expect me to be very in favour of that approach as opposed to regulation. Regulation has its place of course, and sometimes regulation is necessary, but if you can harness market forces to achieve your objective then I think you are more likely to succeed.

But the question is: what do we do now. The report of the panel at the beginning of the week reminded us that collectively the world has to do much more if we are to avoid the very serious consequences. Indeed, your report is focused on a 2% increase in carbon emissions – limited emissions to a 2% increase, whereas the panel report says "that's not

The Future of Carbon Pricing | A speech by Rt Hon Lord Howard of Lympne CH QC at Policy Exchange | 10 October 2018

good enough” and we have to ensure a one and a half percent increase. So it is clear that very much more needs to be done.

But I think it is also clear that carbon pricing has a very important role to play, and, as has been said, we face the task in all probability of replacing the European emissions trading scheme as we leave the European Union with a scheme of our own. And the report suggests two interesting suggestions of ways in which we can take that forward, both of which have considerable promise and which will I hope be taken seriously.

The first, again, as has been mentioned is the border tax, which can be levied – could, and probably should be levied – on products which have been produced by the use of carbon emissions using processes which involve substantial carbon emissions, but which come from countries which don’t themselves have effective carbon pricing or any other means of reducing their emissions. If we don’t do something like that, then the danger, the obvious danger, is that we export our carbon emissions. Instead of producing emissions ourselves, we buy goods from other countries which have fewer controls and in terms of dealing with the global problem we’re not making much of an impact. So that is something which needs to be addressed. It is a fair point that many of these countries including China for example are considering the imposition of their own carbon pricing, and I suppose that if other countries do introduce carbon pricing themselves that the need for a border tax becomes less pressing. We’re a long way from universal carbon pricing, so I think that a border mechanism would have a part to play.

The other very interesting suggestion in the Policy Exchange report – it may not have quite as much appeal to Alistair [Darling] as an ex-Chancellor of the Exchequer as I think it would have to others - is that when you collect the tax, you distribute it out as a dividend to your citizens. And clearly, that would make the tax a good deal more popular, or at least less unpopular than it would otherwise be. So there is no reason in principle why you couldn’t have a revenue-neutral carbon tax which would achieve the environmental objectives that you want to achieve without some of the unpopularity and adverse consequences which taxes can sometimes have.

So, I commend the Policy Exchange Report; I think it a really interesting and significant contribution to the policy discussion in this field, and I hope that its recommendations get taken very seriously by government. Thank you very much.