

Without better communication governments risk losing public support for carbon taxes and emissions trading

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*Carbon pricing is an important policy that could slowdown climate change by changing the incentives of polluters. However, **Alex Bowen** argues that governments may lose support for these initiatives if they are not clearly explained and communicated to the public.*



This is the second article in a [series on climate change and environmental policy](#) being hosted by British Politics and Policy at LSE.

Most economists argue that carbon pricing should play a leading role in halting human-induced climate change. Yet governments worldwide could fail to gain public support for carbon taxes and emissions trading systems if they do not explain more clearly why carbon pricing is an effective way of tackling climate change.

Look no further than the ferocious public debate in Australia over the introduction of a carbon price to see just how difficult it is to gain public support. The Clean Energy Bill passed through the Australian senate with the narrowest of vote margins (36 for 32 against) last November, though in a form diluted from that proposed two years earlier. Comparisons can be drawn with the recent UK [media coverage](#) of the impact of “green taxes” on household energy bills. Both episodes were driven by misinformation from lobby groups and a failure by policy makers to explain the need for a carbon price to reduce greenhouse gas emissions, based on the principle that the ‘polluter pays’.

The need for governments to improve how they communicate carbon pricing schemes to the public is a key conclusion of our report, [The case for carbon pricing](#), in which we took the opportunity to remind policy makers why a carbon price makes good economic sense. Let us quickly remind ourselves of the basic case for a carbon price: whether delivered by carbon taxes or emissions trading, a uniform global price on carbon would act as a pervasive encouragement for businesses to adjust their investment, their mix of inputs and their innovation away from greenhouse-gas-intensive technologies, and for consumers to reduce their spending on high-carbon products. Implemented through well-designed policy, this could even enhance broader economic performance.

However, a major challenge for policymakers worldwide is to communicate to businesses and the public why carbon pricing is a sensible option. To do this they must find a way to explain the nature of the market failure that means the current prices of goods and services do not fully reflect the expected costs of climate change impacts which will be borne by future generations. A failure to explain the rationale for carbon pricing in terms of the ‘polluter pays’ principle could jeopardise public acceptance and support, and limit the successful implementation of future policy. The public debate in Australia has reflected the fact that the rationale has not been accepted, or even understood, by many lawmakers and members of the public. Public concern about energy prices in the UK, which are being wrongly blamed by some on the costs of low-carbon policies, presents a key challenge for the Secretary of State for Energy and Climate Change, Ed Davey.

The way carbon pricing is communicated is not the only threat to public acceptance of such policies. A second challenge for policymakers is to deliver a fairer and more “uniform” carbon price – i.e. one that applies as equally to the price of petrol at the pump as it does to the price of steel. The current uneven price of carbon across sectors has generated feelings in the business community that some

sectors are being unfairly penalised. However, there are bigger potential benefits from a uniform, or at least more consistent, carbon price than just perceptions of fairness. Establishing a consistent price for greenhouse gas emissions will enable reductions to be made at the lowest cost. As the Institute for Fiscal Studies argued in its [Green Budget report](#):

“The economic cost of a given reduction in total carbon emissions would be far lower if the reductions occurred wherever they were cheapest. This would happen almost automatically if policy simply taxed all carbon equally, regardless of where it came from or how it was used.”

So a more consistent price would not only likely be better received, it would represent better value for money for ‘UK PLC’.

The carbon price in the UK is currently far from consistent. To give an example; based on one set of assumptions, implicit carbon taxes range from zero on the domestic use of natural gas to £43.14 per tonne for gas used to generate electricity for business and £246.33 per tonne for petrol used for transport, although the latter figure assumes that fuel duty is entirely a carbon tax. This price variation is the result of a complex and overlapping policy framework reflecting multiple government objectives, one of which has been to augment the price signal provided by the European Union Emissions Trading Scheme (EU ETS).

It has been widely acknowledged that the current price of carbon in the EU ETS is too low for the UK to meet long-term carbon targets. But it is complemented by the Climate Change Levy, Carbon Reduction Commitment Energy Efficiency Scheme, and Climate Change Agreements, as well as measures to promote clean energy, including the Renewable Obligation and Feed-In Tariffs, all of which raise the price of emissions, albeit in a manner that is more complex and costly than necessary. Policymakers should seek to simplify this policy framework to apply a more consistent, or ideally uniform, carbon price across sectors.

This brings us rather neatly to the question: what is an appropriate price for carbon? To meet the UK’s ambitious carbon targets, the thorough review by the Committee on Climate Change of the outlook for emissions abatement is a good starting point for thinking about the appropriate carbon price. However, the suggestion of a price of £30 per tonne of carbon dioxide in 2020, rising to £70 in 2030, implies a faster rate of increase than is likely to be desirable from the point of view of society as a whole, putting too much responsibility on future generations to reduce the economy’s carbon intensity.

Instead, a price of £40 per tonne in 2020, rising to £55 per tonne in 2030 would be more compatible to the cost of meeting the cost of hitting UK emission targets. Working back to the present day, it implies that a carbon price of around £30 per tonne would be appropriate now, which contrasts with the current price in the EU ETS of around €8 per tonne (around £6.70 per tonne at current exchange rates). A price of £30 per tonne would encourage more energy saving and other changes in behaviour by companies and households in the near term and provide a more powerful incentive for early low-carbon innovation.

As far as the long-term path of carbon prices is concerned, the general conclusion is that the price should rise steadily for many years – and the public should be made aware of this. In practice, setting a price trajectory over a long time period (say 30-50 years) is a complicated business and there should be scope for adjustment so that policymakers can “learn by doing”. There is a long list of other external costs and feedbacks, not to mention uncertainties, built into emissions abatement models, which make it prudent for policymakers to review and, where necessary, refine estimated price trajectories every five years or so.

A number of possible problems can arise from carbon pricing, which policymakers must be aware of and take action to counter. First, there is the potential for carbon pricing to increase costs

disproportionately for some businesses and households. For businesses, this raises the possibility of companies escaping to 'pollution havens' to avoid paying a carbon price – a trend commonly referred to as carbon leakage.

However, competitiveness difficulties are unlikely to be substantial as the number of sectors significantly affected is relatively small – steel, aluminium, pulp and paper, cement and some parts of the chemical industry are all plausibly exposed. Policymakers can reduce the impact on those affected by using revenue from charges on carbon or auctions of emissions permits to compensate disadvantaged groups. However, they should be wary of over-exaggeration of the impacts of carbon pricing by those with vested interests and provide appropriate support that doesn't remove the incentive for businesses to act to reduce their carbon emissions.

But a carbon price alone will not be enough to reduce emissions sufficiently to avoid dangerous climate change. Other complementary policies are required, particularly to promote innovation and appropriate infrastructure investment. However, such policies cannot be relied upon just by themselves to bring about the necessary reductions in emissions and a consistent carbon price is an essential part of the policy mix.

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Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.

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