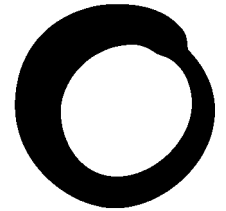


April 2009



**Friends of  
the Earth**

# Briefing: Budget 2009

*"We can now build a new green economy. We must rise to one of the greatest peace time challenges of all, that will not only help our country prosper, but will build a better, more secure and more sustainable world."*

Gordon Brown: 9<sup>th</sup> March 2009, Low Carbon Industrial Summit.

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- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland**
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## Introduction

We now stand at a pivotal moment in history. To prevent catastrophic climate change we must ensure the global temperature does not rise by more than 2 degrees centigrade above pre-industrial levels. But time is now rapidly running out. To achieve this target the industrialised countries must cut their carbon emissions by at least 40% by 2020. This epic challenge can only be achieved if emissions start to fall drastically right now.

At the same time we are facing one of the deepest and most severe recessions the world has known, plunging millions into poverty.

Yet these two crises share common roots. A world addicted to fossil fuel, driven forward by an ideological obsession with letting the market rip has led to economic and environmental breakdown.

They also share a common solution. Strong rules to develop an economy based on clean, green energy which can deliver prosperity, energy independence and a stable global climate.

## Budget 2009

At this year's Budget on 22<sup>nd</sup> April, the UK Government faces two critical tests of its ability to protect this country from permanent economic and environmental ruin.

### Test One – The Carbon Budget

The first test is whether it will publish a Carbon Budget which helps ensure the UK does its fair share in avoiding catastrophic climate change. The assessment of the Tyndall Centre for Climate Change Research, the UK's leading scientific research centre on climate change, is that preventing a global rise of more than 2 degrees centigrade requires the UK to commit to reducing greenhouse gas emissions by at least 42% by 2020 with no off-setting.

### Test Two – The Financial Budget

The second test is whether the Government will publish a truly transformational green budget that propels the UK on to a dynamic low carbon pathway to meet this Carbon Budget.

These two tests are critically interlinked. Without a strong Carbon Budget **and** a transformational green financial Budget the UK has no hope of achieving deep carbon cuts **or** a long term economic recovery.

## Carbon Budget 2009

On 22<sup>nd</sup> April 2009 the Government will announce the 2020 target for greenhouse gas emissions (the reductions needed from 1990 levels) and Carbon Budgets for the first three five-year periods (2008-2012, 2013-2017, 2018-2022). This will place a legally binding ceiling on the level of allowed UK emissions. The Carbon Budgets are a requirement of the Climate Change Act which Friends of the Earth led the campaign to introduce.

Friends of the Earth is calling on the Government to adopt an immediate target to cut greenhouse gas emissions within the UK by 42% by 2020, compared to 1990 levels.

## The importance of the 2020 target

The pathway to the 80% 2050 target in the Climate Change Act will determine the *total amount* of emissions and the impact on the climate. It is the build-up of emissions over a period of time that will shape global temperature increases.

The Committee on Climate Change, set up to advise the Government, has produced two options for a 2020 target:

- **Intended target: 42% by 2020**  
This is the target the Committee says should be adopted following a global deal on climate change.
- **Interim target: 34% by 2020**  
This is the target the Committee says should be used before a global deal is agreed.

Scientific research, including new research by the Tyndall Centre for Climate Change Research<sup>1</sup>, shows that a UK 2020 target of *at least* 42% below 1990 levels is needed if the UK is to play its full role in ensuring global temperatures do not rise by more than 2 degrees centigrade (under the differentiated responsibilities set out in the United Nations Framework Convention on Climate Change).

The Committee on Climate Change says that a 42% target would equate to a 50% chance of keeping the temperature rise to no more than 2 degrees centigrade, just less than 10% chance of 3 degrees and a 1% chance of 4 degrees. A rise of over 2 degrees centigrade risks triggering tipping points which could result in runaway climate change. Adopting the weaker 34% target would make it impossible for the UK to play its part in ensuring that global temperature does not rise by more than 2 degrees.

The advice of the Committee on Climate Change to adopt the intended target only once a global 'deal' has been achieved is a politically expedient judgement. It delays emission cuts when there is no room for delay and does not give business a clear and stable investment framework. It also fails to recognise that higher emissions targets adopted now will drive forward the development of a low carbon economy much faster which in turn will provide huge economic benefits for the UK.

## 42% must be delivered at home

The Committee on Climate Change has recommended that the difference between the interim target and the intended target of 42% should be reached by buying in emissions cuts from other countries. Offsetting does not guarantee emissions reductions. This is because many offsetting projects do not necessarily result in additional emission reductions (because they would have happened anyway) but also because many of the countries it applies to do not put a cap on their overall emissions.

Also, major economic gains would be made by achieving the 42% reduction at home. For example:

- A massive programme of home energy efficiency would help eradicate fuel poverty, cut household fuel bills, create tens of thousands of jobs, increase security of supply and cut actual UK emissions.
- A step-change in investments in the power grid and renewable energy would not only create hundreds of thousands of jobs, increase security of supply and cut UK emissions but also give the UK an economic lead in the rapidly expanding international markets for low-carbon technologies.

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<sup>1</sup> Making a Climate Commitment: Analysis of the first Report (2008) of the UK Committee on Climate Change, The Tyndall Centre, University of Manchester, March 2009  
[http://www.foe.co.uk/resource/reports/tyndall\\_climatereport\\_ccc2008.pdf](http://www.foe.co.uk/resource/reports/tyndall_climatereport_ccc2008.pdf)

The evidence is that without a stretching target and commitment to making the emission cuts through domestic effort, many sectors will invest in 'business as usual' that locks the UK in to high-carbon infrastructure - such as building airport runways and unabated coal fired power stations. This view is strongly supported by the Tyndall Centre for Climate Change Research.

## Financial Budget 2009

To overcome the triple crunch of recession, energy insecurity and emission overload, the Government has an unprecedented opportunity in Budget 2009 to boost the creation of a low carbon energy system that delivers economic prosperity and energy independence.

### **An Abysmal Record**

While the Government has led the rhetoric on its commitment to a green new deal to revive the economy its record so far has been abysmal.

A recent assessment by the HSBC's Climate Change Centre of Excellence calculated that only 7% of the UK's fiscal stimulus so far in response to recession was low carbon. This compares unfavourably to the vision of China (37% green stimulus) and South Korea (80% green stimulus) who appear to see more clearly the opportunity of building up low carbon energy industries.

The UK's fiscal stimulus has in fact been carbon intensive overall and will drive up carbon emissions. And when you look at what investment the Government has announced which is both new investment (ie not just brought forward) and truly low carbon, then the Governments' performance plunges even further.

The New Economics Foundation has calculated that new green investment only represents 0.6% of the £20 billion recovery plan so far. This represents 0.0083% of UK annual GDP compared to 20% of the UK's GDP which has been spent on rescuing UK banks.

This paltry green investment of only £100 million is in fact less than 13% of the annual bonus package of £775 million handed out to Royal Bank of Scotland staff at the end of last year.

### **A time for action**

Considerable public debate has circulated recently concerning whether the UK can afford a major green fiscal stimulus in Budget 2009 given the high levels of public debt. The key question however is whether the UK can afford not to.

The UK has one of the most energy inefficient building stocks in Europe. It also languishes near the bottom of the European renewables league table. Only Malta and Luxembourg have a worse record on renewable energy production. Only 1.8 percent of the UK's energy is produced from renewable sources.

Unless the UK provides and stimulates an immediate and dramatic increase in low carbon investment the UK not only has no hope of making our fair share of carbon cuts by 2020, it will have no hope of emerging from recession as a competitive low carbon leader.

## **The scale of green investment required**

The Government's environmental advisors, the Sustainable Development Commission, have estimated that the Government needs to ensure £30 billion more is invested every year in stimulating a low carbon recovery.

However much the UK Government spends on a direct fiscal stimulus at Budget it will need to be complimented by strong support for institutions and financial mechanisms to leverage a high level of private sector investment as well.

**Friends of the Earth calls on the Government to ensure £30 billion more than already planned is invested each year to create a dynamic low carbon energy system in the UK.**

## **Clean, Green Investment – The Priorities**

### **1. Green Bank & Green Bonds**

Low carbon markets in renewable energy, energy efficiency and infrastructure have the potential to be a major building block for UK economic recovery. However, the financial crisis has stalled growth in many of these sectors, with the renewable energy sector in particular seeing a majority of viable projects stalled. Without a coherent UK green financing strategy it is unlikely that the private sector will be able to deliver the necessary support to meet UK targets and realise the potential for economic development and job creation.

A green financing strategy is required that should include two key vehicles:

**Green Infrastructure Bank:** a new financial institution to implement low carbon infrastructure investment. The key advantages would be:

- **Guaranteed Investment:** dedicated public sector financial expertise to guarantee the delivery of low carbon investment via loans, loan guarantees and direct investment.
- **Innovative Investment:** the complexity of the low carbon transition means that there are likely to be multiple and changing demands for government to provide financial support to new markets, beyond any short term needs in the economic crisis. It is the nature of the transition that many of these needs cannot be anticipated. The Green Bank would be capable of responding to, and in many areas anticipating, these needs and designing new and efficient financial instruments.
- **Strengthening Private Investment:** Government backing its own policies through selected and strategic direct investment would act as a very powerful signal to investors that low carbon investment is a good investment.

The Green Bank would not crowd out private investment, but would focus on leveraging private funds into the low carbon economy. It could also have a strategic role in furthering state interests as global markets for low carbon infrastructure expand.

It would be legally and financially autonomous and carry a statutory government guarantee, but would operate within strict investment criteria, reporting to the Treasury.

**Green Bonds:** to raise new funds for public financing of low carbon infrastructure and energy efficiency programmes.

Green bonds can provide a substantial part of the funding solution to create a low carbon economy. They are justified on the grounds that this additional debt-funding is part of a strategic and targeted effort to create green jobs for the future and help to plug the investment gap that now exists.

Green bonds could capture the interest of financial institutions and the public and the ring fenced proceeds could be directed via the Green Infrastructure Bank into supporting green and clean energy infrastructure projects.

Although they would be likely to be targeted at financial institutions at first, green bonds could also be offered to the public to buy. In the UK it is no longer possible for individuals to directly purchase traditional Treasury Bonds, instead Premium Bond offerings (also Government debt) are made available through the Post Office. Premium Bonds, however do not offer a fixed income return as gilts do. Instead, holders are entered into a lottery where windfall payments are allocated randomly. However green fixed income retail bonds could be offered to the public. They would offer individuals the opportunity to preserve capital while receiving an attractive yield on that capital (perhaps 4% compared to less than 1% from instant access savings schemes today). It would provide individual investors with an opportunity to be directly involved in addressing climate change.

### **Friends of the Earth calls on the Government to create a Green Infrastructure Bank, backed by Green Bonds.**

#### **2. Low Carbon Homes**

In 2006, the International Energy Agency (IEA) projected that energy efficiency measures could account for 65% of emission savings by 2030. But to deliver these reductions the IEA believes an additional \$2.4tr in demand side investment is needed globally to 2030. They estimated however that this investment would be more than compensated for by \$8.1tr in energy bill savings and \$3tr in avoided supply side investments<sup>2</sup>.

Household energy efficiency measures include some of the most cost-effective means available for lowering carbon emissions, tackling fuel poverty and kick-starting the low carbon industrial transformation of the UK economy<sup>3</sup>.

Current energy efficiency policies such as the Carbon Emissions Reduction Target (CERT) take a scattergun approach. They will not be successful in upgrading the energy performance of all UK homes to a high standard in part because of the difficulty of identifying suitable properties and the limits placed on the range of technologies that can be installed.

The other major energy efficiency programme of Government is Warm Front, a scheme which offers an energy efficiency grant to those on benefits. But the grant is low and the homes are not brought up to a high energy efficiency standard. As a result there are more 6 million households in fuel poverty today, more than when Warm Front started.

The Government also offers Winter Fuel Payments to pensioners but these are an income supplement (arguably a fossil fuel subsidy) and are not used to improve the energy efficiency of a home, the only long term solution to fuel poverty and lowering households carbon emissions.

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<sup>2</sup> New Energy Finance (2007) Energy efficiency: the cheapest form of abatement

<sup>3</sup> According to McKinsey's marginal abatement cost curve analysis, energy efficiency measures including insulation can be delivered at net negative cost.

## **Every Home a Low Carbon Home by 2020**

The Government should aim to retro-fit the entire UK housing stock by 2020, using a 'whole house' approach which delivers the highest possible levels of energy efficiency in each home. A fund of £7 billion per year for a ten year scheme could maximise the energy efficiency of all UK homes, bringing them up to grade B and C under the Energy Performance Certificates.

The scheme should be funded in two ways. The first is direct Government funding, delivered by business consortia that tender to offer the service on behalf of Government and rolled out in partnership with Local Authorities on a street by street basis. The service would be free to all those on low incomes or in vulnerable groups.

This should be supplemented by a long term Government zero interest loan facility offered to all other households, repaid either in small instalments as part of the energy bill or when the home is sold. In the former case the overall bill would be lower due to the fuel savings from the energy efficiency improvements. There would be no up-front cost for the energy efficiency work. The loans would be offered on the basis of achieving a minimum energy efficiency standard.

Anyone participating in these schemes would make immediate cost savings on their energy bills once the work was completed. But to ensure the most widespread take up additional 'carrots and sticks' would be required. For example, an initial £50 payment to households could be offered when they allow a Home Energy Assessor to enter and audit their property for energy performance, followed by an additional cash-back payment of say £450 once the energy efficiency work is completed. The 'stick' would be that the cash-back incentives would be time-limited and that in 2020 minimum standards on the energy performance of all properties sold or leased would be introduced.

For both these schemes capital will need to be made available by Government up-front. Government could use a green bond issuance to fund the programme and the funding delivered by the Green Infrastructure Bank in the form of direct investment and the low interest loans.

A national energy efficiency programme to treat all UK homes by 2020 could utilise extensive spare capacity in the construction industry. Funding energy efficiency is an opportunity for Government to fund decreased consumption, reduce waste in the energy system and put more money into consumer pockets. It would also lower the cost of meeting 2020 renewable energy targets and insulate the UK against volatile energy prices to meet energy security concerns. It could generate over 75,000 new jobs in the energy efficiency sector.<sup>4</sup>

The Government already has plans to start rolling out whole house retrofits in the UK housing sector in 2013 but this is four years too late and only aims to cover 7 million homes by 2020. This programme needs to be more ambitious and start now.

The loan scheme should be supplemented by a stamp duty rebate for those households who cannot obtain a full grant but undertake energy efficiency measures to a high standard within one year of moving. VAT should also be cut to 5% for those refurbishing homes to a high energy efficiency standard.

**Friends of the Earth calls on the Government to launch a national energy efficiency programme to make every home a low carbon home by 2020. To raise £7 billion a year via a Green Bond issue to be paid by the Green Infrastructure Bank in the form of direct investment and low interest loans. To be supplemented by a stamp duty rebate and cut in VAT on refurbishment for energy efficiency improvements.**

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<sup>4</sup> Climate Change Capital and E3G , Briefing Note, 'National Energy Efficiency Programme' April 2009

### 3. Renewables

The UK Government now has a European legal obligation to ensure that by 2020 15% of the UK's energy is renewable, up from 1.8% now. In its draft Renewable Energy Strategy, the UK Government suggested this target would be met by more than 30 GW of renewable electricity, with the balance from other renewable electricity and heat technologies. This represents a tenfold increase on today's capacity.

There are though huge barriers in the UK to renewables development. Key failures include:

1. Not providing strong enough regulation to guarantee a high level of renewables development and relying instead on a 'free market' model which requires renewables to compete against climate damaging energy sources.
2. The failure to provide stronger financial support to the industry.
3. The failure to address planning delays.
4. The failure to guarantee and invest in grid and connection for renewables.

The key programme to incentivise large scale renewable electricity is the Renewables Obligation (RO) on energy suppliers. Whilst encouraging onshore wind, the RO has failed to provide adequate support for less developed renewable technologies, e.g. wave and tidal and is a far less cost effective support mechanism than Feed in Tariffs. A £50million Marine Renewables Deployment Fund was announced by the Government in 2004 – but they have not dispersed any of the money yet.

The key programme to support the renewables industry via grants has been delivered by the Low Carbon Buildings Programme. But this programme has been characterised by delays, low grant levels and a constantly changing grant system that has provided no certainty to investors. As a result of these failures the UK has one of the most undeveloped renewables sectors in Europe.

Failures in Government policy have been compounded by the financial crisis. This has led to the increasing cost of capital, a fall in the price of fossil fuels and a collapse in the market price of carbon (from €30/tonne in mid 2008 to €8/ tonne in February 2009). As a result the renewables industry in the UK is not only in a deeply uncompetitive position compared to other major European countries, the industry that does exist is beginning to crumble. Without radical action to intervene the Government has no hope of either meeting its renewables targets or building a world beating low carbon energy industry.

#### Sparking a Renewables Revolution

1. **Feed in Tariff and Heat Incentive:** Following a campaign last year led by Friends of the Earth, the Government included powers in the Energy Act 2008 to create a small scale feed in tariff to help incentivise renewable electricity development and a heat incentive scheme to support renewable heat projects. The Government plans to introduce the feed in tariff in April 2010 but has delayed the start of the heat incentive to April 2011. These measures could help to reduce UK emissions by up to 20% if properly supported and spark the creation of a globally competitive renewables industry in the UK, generating tens of thousands of jobs.

**Friends of the Earth calls on the Government to introduce a generous feed in tariff and heat incentive in April 2010.**

2. **Loan Guarantees and Direct Investment:** To help plug the investment gap in the renewables market the Government could provide loan guarantees for renewables projects via the Green Infrastructure Bank. The Government could also supply direct investment to ensure projects got off the ground and

provide much higher levels of financial support for renewables research, development and manufacturing.

Those projects that are successful in getting Government financing would show a reduced risk profile, provide a compelling case for private sector funding and reduce the cost of debt needed to finance the balance of the project. This in turn would help rebuild trust between the banks, project by project, and enable flagship syndicated deals to get moving again.

The national grid must also be urgently upgraded to enable renewables to be accessed. This requires grid extension to reach areas where renewables are strategically planned, the rapid development of a smart grid and contributing towards the creation of a European super grid.

**Friends of the Earth calls on the Government to:**

- a. Provide £1 billion in emergency support to the Low Carbon Buildings Programme to pay for at least 50% of the cost of renewable projects until the introduction of the feed in tariff and heat incentive.**
- b. Invest £2 billion / year in providing low interest loans, loan guarantees and direct investment in renewables projects, research and development.**
- c. Invest £5 billion / year on grid improvements to make way for a renewables based energy system to be dispensed via the Green Infrastructure Bank and supported by Green Bonds.**

The UK has some of the best renewable energy resources in the world. We also have a manufacturing tradition that dates back two centuries. The renewables industry could provide the Government with a key element of a credible roadmap to lead the UK out of the current economic downturn. By investing in strategic capital deployment and coherent policy leadership, the UK Government could build a green manufacturing and deployment base to underpin a sustainable recovery as we move into the new low carbon era.

#### **4. Low Carbon Transport**

Transport emissions account for a quarter of all UK emissions and are still growing. BERR predictions for oil and gas production and demand indicate that by 2013 we could be importing 80 million tonnes of oil equivalent. At \$100 / barrel this would cost the country \$57 billion. The Eddington review also estimated that if left unchecked congestion would cost the economy an extra £22 billion by 2025.

To reduce emissions from transport sector four urgent actions are required:

1. Massively increase walking and cycling for shorter journeys.
2. Significantly increase the quality of public transport and make it far more affordable and accessible, to include improving the capacity and affordability of the rail network.
3. Introduce decisive and hard hitting measures to create a shift to low carbon vehicles.

**Friends of the Earth calls on the Government to invest £1 billion a year for 10 years, to create world-class low carbon transport systems in 20 UK cities, funded by shifting spending out of the road building budget. We also call for the creation of a Carbon Reduction Fund supported by £5 billion, shifted out of the Transport Innovation Fund. This would prioritise and finance showcase carbon reduction transport projects.**

### Summary of Friends of the Earth Recommendations for Budget 2009

- **Adopt an immediate target to cut greenhouse gas emissions within the UK by 42% by 2020 with no offsetting.**
- **Ensure £30 billion more is invested each year to create a dynamic low carbon energy system in the UK.**
- **Create a Green Infrastructure Bank, backed by Green Bonds.**
- **Launch a national energy efficiency programme to make every home a low carbon home by 2020. To raise £7 billion / year via a Green Bond issue to be paid by the Green Infrastructure Bank in the form of direct payment and low interest loans. To be supplemented by a stamp duty rebate and cut in VAT on refurbishment for energy efficiency improvements.**
- **To introduce a generous feed in tariff and heat incentive in April 2010.**
- **Provide £1 billion in emergency support to the Low Carbon Buildings Programme to pay for at least 50% of the cost of renewable projects until the introduction of the feed in tariff and heat incentive.**
- **Invest £2 billion / year in providing low interest loans, loan guarantees and direct investment in renewables projects, research and development.**
- **Invest £5 billion / year on grid improvements to make way for a renewables based energy system.**
- **To invest £1 billion a year to create world-class low carbon transport systems in 20 UK cities by 2020, funded by shifting spending out of the road building budget.**
- **Creation of a Carbon Reduction Fund supported by £5 billion, shifted out of the Transport Innovation Fund.**