



# Climate change: Everyone's business

A summary report from the CBI Climate Change Task Force

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## A much greater sense of urgency is required if the UK is to meet its targets for reducing greenhouse gas emissions

The next two or three years will be critical. A much greater sense of urgency is required if the UK is to meet its targets for reducing greenhouse gas emissions at an affordable cost, and to establish an international leadership role in the low carbon economy of the future.

Already it is clear that the government's targets for cutting greenhouse gases by 2020 are unlikely to be met solely through measures taken in the UK. Its longer-term goals for 2050 are also very challenging, and will not be achieved without significant additional effort.

Failure to act now will mean that the costs of tackling climate change in the future will be much higher. The UK will also miss out on the commercial opportunities that will emerge on the pathway to a low carbon economy.

The CBI's Climate Change Task Force has spent 10 months analysing this challenge. It is made up of business leaders from key sectors of the UK economy and whose companies globally employ nearly 2 million people, generating annual revenues of approximately £1000bn.

Informed by a major study commissioned from McKinsey, the Task Force has assessed the economic benefits and costs of different options for reducing greenhouse gas emissions. We have focused on what needs to be done by 2030 to be on track for the government's 2050 target.

And its conclusion is that substantial changes will be needed in the way the economy works if the UK is to meet its goals. Many of the technologies and solutions that will be required already exist but are not yet commercially viable. The pace and scale of implementation must now be accelerated.

The report shows that by 2030, moving to low carbon sources of electricity and improving energy use in buildings can each deliver about 30 per cent of the additional cuts needed, with the remaining 40 per cent coming from transport and industry. For the longer term to 2050, further change is needed to more than double the level of energy efficiency and halve the carbon content of the energy used in the economy compared with today.

But most taxes and regulations were designed for the old economy. The report calls for a shift to a world where carbon becomes a new currency – so that consumers and businesses are rewarded for making the right choices. Carbon has to be priced according to supply and demand, under a system which leads to lower emissions, crosses national borders, and rewards good behaviour.

According to the McKinsey analysis, additional action needed in the UK to meet the government's targets implies a maximum price of €40 per tonne of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) by 2030 provided that the full range and scale of initiatives are implemented. The maximum price would be higher in 2020 (€60-€90 per tCO<sub>2</sub>e and possibly more) given the higher cost of emerging technologies in the short term.

This translates into an investment of around £100 a year per household (under 1 per cent of GDP) by 2030. This investment will help pay for a more sustainable way of life and shift resources to those parts of the economy providing low carbon products and services. Some households would pay less than this, depending on things such as their current use of energy and how successfully they take up cost-effective measures to improve energy efficiency.

Changes on the scale needed and at affordable cost will only happen if government, business and consumers work together. Government cannot do the job by itself, nor can business: but together we can use our position as one of the world's great trading nations to secure global action.

If we are to succeed, the climate change agenda must therefore become everybody's business. Our commitment is to help achieve that and work with others to implement the necessary actions at home and abroad.

The report sends out five clear messages:

- The government's targets for 2050 are stretching but achievable and at a manageable cost – provided early action is taken. The three interdependent players are consumers, who drive change; government, which sets the framework and works with other countries to build international agreements for reducing emissions; and business, which invests and delivers.
- In the run up to 2020, the emphasis must be on much higher energy efficiency together with preparations for a major shift to low carbon energy sources in the years to 2030 and beyond. The big opportunity here is that a third of our generating capacity will become obsolete over the next 25 years, and must be replaced. This opens the way to a smaller carbon footprint.
- Technology has a vital part to play in opening up sustainable solutions. The UK has a unique opportunity to prosper in key markets of the future by taking a lead in the development of low carbon technologies and services in power, buildings, transport and industry. Government must give higher priority to existing research and technology programmes in these areas, and support the launch of new programmes to develop emerging solutions.
- Empowering consumers to make low carbon choices is equally vital. Business and government must work together not only to encourage take-up of greener products, but also to promote new ways of doing things (such as smarter ways of working) which can help improve our quality of life as well as cutting emissions.
- Market forces will drive big changes, but they will not by themselves be enough to do the job. The full range of public policies must be deployed to create the right incentives. Priorities include promoting an effective market price for carbon; revenue-neutral tax reform (such as changes to business rates and council tax) to reward greener behaviour; and bigger, more focused research and development (R&D) programmes to finance new technologies and solutions until they become commercial.

Implementation is now the key. The pace of change in all areas of carbon reduction must be far higher than it is today. For example, the current rate of insulating the existing housing stock needs to triple over the next 20 years. This will only be achieved through much closer working between government, business and consumers, with the focus on delivery.

In some cases, the priority is to improve the existing wide range of public policies, for example, by building on welcome initiatives such as the EU Emissions Trading Scheme (EU ETS) or delivering on plans to improve the planning system. In other cases, business needs to take a lead, for example, in agreeing new standards for measuring corporate and product-related emissions, to help drive continuous improvement. In all cases, key decisions must be taken in the next three years if the UK is to get on track to meet its emissions targets (see figure 1, page 3).

Trust between consumers, business and government is another critical ingredient for success. There would be no quicker way of destroying confidence in the climate change agenda than by using green excuses to bolster tax revenues. Consumers also need confidence in the information they are given about the environmental impact of different products and services.

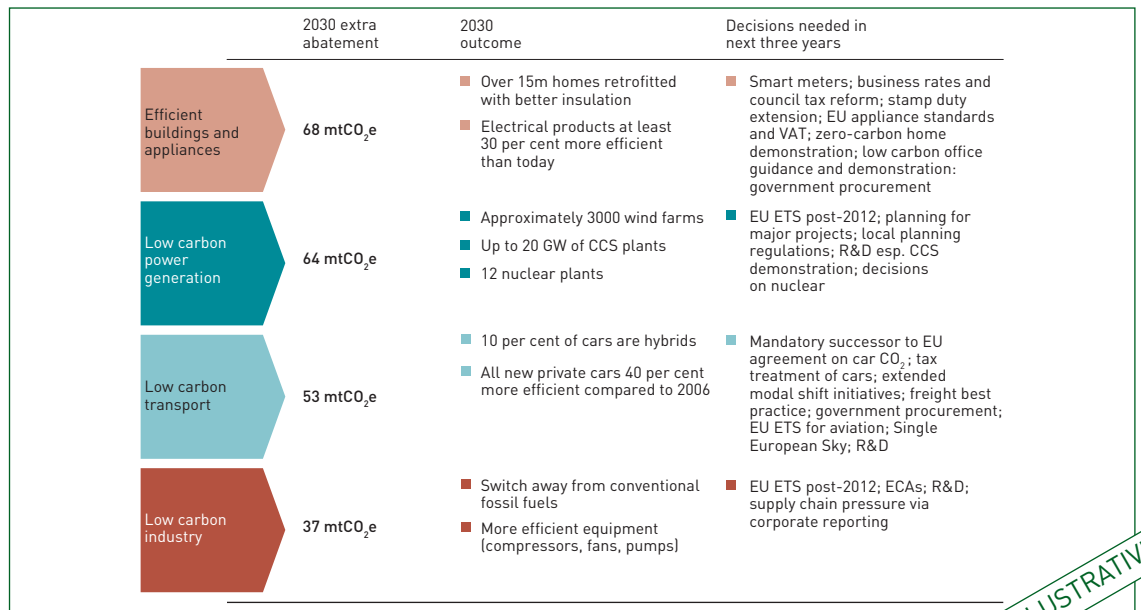
Economic competitiveness must underpin climate change policy. This means giving priority to energy efficiency measures, which must deliver a substantial part of the needed cut in emissions. Sectors like steel or chemicals, which face intense competition from countries that are not yet seeking to cut their emissions, will also need special consideration.

So what's to be done?

**Consumers** are the essential driver for change. Combining the emissions for which they are directly responsible with those that they influence through their purchasing decisions, they have an impact on some 60 per cent of UK emissions. As voters, they have a powerful influence on public policy. They need the information, the incentives, and the opportunity to make low carbon choices. They will require:

- Reliable and consistent information about the consequences of their choices.
- Much wider access to low carbon products and services than is on offer today.
- Incentives to make low carbon investments. For example, consumers could already be making worthwhile cost savings through improved insulation of their homes – but they do not, because for them the payback period is too long. Government and business must look for creative ways to bridge this timing gap.

**Figure 1:**  
Timelines to  
implement  
policies are tough  
and decisions  
need to be  
made in the next  
three years



Source: McKinsey UK cost curve; team analysis

ILLUSTRATIVE

**The UK government** has done more than most others to set a framework for change. We welcome the proposals in the Climate Change Bill as important elements of a framework to promote significant cuts in emissions. But it must now focus on implementation as a matter of urgency. It must go with the grain of the market wherever possible, by removing barriers to change. This means it must:

- In the coming 12 months, pass the legislation needed to rebuild the UK's power generation capacity in a timely manner, with a diverse, low carbon energy mix. All options will have to be available, including renewable energy and nuclear. Early reform of the planning system is essential.
- Push for agreement early next year on the post-2012 design of the EU ETS, which will be vital in establishing an effective long-term carbon price.
- Prioritise investment in relevant research and technology. That means re-allocating existing resources, and adding new funds where necessary. The aim should be at least to match the EU average for investing in energy and climate change technology.
- Empower consumers through education, communications and incentives.
- Provide incentives, regulation and tax structures which stimulate a low carbon economy, and ensure consistently supportive policies.
- Take a leadership role in international negotiations for climate change agreements.

**Business** has already made significant progress in responding to the climate change agenda. It is well placed to make an early and decisive contribution to finding and implementing solutions to the challenge of climate change. Its priorities now must be to:

- Incorporate climate change policies into its DNA. Consumer demand will stimulate competition to produce greener alternatives to current products and services, and reward those businesses that take a lead. In the low carbon future, companies will have to be green to grow.
- Redouble efforts to improve energy efficiency, by focusing on areas such as transport and buildings.
- Work with employees and the supply chain to reduce emissions, and adapt the current workplace to cope with the climatic and other changes that are already likely as a result of past CO<sub>2</sub> emissions.
- Measure its carbon footprint, and develop reporting systems to benchmark performance.
- Provide consumers with the reliable communications and product developments they will require.

Members of the Task Force are committed to meeting the challenge. With a global carbon footprint from their operations of close to 370 mtCO<sub>2</sub>e, or roughly 1 per cent of global emissions, they readily accept their responsibility to take positive action.



Companies represented on the Task Force have already taken significant action to tackle emissions. Equally, they recognise that more must be done. **Their first priority therefore is to ensure they deliver their existing corporate commitments to further emissions reduction.**

In addition, they are now pledging to:

**Develop new products and services that will enable all households in the UK to cut their emissions in half by 2020.** Task Force companies provide a wide range of products and services to millions of customers. We will work with others to draw up an action plan and milestones which will build on existing initiatives to reduce emissions in homes, appliances and personal travel. One initiative, led by Barclays, will develop green finance products: other products will follow.

**Work with our 2m employees to help them reduce their greenhouse gas emissions at work and at home.** Our aim is to begin by identifying and promoting action to save 1 mtCO<sub>2</sub>e within three years. We will coordinate this work with our efforts to help all households cut their emissions.

**Promote effective reporting procedures that set the benchmark for reporting carbon emissions.\*** We will work with others, including the Carbon Trust, to promote a standard that could be adopted by all companies above a certain size, and we will develop a small and medium enterprise (SME) friendly version.

**Work with government to co-ordinate and manage the implementation of emission saving projects and to improve the effectiveness of spending on R&D of new technologies.** Our goal is to create the framework through which government and business can collaborate together to build a low carbon economy.

**Audit and cut emissions from company car fleets and buildings.** Our ambition is to do better than the government's own targets as set out in its Sustainable Procurement Action Plan.

**Provide resources over three years to strengthen the CBI's work on climate change** in the UK and internationally, and oversee the deployment of this resource.

This report is therefore a call to action. For companies on the Task Force, it marks the latest stage of a journey which builds on their existing commitments to tackle climate change. For the CBI, it marks the start of greater engagement on this agenda with all its members as well as the international business community and other stakeholders. Together with government and consumers, our goal is to work towards a greener and more prosperous planet.

\* This specific commitment excludes the London Stock Exchange in relation to the companies on its markets.



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