evidence BRIEFING

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HIGHLIGHTING RESEARCH FINDINGS AND THEIR RELEVANCE IN KEY POLICY AREAS

The impact of climate change policy on competitiveness

Current climate change policies have not damaged the competitiveness of UK businesses, and can increase long-term competitiveness by encouraging greater innovation and efficiency.

Policy implications

- Policy emphasis should not be on resisting the low-carbon transition, but on identifying vulnerable sectors (sectors which are energy-intensive and exposed to international competition) and buffering them against acute effects in the short term.
- The transition to a low-carbon economy will require long-term structural changes in the UK economy. This will need careful management by the government.
- Structural change to the economy could be facilitated through funding and support for retraining and relocation of workers in key affected sectors, similar to US trade adjustment policies.
- The impact on competitiveness for vulnerable sectors (such as steel, cement and agro-chemicals) can be offset by well-designed compensation schemes.
- Current compensation schemes, such as free emissions trading permits and sector discounts, are sometimes too generous and target too many sectors – in some cases providing windfall profits. New compensation measures should be carefully targeted to avoid costly over-compensation and undesirable market distortion.

About the research

The UK has legally committed to reducing carbon emissions by 57 per cent on 1990 levels by 2030. It follows the recommendation from the Committee on Climate Change, which argued that a reduction of 57 per cent would follow a path of minimum cost to meeting the UK's long-term climate objectives.

National carbon emissions have fallen by over 4.5 per cent a year since 2012, but this is almost entirely due to increased use of green electricity from renewables and lower coal use. There are hardly any emission cuts in the rest of the economy.

The first carbon budget has been met and the UK is currently on track to outperform the second and third carbon budgets – but not the fourth, which covers the period 2023-27.

A new research analysis compares UK climate change policy targets with major competitor countries such as France, Germany and China, and explores the impact of policy measures on economic competitiveness. The analysis shows that the UK is well-placed to benefit from a worldwide low-carbon transition, but that structural changes to the economy are inevitable.

Policy emphasis should not be on resisting the low-carbon transition, but on buffering vulnerable sectors against acute effects in the short term.

Key findings

- There is no evidence to suggest that the UK's greenhouse gas emissions reduction targets will harm its economic competitiveness. No compelling evidence indicates that investments have been cancelled or production moved abroad (so-called 'carbon leakage') because of the Climate Change Levy.
- Climate change policies can increase the competitiveness of the UK in the long term by encouraging greater innovation and efficiency. Low-carbon innovation has greater economic benefits than innovation in high-carbon sectors.
- The UK is an international leader in cutting carbon emissions, but is not acting alone. It is part of a leading group of nations taking action on climate change – including many of the UK's major competitors.
- The country is well-positioned to benefit from a global transition to a low-carbon economy, but more needs to be done over the next decade to manage the structural change that is required.
- Carbon-related energy costs remain small, relative to other production costs in the economy. Differential energy costs between countries do matter in determining location decisions of carbon-intensive firms, but other costs, such as labour, are also important.
- Carbon prices are likely to rise in the future, but evidence from other countries with higher carbon prices than the UK's shows that they have remained competitive.
- There are valid competitiveness concerns for a small number of energy-intensive, internationally exposed sectors (for instance coal, steel and agro-chemical industries), representing approximately two per cent of the economy. Supporting policies are already in place, in the form of free emissions trading permits and sector discounts or exemptions from national policies.

BRIEF DESCRIPTION

The UK has committed to reducing carbon emissions by 57 per cent by 2030 on 1990 levels. A policy brief from the Grantham Research Institute and the ESRC Centre for Climate Change Economics and Policy compares the ambition of UK climate change policy with major international competitors and explores the impact it could have on economic competitiveness.

Samuela Bassi and Chris Duffy: *UK climate change policy: how does it affect competitiveness?*
Web: www.cccep.ac.uk/publication/uk-climate-change-policy-how-does-it-affect-competitiveness

FURTHER INFORMATION

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The ESRC Centre for Climate Change Economics and Policy (CCCEP) is hosted jointly by the University of Leeds and the London School of Economics and Political Science.
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