



## GREEN BUDGET DEBATE

*Alan Simpson (Nottingham, South) (Lab):* It is normal on these occasions for me to follow the Chancellor's Budget statement and fill in the conventional gaps that I feel he has overlooked. I pay tribute to the Chancellor's specific section on the environment and green taxation and to the efforts of the Conservative party and its leader in moving the issue up the political agenda. I should like to take this opportunity to present the green Budget that I think Parliament should have been offered.

Before I do so, however, I would like to preface my speech with a couple of fairly conventional remarks. The House should put on hold the points that the right hon. Member for Wokingham (Mr. Redwood) made in his speech and use as a point of reference the IMF report that is due to come out this week, which I understand will say that the UK is the fastest and strongest growing economy within the G7. In the context of that strength we should have the courage to make much more profound changes in the nature and shape of our economy. We should not pretend that we would be asked to make those changes—I will take the House through them later—from a position of weakness.

*Mr. Mark Field:* The hon. Gentleman makes an entirely fair point, but does he not recognise that many Conservative Members feel that comparisons only with G7 countries show a great paucity of aspiration? Such comparisons also fail to recognise what is going on in the global economy, with two economic superpowers such as India and China rapidly emerging. That should be the comparator for the future, rather than just looking at six other nations, many of which—particularly in the European area—have performed extremely badly over the past decade or so. Alan Simpson: I accept that, and I shall make most of my remarks in the context of what is happening in the wider global economy. It might not surprise the hon. Gentleman to know that I take a quite different view of the fragility of the global economy. When hon. Members say that we have to strip this country bare to try to compete with China and India, I ask them to begin from a different audit position.

If we look at those two countries and the dilemmas that they are currently grappling with, we see that they begin with quite different questions. They are already asking themselves where on earth they will find the water resources to sustain their current levels of production or the domestic requirements of their citizens. They are asking where they can find the energy resources needed to continue to underpin those levels of production. All the major growth areas in the developing world are already in deep environmental crisis in respect of access to those sustainable resources. In the coming decade we shall have to take a quite different view of what holds the global economy together, and the way in which we approach global ecology will determine that.

The one more conventional point that I must make before I launch into the specifics of my green Budget is to recognise today's lobby of Parliament by some extremely cold pensioners who were stripped of their pensions—125,000 of them—and who continue to make the point that a massive injustice has been inflicted on them by denying their rights to full restoration of their stolen pensions. Although I was grateful for the Chancellor's reference to the strengthening of the financial assistance scheme, the reality is that when it comes down to the core figures of what it would take for this House, this Government, this Parliament to restore

those pensions in full, we are not talking about £15 billion, which was the figure originally quoted. We are talking about a current sum of only £45 million a year between now and 2011. Between 2011 and 2020, the worst-case scenario is that that would rise to £100 million a year. To put that in the context of the existing Department for Work and Pensions budget, just the error factor in last year's administration of pension credit came to £120 million a year. I do not believe that we should wait for a further court judgment in favour of the pensioners and against the Government's claim that it is not their fault and they are not in a position to do anything about it. The honest, decent and principled legal duty is to restore those pensions in full—and it would be bought for a sliver of the costs from the Exchequer cake that the Chancellor took us through today.

*Mr. Field:* I would like to associate myself personally with everything that the hon. Gentleman has said in this regard. I suspect that he speaks for many hon. Members on both sides of the House. It has been an appalling injustice and the ombudsman's inquiry and the court cases were pretty straightforward. As the hon. Gentleman rightly says, a number of very cold, aged pensioners cannot go back to work to earn more money, so we need to ensure that they are properly looked after during what is likely to be the relatively few years before they pass away.

*Alan Simpson:* I hope to take the opportunity to address those concerns by amending the Pensions Bill. I hope that we succeed in doing so.

Let me focus, as promised, on the shape of what I believe would be a genuinely green Budget. The Chancellor went through a number of points about the success of different measures in the Government's programme for achieving carbon savings, but the core national picture, however, is far less rosy and comfortable than any of us have a right to claim.

The 1980 assessment of UK carbon emissions was 161.5 megatonnes. By 2005, the figure had gone down to 151.5 megatonnes—a 6.4 per cent. reduction on the 1990 figure and well below the 20 per cent. domestic targets for carbon reduction that we set for ourselves by 2010. In fact, for the last three years, the level of carbon emissions has been relatively static across the UK. The progress made on carbon reductions in the early 1990s was an accidental result of a disengagement with manufacturing and the dash for gas. We see now that there were carbon gains from that, but it would be quite wrong to try to rewrite history as though that were the intention.

*Mr. Redwood:* Does not that show that there was a better reason for privatisation than even I dreamed up—that it is the greenest policy yet developed?

Alan Simpson: I would respond to that by referring to something that my dad said, which was that any idiot can run down an industry by selling off its assets. That makes a profit in the short term, but we are left with nothing in the long term. That is the approach to privatisation that the Conservatives drove through this country, leaving us with a wretched legacy of destruction and abandonment. Simply shifting the responsibility for contamination offshore does not add anything to the UK's contribution to tackling nationally what is a global problem.

If we are to take seriously the invitation that scientists are pressing us to address—we have identified the need for a 60 per cent. reduction target in carbon emissions by 2050; scientists have identified the need for an 80 per cent. reduction—the scale of what we do within the

shape of the UK economy has to be transformed. It will mean reducing our carbon emissions to 32 million tonnes by 2060. That would require a national carbon savings programme delivering savings of about 3 million tonnes a year, every year between now and 2050. Given that our record over the past 15 years has been to save less than 0.6 million tonnes of carbon a year, achieving that target would require a transformation.

I suggest to the House and to the Government that we need to establish a new set of golden rules and a new set of specific policy initiatives. The golden rules should begin with one that recognises what the Stern report said—that the Government should henceforth seek to ensure that the UK economy as a whole commits a minimum of 1 per cent. of UK gross domestic product to the climate change mitigation programmes. That should happen not just across government but across every sector of the economy.

As a long-term commitment, all parts of the UK economy would then be required to make annual carbon reductions consistent with the 80 per cent. carbon reduction target, based on 1990 emissions levels. In the short term, however, it would require existing UK target commitments to climate change and fuel poverty to have a rolling programme of a 5 per cent. reduction each year. Again, that should apply to all sectors of the UK economy.

For the Chancellor's second new golden rule, I would suggest that borrowing within the economic cycle should be reinterpreted as borrowing that should be prioritised to restore the ecological capital of the country, specifically in respect of renewable energy generation and water recycling.

To deliver all that, we need specific policies, which I would address in three areas: energy, the built environment and transport. The Government must begin by transforming energy market rules. The Chancellor made a welcome commitment today, saying that income received by customers who install energy generating systems in their homes should be tax free. Although that is welcome, it does not address the fact that most of the companies that buy back energy in that way pay a pittance for it.

In that regard, by far the most successful intervention approach is the one already in use in Germany, which introduced a renewable energy sources Act in 2000. It requires the energy industry to pay customers four times the current market rate for the renewable energy that they put back into the system. The effect has been transformational. The measures resulted in a cavalry charge of German citizens seeking to become part of the renewable energy generating process, and produced a renewables industry that, last year alone, delivered 214,000 new jobs into the German economy, and 24,000 in the last year alone. In that last year, 90 million tonnes of carbon savings were delivered—a huge quantum increase on the combined levels of carbon savings of all the UK schemes.

The German system has been successful because it was citizen-driven. It recognised that the role of the Government was not to abolish markets but to change the rules so as to create markets that are ethically competitive and ethically sustainable. The cost to German energy customers has amounted to €1.40 a month on the average energy bill.

The impact of the German scheme has been profound, and our Government ought to establish a similar scheme here in the UK. We should require industry to set out the terms of the

preferential buy-back arrangements. We should also designate the period—perhaps 15 or 20 years—within which the preferential pay-back tariffs will remain in existence. We should also define which tariffs should apply to the specific technologies that are available in the marketplace at any given time.

The next important job for the Chancellor would be to address how we deliver all those measures. If we look across the landscape of Europe, we see that local authorities are by far the most efficient vehicles for delivering sustainability agendas. They are given specific powers and duties to co-ordinate and drive the sustainability agenda that is defined by their central Governments. We need to make exactly the same provisions in this country, and at the same time remove many of the obstructions that stand in the way of developing decentralised local energy networks. That has already been done on a wide scale across Europe; only the UK's own intransigence stands in the way of a much more coherent approach to energy investment and sustainability.

On the back of a serious commitment to the promotion of energy services companies, the Chancellor should change Ofgem's terms of reference. At the moment, the UK is locked into an impossible position, in which all the major energy companies talk about their desire to get into sustainability programmes but say that achieving that is hopeless. They say that they are required to compete with one another on short-term lowest-price terms. Nothing allows them to break out of the 28-day contract rule in order to get into the long-term energy services contracts that those same companies have in other parts of Europe. It is the obstacles of our own rules base that are getting in the way of the transformation that we need.

*Andrew Stunell (Hazel Grove) (LD):* I entirely agree with the hon. Gentleman. Does he acknowledge that the 28-day rule works strongly against the sensible installation of smart meters?

*Alan Simpson:* I do, but I also have strong views on smart metering. The energy sector is desperately keen to get smart metering entitlements, simply to allow it to bill us more effectively. The really smart meters on which we ought to be insisting are the kind that would empower the Royle family. I am not talking about the royal family down the road, but the Jim Royle family, in which people barely get out of their armchairs except to get a cup of tea. Such people would look at the meter clicking away on the wall and shout to the rest of the family, "What are you doing? Have you left the doors open again? Are you drying your tights with the hairdryer? Am I made of money? Switch that thing off!" In a sense, the meters must inform and empower the public rather than just empower the energy companies to bill us more effectively. I agree with the imperative, but the House needs to make an important decision about the function of those meters and about whom they make smart.

That takes me on to the built environment. I welcome the commitments on building zero-carbon homes by 2016. At best, however, that might involve 200,000 houses a year, which prompts the question of what we will do with the 25 million homes that we have already. Unless the same standards and requirements are applied to the upgrading of existing stock, a new build programme will not address the fact that 25 per cent. of carbon emissions come from existing homes. To do that, we need to enhance some of the measures already in place and

introduce new ones.

As part of our legislative commitment to eradicate fuel poverty by 2016, the Government introduced the Warm Front initiative along with the energy industry's complementary energy efficiency commitment. The difficulty with the funding of those two programmes is that, according to current assessments, in 2016—by which time fuel poverty should have been completely eradicated from UK housing—there will still be 2 million fuel-poor households. The only way to address that is to bring Warm Front and the energy efficiency commitment and its increments into a single coherent programme, delivered through, or under the auspices of, local authorities. Such a concerted and co-ordinated programme would upgrade all our housing stock to a standard assessment procedure rating of 65—the threshold set for modern, well-insulated housing—and dramatically reduce carbon emissions.

It is not enough, however, to give local authorities additional money to deliver the programme; we must give them additional powers. We cannot just set higher standards in building regulations for the materials used. There must be a conceptual shift in our thinking about the built environment. We must move to the notion of our houses being not just consumers but generators of energy, as has happened dramatically in Germany. To do that, we need to give local authorities unrestricted powers to set sustainability standards for every part of the built environment, including planning and building regulation requirements to incorporate energy generation in every upgrading of a property and in every development of new properties. That must apply to the domestic, commercial and industrial sector.

We should learn from other parts of Europe and consider the recycling of water—which will also be a part of the climate change crisis that will affect our lands, irrespective of how desperately it affects those in other lands—as well as energy. Those issues ought to be part of the regulatory framework in which we plan for a more sustainable environment for the 21st century.

What can the Chancellor do to enhance that? First, people who have properties with a minimum SAP rating of 65 should be exempt from 50 per cent. of the stamp duty that they would normally pay on property transfers. Secondly, properties that have incorporated energy regeneration and water recycling as well as the SAP rating of 65 could be offered 100 per cent. exemption from stamp duty. That would transform the way in which people thought about the nature of their property transfers.

To cover the most vulnerable sector of our housing environment, we must also address what would happen to properties that are currently let with the poorest of insulation. We must give local authorities the power to set precisely the same standards and requirements as a condition of the right to let. If we do not set those standards, we will retreat into an era of *Rachmanism*. That is not to oppose people's right to acquire properties to let, but to say that in a civilised society people should not have a right to let properties that are in a state of squalor to those who are too poor to exercise any other housing choices. We must set standards of sustainability in the built environment that will make homes fit for people to live in today, and fit for our children to occupy and acquire tomorrow.

Those are the ways in which we can transform one part of the built environment; but even in the commercial and industrial sectors, each business occupies its own part of that environment. One of the conditions that should attach to access to the array of tax incentives and allowances that the Chancellor has made available today and in previous years is acceptance by businesses, whatever their nature or size, of the duty to play their part in meeting the Stern report's requirement of a 1 per cent. contribution of turnover to climate change mitigation measures. They too must adhere to the Government's national target of a 5 per cent. reduction in carbon emissions year on year between now and 2020. They do not have to do that, but they should not expect to receive any tax subsidy or allowance if they choose not to, because if they choose not to, someone else will have to step in to clear up the mess that they have created.

Allowances must be made conditional on a different ethical contract between business and society, between commerce and society, and between domestic development and society: commitment to an agenda that will enable our children to survive, rather than be left scrambling in the wake of climate chaos.

As for transport, there are a number of things that the Government can and should now do, in every Budget. The basic starting point is to set a self-denying ordinance: the amount of capital invested in private transport infrastructure should never be greater than the amount invested in public transport infrastructure. The starting point should be parity. In the context of motoring, however, there is a compelling case for learning one of the lessons from the Conservative Governments that we succeeded. I refer to the introduction of the fuel price escalator.

We will not make major differences by changing the rates of road tax on different types of vehicle. What we must do, as motorists, is accept that we will have to pay a price premium for the carbon that our vehicles emit. It is not good enough to drive twice the mileage and produce a net addition to carbon emissions in a vehicle that, although more efficient in theory, ends up doing more damage in practice.

*Mr. Redwood:* Can the hon. Gentleman give us some idea of the level of fuel tax that he thinks would be required to start reducing the number of car journeys that people make?

*Alan Simpson:* That is almost like asking what is the length of a piece of string. I do not know the answer. What I will say is that we need to learn some of the lessons that were not addressed in the first round of the fuel price escalator. At that time it was seen simply as a way of raising revenue for the Exchequer. My argument is that the whole nature of green taxation should be set in a completely different context. There is no case for its being a revenue-raiser for central Government; that defeats the purpose. Allowing people to pay more in order to go on behaving badly will do nothing to change the nature of an unsustainable economy. What is needed is behaviour change rather than revenue gain for the Exchequer.

There are also advantages in the use of green taxation as self-taxation and self-reward. If the fuel price escalator is reintroduced, we should say to the industry "Keep 50 per cent. of the revenue specifically for use in subsidising sustainable and alternative fuel systems." That would induce the industry, and invite the motorist, to make more sustainable and ethical choices,

because the industry itself would be paying; those who pollute would be paying a premium in order to support those who do not pollute. That is the way to engineer behaviour change.

The same principle applies to aviation, even though the idea of the right hon. Member for Witney (Mr. Cameron) about imposing a tax on individual passengers on flights was barking mad. We must do something about aviation's contribution to climate change damage. The more I think about it, the more I am convinced that the only way to achieve that is to set carbon mileage allowances for every airport in the UK based on last year's passenger miles multiplied by a factor that applies to the energy efficiency of the aircrafts that land. In doing that, we would be saying to each of the airports, "Your targets for reducing your own carbon emissions will be precisely the same as the targets set for the economy as a whole. How you do that—by the introduction of more efficient planes, for instance, or by changing the make-up of the flights you offer—is down to you, but we cannot pretend that the rest of the economy will be on a course that requires carbon emissions to be built in year on year but that somehow the aviation industry exists on a different planet."

*Mr. Evans:* It has been said that the Chancellor is Stalinist, but I think that he has strong competition in that regard from the hon. Gentleman after he introduced that barking mad idea. In trying to reduce carbon emissions from aviation, we should look at what happens at Schiphol; two planes land almost side by side at the same airport. In our country, we have planes circling airports when they should be landing; they cannot do so because of congestion. We could save millions of tonnes of carbon emissions just by ensuring that we have capacity in all our airports.

*Alan Simpson:* The problem will not be the number of planes circling airports. We should take a look at the Government White Paper on the future of the aviation industry. It is projected that by 2030 the number of UK passenger flights will have increased from 230 million a year to 460 million a year. Not all of those planes will be circling our airports; they will be in transit around the planet. The volume of carbon emissions associated with that will dwarf the emissions of almost all other sectors of the economy. That is why I say that we will have to set carbon miles thresholds for every airport and let the aviation industry and the airports drive their own agenda in respect of having increased fuel efficiency, different fuel systems and the other transformations that have yet to take place in the industry. Those transformations are precisely the same as those that applied to the car industry, and which it said were impossible to introduce. Unless we set those targets and make the industry the driver of its own change, the aviation sector will continue to want an opt-out on the huge slice of the carbon damage contributions that they make in our economy.

*Rob Marris:* I caution my hon. Friend, who I always thought was on the left of the Labour party, that he seems to be falling into the same trap as the right hon. Member for Witney (Mr. Cameron)—albeit coming from a different direction—of advocating the use of a kind of price mechanism that is likely to lead simply to the poor being priced out of flying. I would not have thought that my hon. Friend approved of that.

*Alan Simpson:* No, I am not talking about using a price mechanism. I am talking about using a system that constrains the volume of movements and requires the industry to take

responsibility for its own carbon reductions. The alternative is to hold to the idea that aviation will somehow be transformed by being included in the emissions trading system. I invite Members to look at the last page of the aviation White Paper. Its authors give an estimate of the impact that carbon pricing will have on their flight projections. For reference, today's carbon price is €1.6 per tonne. In the aviation White Paper, the industry asks itself what the effect will be on flight projections if the price rises from 70p to £140 per tonne by 2030. Its own estimate is that that will reduce total passenger flights from 455 million to 445 million—a reduction of 10 million, which is next to nothing. That is why I urge the Government to look at a carbon miles quota system, rather than a carbon trading system. We should be brave enough to take steps that radically engage with the world in which our children are going to be asked to live. That means having the humility to address some of the things that we have tried to do that simply did not work, and to accept that it was worth trying to do them, even though they did not work.

I turn to my last bit of advice to the Government. There are two ideas that have been somewhat popular with the Government in the past couple of years, and we need to address them in considering what we will decide not to continue with. First, we need to say that there is no place for carbon offsetting in an agenda that seeks to deliver our own carbon reductions. Anyone who reads in order to understand this issue should not go into the detail of carbon offsetting schemes; instead, they should consult a website called [cheatneutral.com](http://cheatneutral.com), which invites people to offset their infidelity.

*Rob Marris:* How does the hon. Gentleman know?

*Alan Simpson:* I have seen the website. [Interruption.] No, it does not work at all, but it is a wonderful spoof. A lad called Alex can be sponsored for 50p a week, and he will remain celibate so that the sponsor can carry on doing whatever they like. However, they can do it with a clear conscience only by sponsoring him for 50p. In other words, such people can offset their infidelity. Does it reduce the sum total of infidelity in society? No, not a jot, but it makes such people feel better. It has the ring of high moral tone that is so attractive at the moment, to judge by some of our policy making, but it is a scam. We should not seek to offset against future generations and to undertake speculative projects that do not deliver a ha'p'orth of serious change in terms of carbon reduction. I should point out that the website is not serious—its intention is to ridicule an approach that deserves to be ridiculed.

If we stand back from the technicalities of such schemes and proposals, we see that the reality is that they do not deliver anything like the scale of change that we need today. Sadly, the same applies to emissions trading. It is a barking mad idea to seek to tackle the climate change challenge by inventing a mythical good called the carbon credit, and to invite the speculative trading of that credit on world markets against second-guesses of what the price of carbon might be in 10 or 15 years time. On asking anyone in the industrial sector about how they make their investment decisions, they will say that it is a question of assessing how those investments will play in real markets. It is hard enough for them to make even those assessments, but asking them also to gamble on assumptions about the cost of carbon in 10 years' time makes the process a nightmare.



The emissions trading scheme has a number of intellectual and practical flaws from which it will never recover. The grandfathering rights that give credits to those who pollute, but not to those who do not, impose a monstrous burden. The scheme applies to the polluting half of the economy but not to the more virtuous half, which is a nonsense. Countries set their own loose limits—many give themselves more in credits in a given year than the amount of pollution that they emitted—so the situation is irretrievable. The scheme is an invitation to cheat, and the only people who make money out of it are the banks and the specialist niche market traders, who charge between 8 per cent. and 30 per cent. to handle the transactions. It is a great market for those who are in the land of wild-eyed speculators. But that is not the economy or the ecology in which we must play a profound part as the agents of change. The mechanisms that have really delivered in the short term are carbon tariff systems, not carbon credit trading systems. If we have the sense to adopt the former, our grandchildren will have much to thank us for.

*Peter Bottomley (Worthing, West) (Con):* I congratulate the hon. Member for Nottingham, South (Alan Simpson) on his speech. He certainly made a contribution to the serious debate on reducing the amount of carbon that we produce. His comments on carbon offsetting will be welcomed by many, including one of my brothers-in-law, Robert Whitfield, who has been one of the key people trying to look seriously at what is going on, as opposed to some of the easy, glib ways out—for example, me saying that I will allow some of my trees to go on growing, and that will allow me to fly to China to see how its economic growth is coming along. If we ever get to the stage when the hon. Gentleman is not able to offer advice to his colleagues on the Front Bench, we will miss him.