

TERMS OF REFERENCE.

Introduction

The purpose of the Zero Carbon Commission is to produce a series of recommendations on how the UK could practically extend carbon pricing as a substantial part of the solution to the net zero challenge. The proposals should be implementable, palatable to voters and a range of political parties and actors, and good for the UK and the environment.

The new Government has committed to achieving net zero carbon emissions by 2050. But they have not yet set out how they will achieve this goal - and therefore what the consequences will be for industry, producers of CO₂, or consumers. The manifesto had some commitments, but they do not begin to add up to a credible net zero roadmap. Nor has net zero been scrutinised to any meaningful extent. Public understanding is extremely low.

The Commission is being privately funded and it is independent from the government, but it is seeking cooperation and input from both the major political parties and relevant Government Departments. That is because it is designed to produce proposals that can be implemented over the long term.

Currently, carbon charges exist in multiple forms: explicitly as additions to electricity bills, and implicitly as - for example - additional taxes on fuel. These are often referred to as “Green Taxes” which sound punitive to the consumer and have never really been explained to bill payers. Subsequently voters may well suspect the government’s motivation to be fiscal rather than environmental. They are also very limited in scope.

Politically, the signs are fairly positive: a very broad spread of activists – stretching from environmentalists to US Republicans and Democrats – have expressed support for extended carbon charges. That is because they are likely to tackle the root cause of climate change while maintaining private sector flexibility and innovation. The Commission will need to act relatively rapidly: crucial decisions will be made by the Government in the next year.



The three big questions

One of the advantages of introducing more consistent carbon pricing is its relative simplicity – it leaves scope for industries and other actors to make decisions and innovate. It does not impose the level of regulatory burden and complexity of other solutions.

However, there are still many ways in which such a system could be designed. On one end of the spectrum is a policy that is ineffective because it fails to change behaviour. On the other end is a policy that is ineffective because public and political support collapses. We need a proposal that makes a difference practically as well as in principle.

We have framed the Terms of Reference around three areas that we think need to be resolved for a carbon charge to work, and which are credible to answer by April.

01 . Price and revenue

- Should we adopt current recommendations for a £50 charge rising to £75 by 2030?
- What can we learn from other systems on how to price effectively, including where to place the charge (upstream or downstream), and how to go about calculating the carbon price of goods?
- What does this mean for current carbon levies, and which does it make redundant or requiring overhaul?
- How should the Government implement and review the charge, and should there be independent oversight of the revenue?
- How should the revenue be used? For example what should the balance be between a. consumer buy-in, b. supporting the most vulnerable, c. upgrading our housing stock, and d. investment in innovation?
- What mechanisms could be used for redistributing part of the revenue to households, eg. via household bills, tax cuts or a cash dividend?



02 . The economy

- Should there be an economy-wide charge or a sectoral approach?
 - What lessons can be learned from other systems?
 - What are the particular considerations for major industries, for example agriculture; steel; and chemicals.
 - How do we encourage investment in low-carbon transition (for example through financial solutions) and in innovation?
-

03 . Competitiveness

- How can we maintain UK industrial competitiveness if we are a leader in implementing a carbon charge?
 - What does this mean in terms of domestic competitiveness and exports? What are the practical mechanisms that can be used?
 - What does this mean specifically for border adjustments and regulatory alignment?
-

Principles of recommendations

All recommendations made by the Commission should be:

1. Deliverable
2. Capable of securing public support
3. Able to interact with other elements of a plan to reach net zero by 2050

NB: A parallel list of complementary policy recommendations will be included alongside the white paper

