Appetite for change: the UK perspective

Business perspectives on tax and regulation for a low carbon economy
Appetite for change – the UK perspective

Providing a context on the scale of the challenge, PwC’s Low Carbon Economy Index reviewed the UK’s carbon intensity levels between 2000–2008 and the distance to go to 2050, amongst G20 nations. The report estimated recently that a maximum global carbon budget for the period from 2000 to 2050 of just under 1,300 GtCO2, with national breakdowns for the G20 on an annual basis, would give the world a fair chance of limiting global temperature rises to no more than 2°C (relative to pre-industrial levels), without sacrificing long-term economic growth.

Against the levels implied by the estimates, global carbon emissions are already 10% off track, with even the UK currently 6% behind. At current rates of carbon intensity improvement, the world will already have exceeded its estimated global carbon budget for the first half of this century by 2034, 16 years ahead of schedule.

What is the business appetite for changing behaviours to meet the low carbon economy challenge?

Appetite for change, PricewaterhouseCoopers’ comprehensive survey of attitudes in the international business community towards environmental regulation, legislation and taxes, was completed in late 2009. The global study examines the role of environmental policy and legislation in helping to promote behavioural change and reduce carbon emissions, and looks specifically at the impact of climate change on business, the perceived role of government, preferred environmental policy tools and the essential ingredients for an effective global climate change deal. The survey comprised almost 700 interviews in 15 countries, with executives responsible for setting company environmental policy and strategy.

The purpose of this document is to focus more specifically on the interviews conducted with UK-based executives and to compare these UK results with the results of a similar survey that we conducted in the UK in 2007 – Saving the Planet: can tax and regulation help?

The paper will also explore the interesting similarities and differences between UK responses, compared with the wider European and global views.

Appetite for change – the UK perspective

Climate change – an issue for business

Climate change is already an issue for half of the UK companies in the study, although less than a fifth have been significantly impacted to date. These results are a little lower than the overall global findings, but are considerably lower than the European average. This may be explained by the fact that the UK historically has had less of a focus on environmental issues when compared with European territories such as Scandinavia, Spain and Germany.

Nevertheless, a vast majority (94%) of UK companies are expecting further changes to the way they do business, in the next two to three years, as a result of the impact of climate change. This is significantly higher than the European and global averages.

This high expectation of change in the near future is consistent with the results from our 2007 survey in the UK, where 97% expected further changes and an impact on their business, although the expectation of changes would appear not to have materialised as yet for many, based on the 2009 results.

Figure 1
Most UK companies are expecting to change the way they conduct business as a result of climate change.

<table>
<thead>
<tr>
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<td>20</td>
<td>40</td>
<td>20</td>
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</tbody>
</table>

Which of the following best reflects your views on the likely level of change in the way you conduct business as a result of climate change over the next 2-3 years? (Base: Total (654))
Business perspectives on tax and regulation for a low carbon economy

As we come out of the recession we expect carbon to become more of a consumer issue again, on the back of the high profile climate change debate in the run up to and aftermath of Copenhagen. There are real opportunities for businesses to respond to consumer demand for low carbon goods and services.

Figure 3
The top five climate change related issues that UK companies anticipate will have the greatest impact on the way they do business in the next 2-5 years.

Just over a fifth of UK companies expect the changes to their businesses over the next two to three years to be significant. Interestingly, this proportion is lower than respondents in Europe and the US, where over a quarter of companies expect significant change over the next few years.

For UK companies, the clear focus is on reducing their carbon footprints and energy costs, as these are issues which are expected to have the greatest impact on the way they do business in the next five years.

Businesses haven’t been waiting for the outcome of Copenhagen negotiations to take action. Many, including energy companies, retailers and chemicals companies, are already taking steps to improve energy efficiency and reduce carbon emissions. It’s simply a matter of good housekeeping. At a time when businesses are struggling with low margins, energy management is becoming more critical. Big energy users in particular are investing in carbon and energy management systems which are integrated in their operations rather than treating energy management as an annual number-crunching exercise.

Other issues identified within the survey which are expected to impact on their businesses in the short to medium term include waste recycling and reduction, and new taxes, regulations and legislation.
Influences over corporate behaviour in relation to the environment

The report found that for UK companies, the most important influencers over their corporate ‘environmental’ behaviour, are legislation and regulation, although the potential for cost savings is close behind. This is in line with the European and global results and serves to demonstrate the importance of legislation and regulation in bringing about behavioural change.

Four in five UK companies quote compliance with environmental legislation and regulation as most likely to influence their organisation’s behaviour in relation to the environment.

Over three quarters of UK companies feel that the potential for cost savings as a result of energy efficiency measures are also a major influencer over corporate behaviour.

Only 26% of UK companies cited attracting and retaining staff as a major influencer on their organisation’s environmental behaviour. This is perhaps a concern given that the younger generations are now seeing corporate social responsibility as a key criterion in selecting future employers. Over half the UK millennials1 surveyed as part of PwC’s 2007 study2 indicated that their employer’s policy on climate change is important in deciding whether or not to work for them. This finding suggests that increasingly, in the war for talent, companies will need to ensure they have strong environmental policies and are seen to be taking sensible steps to help tackle climate change, in order to continue to attract and retain the best and brightest.

In most of the territories surveyed, less than half of respondents felt they were likely to change their environmental behaviour as a result of a desire to achieve positive outcomes for climate change and the environment. Altruism in itself is not the driver for change. The UK responses were no different – only 44% saw the desire to help achieve positive outcomes for climate change and the environment as a major influencer over corporate behaviour. For the UK, as for many other territories, this was perhaps echoed also in the fact that only just under a third of companies felt any real pressure for changing environmental behaviours from investors and shareholders.

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1 The term ‘millennials’ refers to those who entered the workforce after 1 July 2000.
Government leadership is essential

In stark contrast to the US result, UK companies indicated a strong preference for government to take the lead in tackling climate change through policy and regulation. Over two thirds of UK companies in the survey want government to have primary responsibility for leading behavioural change in relation to the environment, compared with under a quarter of US companies. The UK support for government leadership was also significantly stronger than the European and overall global averages.

This perhaps demonstrates a desire among UK companies for government to establish a level playing field for business, as well as a recognition that it is governments that can work most effectively in securing international agreement and realising real behavioural change.

The perceptions of Government policy

As regards the instruments that are currently in place, UK business seems relatively supportive of government policy in relation to the environment, compared with the views of other territories in relation to their own government policies. Almost two in three UK companies feel that current government policy is effective in providing signals to business on the need to assess its environmental impact and energy usage, compared with only one in four companies globally.

In addition, over half of UK companies feel that government policy is effective in encouraging business to significantly change its environmental behaviour, compared with less than a quarter of companies globally.

The UK perceptions in 2010 are very consistent with the results of the 2007 survey.

Source: UK results for Appetite for Change (2009) and Saving the Planet (2007).
Base sizes: Appetite for Change (50); Saving the Planet (151)
UK confidence in inter-governmental connections is still relatively low.

Two in three UK companies feel that environmental policy is unclear or ambiguous and are not confident in making long term investment and business decisions based on current policy. This is a particular problem for extractive industries and those involved in power generation, for example, where some investment decisions need to be made more than a decade in advance. Our research indicates that confidence in making long term investment decisions is significantly lower in the UK, compared with European and global averages and our evidence suggests that confidence in the UK has dropped since 2007.

According to another recent PwC survey for the International Emissions Trading Association, IETA, on the subject of greenhouse gas market sentiment, traders indicated that they are losing patience with the current market and regulatory uncertainty. The majority feel that such uncertainty will have a significant negative impact on long-term low-carbon investment.

Turning to incentives, four in five UK companies are unclear as to what environmental tax incentives exist and how to apply for them and feel that current tax incentives are insufficiently motivating to make businesses change their environmental behaviour. Where they are aware of incentives, three quarters of companies feel that meeting the criteria required for these incentives is currently too onerous to make them worth applying for in any case.

The UK position on tax incentives is aligned with the global results although companies in the UK are more disparaging about the incentives that exist in terms of the application criteria and instructions.

All the above findings, taken together, suggest a strong call to action for the government to improve performance against these factors or else run the risk of business losing faith in government commitment to the green agenda.

How are current environmental policies and tools viewed in the UK?

Turning our attention now to a number of specific UK environmental levies, views are mixed.

Over three quarters of those we interviewed currently pay landfill tax, and over half of these see landfill tax as effective in changing the organisation’s behaviour. Similarly, almost two thirds of those interviewed pay a climate change levy, and over a half see this as effective.

At the other end of the scale, 86% of those interviewed pay vehicle excise duty, but only a fifth of these see this as effective in changing the organisation’s behaviour. Eighty four percent of UK respondents pay fuel duty, however only 38% see this as effective.

There is a clear distinction in terms of the effectiveness of instruments that have clear environmental goals and which are designed for the task, such as landfill tax and climate change levy, when compared with those which are not designed for the task, but which have environmental consequences in any case, such as Air Passenger Duty (APD), and VED.

It will be interesting to see whether the suggested new “per flight duty” will prove to be more effective than APD which it might replace.

Apart from fuel duty and the congestion charge, the effectiveness of UK environmental taxes has fallen since 2007. Could this be because the impact of these now long-standing taxes is now well understood and routinely factored into business models?

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When comparing how effective the various environmental policy tools available to government are perceived to be, the views of UK companies in the study are consistent with the European and global positions: they favour a combination of regulation, tax incentives and tax charges over market trading schemes and voluntary agreements. This is also consistent with the 2007 position for the UK.

Sixty eight percent of UK companies in the survey said they are supportive of an emissions trading scheme and 64% are supportive of a carbon tax or levy. Both these results are aligned with the global average and are slightly higher than for the rest of Europe.

Although they are clearly not mutually exclusive, nevertheless, when forced to make a choice on their preference between an emissions trading scheme and a carbon tax, more UK respondents would opt for the latter, maybe because taxes are relatively easy to understand, potentially offer more certainty for future investment decisions and are perhaps more likely to have a direct impact on environmental behaviour, as companies try to mitigate their exposure.

It is likely that emissions trading schemes and carbon taxes would work better in different circumstances. Larger companies tend to be better able to cope with the complexities of emissions trading; for smaller businesses, the relative simplicity of carbon taxes is appealing. It will be interesting to see how the Carbon Reduction Commitment scheme is viewed in terms of its practical operation by businesses.
Thinking about these two different ways of encouraging responsible environmental behaviour, which do you prefer from a corporate point of view?

<table>
<thead>
<tr>
<th>Country</th>
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<td>Australia</td>
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</table>

Only a third of UK companies regard environmental regulation as a threat to their competitiveness, with a slightly larger proportion (38%) seeing it more as an opportunity.

As one would expect, a higher proportion of respondents see environmental taxes as a possible threat, although 26% still see them as an opportunity, presumably as they would create more of a level playing field.

There appear to be a number of clear actions that government can take to improve UK business confidence in environmental policy.

- Businesses feel that government should be taking more action to tackle climate change. Just under four in ten UK companies feel that government is giving sufficient priority to addressing business issues in relation to climate change.
- Businesses want to be engaged in policy development and implementation and for government to take notice of their experience in terms of which environmental policies work, and how they should be applied. Only just over a third of UK companies currently feel that the Government engages effectively with business to make sure environmental policies take industry views into account. Given that this is a global issue, it is critical that the policies implemented in the UK support the UK’s global commitments, in the same way that policies in other countries support those countries’ commitments. As such, businesses have a clear role to play, here, and abroad in helping make sure that the policy instruments and underlying legislation and regulation ensure the policy objectives are achieved.
- Businesses want to see consistent, long term environmental policy which is clear and stable and can be used as a basis for planning longer term investment decisions.
- Businesses are keen for government departments, bodies and agencies to work more effectively together to achieve environmental objectives. It is important to business that policy determination, the identification of the correct economic instruments to achieve that policy, and the lining up of government department actions behind that policy all occurs in a co-ordinated fashion.
- Businesses want to see more incentives to support investment in environmentally beneficial activities, processes and technologies. They want government to send a clear long term signal to business that supports investment in clean technology and want to see financing made available in the short term for green technology solutions.
- Businesses want to see emissions targets at a national level that incentivises low carbon behaviours and policies.
- Businesses have indicated that they want to see monies raised from environmental taxes and regulation being directed towards green / environmental projects and initiatives. Whilst it may not be practical for all green revenues to be hypothecated, particularly if they increase significantly in the coming years, a far higher degree of transparency around environmental projects which are directly funded through revenues from environmental taxes and regulation would help to build public confidence that at least some of these monies raised are being reinvested into projects that benefit the environment.
- Businesses want to see environmental regulation that promotes healthy competition and creates a level playing field, both nationally and internationally.

The UK has an opportunity to take a real lead in this emerging sector, but there is strong competition emerging in Europe and North America and early learning and skills development will be crucial. The key question now will be around how the new UK government’s agenda will respond to these needs and whether current proposed actions will be sufficient to sustain momentum and to achieve the very challenging environmental targets for 2030 and 2050, and this at a time when economic recovery is the priority.