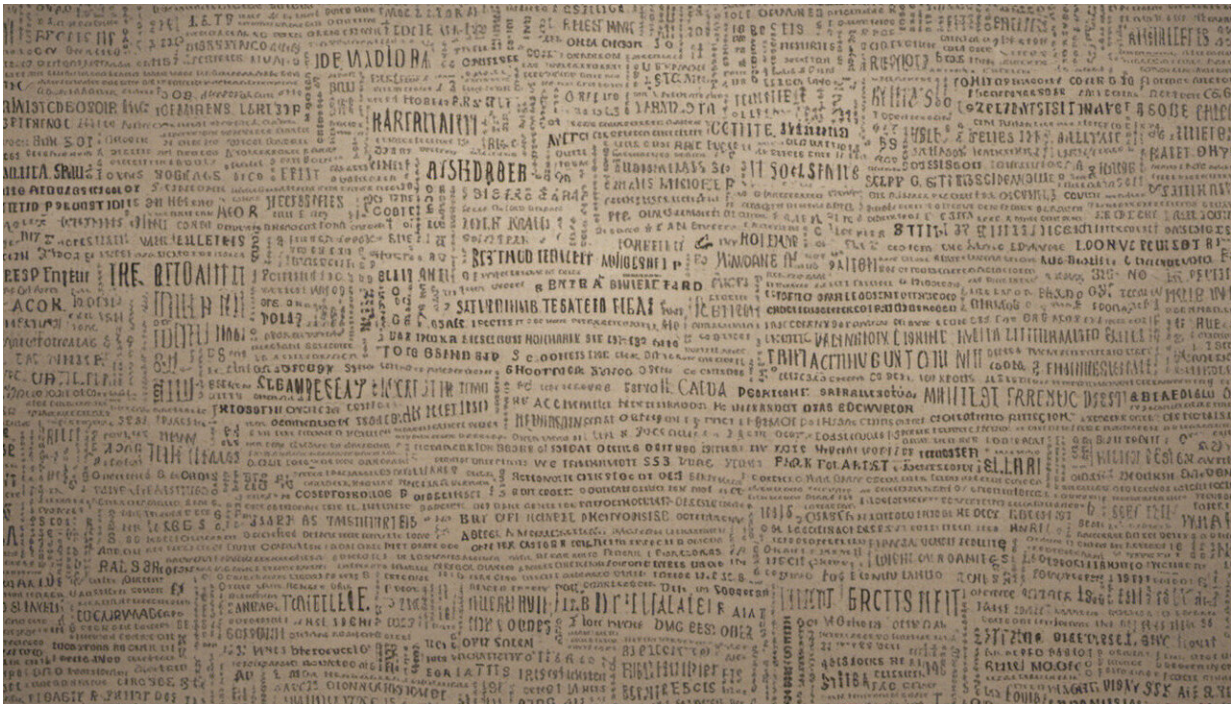


How Brexit could benefit the UK's climate change policies

December 7 2018, by Andreas Goldthau And David Waltham



Credit: AI-generated image ([disclaimer](#))

With the UK leaving the European Union and eyeing new trade opportunities beyond the EU, it should also be looking for ways to take forward its [policies for reducing greenhouse gas emissions](#). One of the few advantages of Brexit might lie in being able to design policies that haven't gone down the long and winding road of Brussels' consensus

building.

Since the beginning of industrialisation, humanity has released [1.5 trillion tonnes of carbon dioxide](#) into the atmosphere and, as a consequence, [global temperatures have risen by 1°C](#). As the recent [IPCC special report](#) reminds us, we must pump out less than another 770 Gigatons to keep the total rise below 1.5°C.

This is not going to be easy. The [currently stated ambitions](#) of the world's nations would actually increase outputs from their current total of just over 40 Gigaton a year to around [55 Gigaton by 2030](#). At 50 Gigaton a year we blow the 770 Gt budget in just 15 years. So, more must be done, and it must be done immediately.

To tax or trade?

A [carbon](#) tax is arguably the most effective way of addressing the emissions problem as it provide a simple framework that everyone understands as well as the regulatory stability that allows businesses to plan ahead. Carbon taxes send a clear price signal and incentivise households and industry to change their behaviour.

Taxes are also superior to top-down regulation such as sector-specific reduction targets or even [emissions trading](#). A [carbon tax](#) factors in the cost of CO₂ emissions to production, thereby forcing industry to account for it and reduce emissions. It is "technology-blind", meaning a carbon tax does not pick a winner in the market and instead leaves it to industry to develop more sustainable production.

In practice, however, carbon taxes haven't been very popular. Political leaders worry about support for anything called a tax and shy away from it. The recent [fuel protests in France](#) are a testimony to that fear. By increasing the cost of energy, taxes also risk increasing fuel poverty. In

short, squaring the circle between climate goals and distributional equity is a matter of [energy justice](#).

The EU instead opted for an [emissions trading](#) system, the [ETS](#), and other countries, including China, have adopted [similar schemes](#). The ETS puts a cap on emissions, forcing polluters to buy carbon permits if they emit more than they can under their allocated quota.



Credit: AI-generated image ([disclaimer](#))

Permits are tradeable, thus creating a price signal for carbon. The problem with the EU's ETS is that, until very recently, it has delivered prices around €5 per ton or less – a far cry from the €45 or more that would be needed for it to be compliant with targets set in the [2015 Paris agreement](#). The ETS also only covers a few industries, such as electricity

generation, that, together, produce [only 45% of the EU's total emissions](#).

Power to the people

So how can the UK enhance its climate leadership and keep citizens and businesses on board? A place for inspiration is Canada, the first nation to implement a [carbon-fee and dividend scheme](#).

Their main idea was to tax carbon emissions and ensure money taken in taxes is given to the public in the form of a dividend paid to households. There is much to celebrate in such a scheme. The initial tax level might be something like £25 per tonne of carbon dioxide and, in the UK, we each produce about [six tonnes per year](#). A rough back-of-the-envelope calculation suggests the tax could generate £150 per person per year.

A recent study estimates that the majority of households will come out rather well on a net basis, [getting more back in carbon dividends](#) than they would pay in carbon taxes, should the government roll out the scheme nationwide as planned.

As [research](#) has shown, redistributing carbon revenues not only helps social equality, it also improves the acceptance of such taxes among taxpayers. It therefore makes it very hard for a future government to reverse the policy if people become attached to payments from the state. Just think how hard it would be for any government to repeal the UK's [winter fuel allowance](#) for over 65s.

An effective and socially acceptable carbon fee, in turn, fosters economic competitiveness. The Nordic countries, which pioneered [carbon taxes](#), have become [leaders in clean technology](#). Denmark has some of the world's [lowest unit energy costs](#) thanks to drastically reduced energy use in their economic output. This, among other reasons, effectively shields the country's industry from energy price shocks.

The UK, in many respects already a climate frontrunner thanks to its [carbon floor price](#), stands to learn from the Canadian experience as its post-Brexit low carbon policies take shape. In Europe, the UK is the second-largest polluter, behind only Germany in [overall greenhouse gas emissions](#).

The UK can exert true leadership by designing progressive policies that benefit both people and the climate. If they work, this might set a model across the continent – whether from within or outside the EU.

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