

DEPARTMENT FOR BUSINESS
ENTERPRISE & REGULATORY REFORM

**STERN - INITIAL COMMENTS FROM
THE RETAIL SECTOR**

UK Government response

AUGUST 2007

UK Government response to:

‘Stern – Initial comments from the Retail Sector’

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Background

Sir Nicholas Stern, Head of the Government Economic Service and Adviser to the Government on the economics of climate change and development, was invited to report to the Prime Minister and Chancellor of the Exchequer on the Economics of Climate Change. His report was published on 30 October 2006. It inspired a retail sector working group – drawn from the Retail Policy Forum, Virtual Retail Policy Forum and Retail Environmental Sustainability Expert Group – to write a paper Stern – Initial comments from the Retail Sector which they presented to Government officials at a meeting of the Retail Policy Forum on 1 February 2007. They made clear it was intended to be a starting-point for dialogue with Government, not a final position paper.

After a constructive discussion that clarified and progressed many of the issues, the Government side offered to make a written response reflecting those discussions and responding to the recommendations made in the retailers' paper.

The following response focuses on the role and responsibilities of the UK Government and does not therefore deal fully with devolved matters in Scotland, Wales and Northern Ireland.

Executive Summary

- The Government's policy framework for turning the UK into a productive and successful low carbon economy is set out in the Energy and Environment Policy Review.
- Various bodies – the Office of Climate Change, the Sustainable Development Commission, the proposed Committee on Climate Change – have broad but complementary co-ordinating, cross-government roles.
- Leadership is linked to communication. Government and the retail sector have distinct, complementary roles but retailers also need to work with each other. A key aspect is education of the consumer. Some national strategic plans have been published. In some cases, details have yet to be fleshed out though plans are well in hand to do this shortly. In other cases, consultation has recently taken place or is about to take place. Work is currently under way to simplify/reduce barriers and tackle policy anomalies, and Government welcomes retailers' help in this process.
- Lack of reliable data has been a significant barrier to progress. This is being addressed via several recently announced initiatives.
- Planning and construction policies/guidance are being updated to encourage energy efficiency and sustainable development.
- Taxation has a role to play alongside other governmental measures as part of a strategic approach to discourage some activities and encourage others. Several Government-funded programmes are working closely with retailers to encourage innovation and good practice, and to provide support and advice.
- On the international front, we support the retailers' call for concerted action and are taking a leading role within the EU, G8 and UN but it is important to get the pace right to avoid placing British business at a competitive disadvantage.
- At home, the Government has made considerable progress in curbing its own greenhouse gas emissions but acknowledges there is still much to do and has set out plans to raise its performance.

THE GOVERNMENT RESPONSE

Overview

1. The Government welcomes the retailer initiative to take forward the recommendations of the Stern Review on the economics of climate change and to seek practical ways of working with Government to reduce the impact of climate change.
2. We also welcome retailers' recognition of the importance of effective joined-up working, both within Government and within the retail community, as well as between the two.
3. Government Departments have been increasingly working together to deliver a joined-up and consistent message on environmental protection and energy usage and to promote a clearly focused and sustainable approach to business retail activity.
4. In the Policy Review Building on progress: Energy and environment¹, published in June 2007, we set out our vision for the UK to become secure as a productive and successful low carbon economy in a world on the path to sustainable development. To guide the UK towards that vision, the Government has now put in place a policy framework. Key elements are:
 - Promoting competitive energy markets;
 - Working towards a robust post-2012 international framework, in the context of an EU goal to limit climate change to no more than 2°C above pre-industrial levels;
 - Putting a price on carbon that reflects its damage costs, and which encourages the shift to a low carbon economy;
 - Driving the transition to new technologies through standards, incentives and support for basic research and development;
 - Removing the barriers to change in behaviours, choice and investment; and
 - Ensuring that the UK and others are able to adapt to the impacts of climate change.
5. The Office of Climate Change (OCC), which was formally set up in autumn 2006, has the broad role of working across Government as a shared resource between departments for analysis and development of climate change policy and strategy. It provides Departments with advice on analysis and with policy options for them to consider. Ministers have asked the OCC to:

¹ www.cabinetoffice.gov.uk/policy_review/documents/bop_energy_environment.pdf

- Consolidate existing analysis to facilitate a cross-government audit on progress to date;
 - Advise on improvements to the high-level management and reporting of progress;
 - Tackle certain policy-focused projects on cross-government issues; and
 - Promote understanding of climate change across Government and support Departments in adapting their policies.
6. Joined-up working on sustainable development has become a high priority; so the Sustainable Development Commission (SDC), an independent watchdog, is now appraising both cross-government and individual Departments' progress. The SDC reports to the Prime Minister, the First Ministers of Scotland and Wales and the First and deputy First Ministers in Northern Ireland. It aims to ensure a consistent approach to sustainable development stays at the core of Government policy. (See also the SDC's website: www.sd-commission.org.uk/pages/watchdog.html)
7. As some change in the climate is now inevitable, the UK will need to adapt. By the end of this year the Government will publish its proposals for taking action in a Framework for Adaptation that will also set out what can be expected from Government, and what Government expects from other stakeholders².
8. On the broader agenda of tackling future climate change, a proposed new statutory body, the Committee on Climate Change, will provide independent expert advice and guidance to Government on achieving its targets. While not strictly a 'cross-departmental team' its remit will cover all Departments and it will provide an independent progress report to which the Government must respond. This will ensure the Government is held to account every year on its progress towards each five-year carbon budget and the 2020 and 2050 targets.

² Northern Ireland published a report into adaptation in January 2007 – www.doeni.gov.uk/climate_change_-_impacts_adaptation.htm

Leadership and communication

9. We agree that strong leadership is essential to achieving the required degree and speed of progress but we do not agree with the suggestion that this should be solely a role for Government. Government can, and should, provide a credible, consistent overarching framework for achieving high-level outcomes. It should harness the power of competitive markets to innovate and deliver those outcomes in the most efficient way, while recognising that appropriate interventions, such as voluntary, regulatory and fiscal instruments, may at times be needed to remove obstacles or encourage change.
10. Government also has a responsibility to call upon retailers to work towards some of those high-level outcomes, eg: by reducing waste, but it would be neither appropriate nor realistic for Government to spell out in detail to retailers how to achieve those outcomes. On the other hand, it is perfectly acceptable for us to encourage retailers to set themselves challenging targets, eg: the agreement to cut the environmental impact of carrier bags by 25% over 22 months to the end of 2008 (see paragraphs 18 and 19) and the consumer electronics initiative, which invites retailers voluntarily to stock only products that meet certain energy efficiency standards (see paragraph 35).
11. We have been pleased to see that several major retailers have recently demonstrated strong leadership on sustainable development and related corporate social responsibility issues, providing an inspiration not just to other retailers but to business in its broadest sense. This is a trend we strongly encourage. However, in order to achieve the optimum outcome for the country – and indeed the world, given the increasingly international nature of retailing – the sector's approaches and initiatives need to complement one another. Hence, despite the highly competitive nature of retail businesses, it will be vital to establish good communications between major retailers (and also to involve the groups and associations representing smaller retailers).
12. At the Retail Policy Forum meeting on 1 February, 2007, the retailers present recognised the need for collaboration with each other – authorised at CEO level – to tackle sustainable development issues, which far outweigh local competitive rivalries. It is important to realise how much more can be achieved if competing retailers pool resources, knowledge and even technology. A common approach, especially to expensive new technologies, should help ensure that investment is soundly based and stands the best chance of achieving the expected returns. One such initiative already producing results is

the Retail Energy Forum, where energy specialists from 14 major retailers work together, sharing ideas and good practice.

13. Though there doesn't need to be a 'one size fits all' approach, the sum of the whole can far exceed the individual parts working alone. For the retail sector, working collaboratively is particularly important for the very reason given in the retailers' own report: "Retail is almost unique in its ability to reach out to a very large number of people in their everyday lives to push the sustainability agenda and raise awareness of the issues." If the messages coming from the sector pull in different directions and are too diverse and confusing, then the message received by the general public will at best be diluted and at worst counter-productive to the whole sustainability movement.
14. Through The Climate Group³, Government is working with major retailers on a common approach to communicating, encouraging and enabling consumers to make low-carbon choices. Under the "We're in this together" campaign, launched in April, the then Prime Minister and leaders of several large corporations – including B&Q, Marks & Spencer, O2 and Tesco – announced how they will put their ambitions into action. This ties in with the cross-government "Act on CO₂" campaign: a multi-media campaign in England to increase CO₂ literacy and encourage individuals to take action to reduce their CO₂ footprint.
15. Government also has a strong track record of proactively stimulating innovation and enterprise and encouraging research into, for example, waste management and supply chain efficiencies; and we have shown our readiness to assist in publicising good practice, eg: the Courtauld One Year On event on waste. Another example is the work the Energy Saving Trust (funded partly by Defra, BERR, DfT and the Scottish Executive) is doing with retailers through its Energy Saving Recommended Scheme⁴ to promote the benefits of energy efficient appliances to customers. It offers tailored marketing support to assist labelling and promotion of energy-saving recommended products; comprehensive staff training material about energy efficiency; and, as an extra benefit to independents, a range of merchandise and point-of-sale material.
16. Both Government and business have a role in communicating the benefits of sustainability. Our messages must be consistent and clearly understandable but not overly simplistic, so as not to mislead. The messages from retailers need to be as practical and non-technical

³ See http://theclimategroup.org/index.php/about_us/

⁴

www.energysavingtrust.org.uk/energy_saving_products/benefits_of_being_an_energy_saving_recommended_retailer

as possible so the consumer can relate to them. The Green Claims Code⁵, first launched in 1998 following wide consultation with business, consumer and environmental organisations, provides guidance on how to communicate the environmental credentials of products accurately and clearly. Since then Defra has produced a range of guidance⁶ about best practice to help companies to publicise their green credentials.

17. However, despite working closely with retailers and their representative bodies, we appreciate the point made in the retailers' paper that our expectations of the sector have needed clarifying. Some of those expectations were published in far-sighted national strategic plans such as the 2006 UK Climate Change Programme⁷, the Climate Change Strategic Framework⁸ and the Food Industry Sustainability Strategy (FISS)⁹. More recently we have published the Energy White Paper Meeting the Energy Challenge¹⁰ and the Government Policy Review Building on progress: Energy and environment¹¹, and we have consulted on a draft Climate Change Bill¹² that sets a clear CO₂ emissions reduction path to 2020 and beyond through a series of five-year carbon budgets. This would make the UK the first country in the world to create both a long-term CO₂ emissions target and a system to deliver it into national law.
18. The Government's Waste Strategies also have a number of important measures relevant to retailers. The Waste Strategy for England 2007¹³, published in May 2007, includes plans to extend the Courtauld Commitment¹⁴ (eg: to include non-food retailers and more food manufacturers) which targets food and packaging waste; to encourage the use of anaerobic digestion by businesses and local authorities (including co-operation between the two) and to work with retailers on phasing out the use of free disposable carrier bags. The Northern Ireland Waste Strategy 2006-2020¹⁵ was published in March 2006 and contains regional targets as well as many elements also found in The Waste Strategy for England 2007.
19. The long-term vision in the Waste Strategy for England is that single-use carrier bags given away at point-of-sale will become a thing of

⁵ www.defra.gov.uk/environment/consumerprod/gcc/index.htm

⁶ www.defra.gov.uk/environment/consumerprod/glc/pdf/pitching-green.pdf

⁷ www.defra.gov.uk/environment/climatechange/uk/ukccp/pdf/ukccp06-all.pdf

⁸ www.defra.gov.uk/environment/climatechange/uk/legislation/pdf/CCBill-Strategy.pdf

⁹ www.defra.gov.uk/farm/policy/sustain/fiss/pdf/fiss2006.pdf

¹⁰ www.berr.gov.uk/files/file39387.pdf

¹¹ www.cabinetoffice.gov.uk/policy_review/documents/bop_energy_environment.pdf

¹² www.defra.gov.uk/corporate/consult/climatechange-bill/index.htm

¹³ www.defra.gov.uk/environment/waste/strategy/strategy07/pdf/waste07-strategy.pdf

¹⁴ www.wrap.org.uk/retail/retail_innovation/courtauld_commitment/

¹⁵ www.ehsni.gov.uk/waste/strategyni.htm

the past. The significance of this would not merely be the saving in waste – plastic bags account for a relatively small proportion of the waste stream – but it would represent a major step in tackling our national ‘throwaway’ culture, exemplified by the nearly 300 bags on average that a UK adult receives each year.

20. Some retailers are taking very positive steps to enable their customers to recycle more of their household waste and have been investing in front-of-store recycling facilities. Many are also taking parallel action to reduce their own waste and to increase the proportion being recycled. Indeed, some retailers are now planning to move away from landfill altogether.
21. We agree with the retailers’ call for any short-term activity to fit well with long-term strategies. The proposed Carbon Reduction Commitment¹⁶, with an initial target stretching to 2020, is another good example. Its timescale has been highlighted by (among others) the Institutional Investors Group on Climate Change as one of its strengths. This was also an initiative where the active engagement by retailers in the early design and development of the proposals (then known as the ‘Energy Performance Commitment’) was extremely helpful and identified possible overlaps in the way it may be applied. The Government welcomes the opportunity to continue to work with the retail sector on the design of such instruments.

¹⁶ www.defra.gov.uk/corporate/consult/carbon-reduc/consultation.pdf

Anomalies and barriers

22. Retailers say that anomalies and uncertainties exist in Government policies relating to sustainable development and they have called for a consultation paper on actions to address climate change by the retail sector to allow these issues to be publicly debated and ultimately resolved. We are keen to hear about particular barriers to improved sustainability – eg: in areas such as carbon pricing and technology innovation – so we can work with the sector to unlock them; and we would also welcome details about their relative priority from a retail perspective. If retailers identify to Government where the challenges are, we shall work with them to consider which solutions are the most practical, with the aim of achieving ‘quick wins’ wherever possible.

23. Our strategic approach to reducing emissions across the economy is set out in the Climate Change Programme. The Energy White Paper Meeting the Energy Challenge provides an improved framework that will help businesses, individuals and Government save energy and obtain cleaner energy. However, we recognise that, spread across a number of policy documents and publications, our approach to selecting which instruments are most appropriate may sometimes be unclear to business. We have therefore given a commitment¹⁷ that by the first quarter of 2008 we shall set out our strategic approach to selecting appropriate instruments to tackle emissions in different sectors and points in the supply chain, taking into account EU policy. The retail sector’s input to this work would be welcomed, as we recognise how important it is that the mix of instruments facing individual businesses is well understood, proportionate and keeps industry competitive. A clear strategic approach to emissions reductions will also support investment certainty and enable an informed and effective dialogue to take place between Government, business, NGOs and other organisations on their ongoing contribution to these reductions.

24. Currently we are undertaking a simplification review, focusing specifically on policy instruments aimed at industry and business. In particular, the review is looking at three major climate change instruments – the EU Emissions Trading Scheme, Climate Change Agreements and the Carbon Reduction Commitment – to identify areas of overlap in coverage and potential for simplification. The review will also make an initial assessment of any significant overlaps with the administrative requirements of other areas of environmental legislation such as Integrated Pollution Prevention and Control, the

¹⁷ In the Government’s response (published 24 May 2007) to the Better Regulation Commission’s Report Regulating to Mitigate Climate Change – A Response to the Stern Review www.brc.gov.uk/

Large Combustion Plants Directive, Combined Heat and Power (CHP) policy and the renewables and waste policies. Submissions and constructive criticisms raised by business are already being considered as part of the review, and Government will seek further input from the business community, including the retail sector, before reporting by the end of 2007.

Measurement and reliable comparators

25. Though there are several green labelling schemes in existence for consumer products¹⁸, a significant barrier to progress has been lack of reliable data and measuring systems to show where the potential for improvement is greatest and to measure what has been (or could be) achieved by different approaches and different organisations.
26. Government is keen to encourage businesses to measure, and report on, what they are doing to cut greenhouse gas emissions and reduce their carbon footprint. Last year, just 27% of FTSE 350 companies published quantified greenhouse gas emissions data. One reason for this low figure may be that up till now there has not been a single accepted method of reporting, so the Government is now providing funding to the Climate Standards Disclosure Board¹⁹ to develop an international framework for carbon reporting that will be generally accepted by businesses, NGOs and the investor community.
27. However, environmental management isn't just for FTSE 350 companies. Even quite small retailers can benefit from having a formal accredited environmental management system (eg: ISO 14001 and BS 8555). Such a system uses a step-by-step approach, can produce significant cost savings, benefits customer relations and, of course, contributes to the overall effort to combat climate change.
28. Recent trials with nearly 600 small businesses have shown that 'smart' electricity, gas and water meters – that record and transmit data – have proved very cost effective, particularly for those in retail, wholesale, manufacturing, and financial and business services. We shall therefore be consulting this year on a proposal to extend these sophisticated metering services within the next five years to all but the smallest business users; and we shall consider with interested parties what means of providing real-time information on energy usage might be appropriate for the smallest business users.
29. Another change in approach that Government particularly welcomes is the recognition by the retail sector of the need to look at the whole supply chain via life cycle thinking and determining the environmental (and social) impacts of individual products.
30. Defra's new products and materials unit intends to develop an evidence base on products and services with the most significant environmental impacts across their whole life cycle. We shall be using

¹⁸ For more details, see www.defra.gov.uk/environment/consumerprod/glc/index.htm

¹⁹ www.weforum.org/en/media/Latest%20Press%20Releases/LatestPressReleasesSearch/missions_press_release

this centre of expertise to work closely with retailers, manufacturers and producers to determine how best to improve the environmental performance of key priority products across their supply chain. For example, research is completed or underway on the life cycle impacts of some food products, of clothing, of fish and of some energy-using products. One principal EU source²⁰ shows that four product groupings consistently account for 70-80% of environmental impact, and 60% of consumer expenditure:

- Food and drink (20-30% of impacts)
- Passenger transport (15-35%)
- Housing – including buildings/construction, home energy use, heating and household goods, especially energy-using products (20-35%)
- Clothing (5-10%).

We are focusing our attention on these areas, and are already finding important issues for further investigation and possible intervention that previously were not as visible through a sectoral approach.

31. Building on this evidence, Roadmaps are being developed for ten products identified as having both a significant environmental impact and potential for improvement. These roadmaps will examine the current landscape, define a vision of where we want to be, and then chart a course to get there, through a range of interventions (in short, medium and long term) aimed at the parts of the life cycle with the most significant impacts. The process will be a collaborative one, enabling stakeholders to identify existing good practice and innovation, alongside current constraints, and then to explore ways of overcoming these constraints to bring forward products with a better environmental performance. The ten products are: clothes, fish and shellfish, milk, televisions, domestic lighting, cars, commercial motors, toilets, plasterboard and windows. We intend to publish an update in spring 2008.
32. Clearly, options already open to retailers themselves include choosing to supply products with a lower environmental impact ('choice editing') and improving the information available to their customers. An early example of this is the energy labels on household goods such as fridges and washing machines, which retailers have been using to purchase and promote the best products to their consumers.
33. Following on from a pilot the Carbon Trust began in March, Defra and the Carbon Trust announced on 30 May that they would co-sponsor the production of a standard methodology for measuring embedded greenhouse gases in products and services. This will be a Publicly

²⁰ Environmental Impact of Products (EIPRO): Analysis of the life cycle environmental impacts related to the final consumption of the EU-25. European Commission, 2006. http://ec.europa.eu/environment/ipp/pdf/eipro_report.pdf

Available Specification (PAS) produced by BSI British Standards. Such a single standard should provide a comparable approach across markets and will help businesses to measure the impact they are having on the environment and take steps to reduce it. The standard methodology could also form the basis for a clear and transparent way to label products and services for the consumer. The project will take account of existing work in this area and will have broad stakeholder consultation. The chair of the project's steering group, Jim Skea, emphasised that for the PAS to be credible and make a difference, the methods behind the numbers have to be robust: "Our job is to make sure that consumers and suppliers can place their trust in the information they are presented with."

34. Government will continue to catalyse action in these areas and help provide the evidence base and collaborative forums to ensure that future work builds on existing platforms, initiatives and standards, which are robust, auditable and provide good information for both consumers and those in the supply chain. This is also a key element of our food chain programme outlined in paragraph 58 below.
35. Through our Market Transformation Programme²¹, we are working with retailers and manufacturers on voluntary initiatives to phase out the least efficient products. For example, the Government will work with manufacturers and retailers to phase out inefficient light-bulbs by 2011, which could save up to 1.2MtC. Through the Retailers Initiative, which was announced in the 2006 Budget, we are helping the Energy Saving Trust and major retailers to develop voluntary schemes to encourage the purchase of energy efficient alternatives in consumer electronics, with the aim of significantly reducing carbon emissions from these products. Electricity used by UK household electrical appliances is estimated to have doubled in the 30 years to 2002, and is still growing. (We are currently consulting – until 17 August - on how performance standards of major consumer electronics products in the UK can be expected to improve in the next 13 years: www.mtprog.com/Whitepaper.aspx). To help retailers assess the energy efficiency of products they currently sell, the Market Transformation Programme has produced a calculator tool which enables them to test, easily, if individual consumer electronics or a range of products will meet the Government's indicative product standards.
36. It is likely that this approach of voluntary supply-chain commitments will be expanded to other products in due course. For example, we intend to increase our engagement with retailers – and also designers and manufacturers – to target standby consumption, set-top boxes

²¹ The Market Transformation Programme supports Government policy on sustainable products. More information is available at www.mtprog.com

and chargers. Initiatives such as these support our aim of influencing the business community to make and sell products that have fewer environmental impacts over their whole supply chain – including generating less waste through their life cycle, using less energy and water in manufacture and use, and meeting testing waste prevention and recycling targets. We recognise too that co-operation with overseas manufacturers will be critical to achieving long-term transformation of the market for such products. (See also paragraph 67)

37. The Environment Agency too has been working closely with the retail sector: together with the British Retail Consortium, it has been developing a Retail Sector Partnership Plan to tackle and measure the most significant environmental impacts from retailing. The Plan aims to reduce packaging and waste, have fewer pollution incidents on retail sites, and create greater resource efficiency through the supply chain – eg: the promotion of returnable transit packaging. The plan is due to be published this summer and, following consultation and publicity, it should be agreed by the end of 2007. It will measure progress through 'dashboard indicators' for businesses – issues that make sense to the company itself – and will identify milestones (eg: evidence of reaching practical goals) showing the steps to take towards higher business performance, both for an individual store and for the company. Also, progress across the whole retail sector will be assessed to show how specific issues are being tackled and to calculate the cumulative benefits from the sector.

Planning and construction policies

38. Planning has a pivotal role in influencing energy use and emissions, eg: through delivering growth where it can make good use of renewable/low-carbon energy and reducing the need to travel. It can also create an attractive environment for innovation and for the private sector to invest in renewable and low-carbon technologies and can help future-proof the location and design of new development against, for example, flooding.
39. The Government is keen to ensure that measures to tackle climate change become an integral part of public planning policy. In March 2007 a consultation closed on Planning Policy Statement (PPS): Planning and Climate Change (Supplement to PPS1)²², which sets out how planning, in providing for the new homes, jobs and infrastructure needed by communities, should help shape places which have lower carbon emissions and are resilient to the climate change now accepted as inevitable. Responses are currently being considered and the Government aims to publish the final PPS later in 2007.
40. The draft PPS sets out a clear and challenging role for regional and local spatial strategies to help shape the framework for energy supply in their area. At the local level, substantial new developments will be expected to generate a "significant" proportion of their energy supply on-site from renewable sources and/or from a decentralised, renewable or low-carbon energy supply. "Significant" means that it should reflect the full potential of local opportunities but without undermining the new development needed by communities. In the interim period before local plans are adopted, it is proposed that planning authorities should require a standard of 10 per cent.
41. Other Planning Policy Statements/Guides²³ already in operation favour reduced energy use (PPS1), renewable energy (PPS1 & PPS22), reduced need to travel (PPG4, PPS6 & PPG13), facilitating multi-purpose journeys and use of public/alternative transport (PPS6), protection of natural resources (PPS7), sustainable waste management (PPS10) and reduced greenhouse gas emissions (PPS1, PPS12 & PPS23). We shall soon consult on a new PPS on Planning for Economic Development to help the planning system become faster and more responsive to business needs in the context of sustainable development.

²² www.communities.gov.uk/index.asp?id=1508623

²³ Northern Ireland has different Planning Policy Statements so numbers in GB may not apply in NI and vice versa. More detail can be found at www.planningni.gov.uk/default.htm

42. In Northern Ireland the challenges posed by climate change are already being addressed in a number of Planning Policy Statements, in particular PPS 15 Planning and Flood Risk and the forthcoming PPS 18 on Renewable Energy. The forthcoming review of PPS 1 Planning for Sustainable Development will also provide a key opportunity to consider how climate change can be more fully dealt with by the planning process across the Region.
43. The White Paper Planning for a Sustainable Future²⁴ (May 2007) sets out how we intend to improve the planning regime to tackle climate change and support sustainable development. The proposals will:
- Ensure policy on infrastructure integrates our environmental, social and economic goals;
 - Ensure timely decisions on renewable energy projects such as wind farms;
 - Strengthen the way climate change and reducing emissions are taken into account in local planning decisions.
- They also reaffirm our commitment to protecting the greenbelt and putting town centres first.
44. As well as the sustainable development work on planning, the Government is working closely with the construction industry on the development of a new Sustainable Construction Strategy to promote a more sustainable built environment. The draft Strategy will go out to industry consultation in the near future.
45. It is vitally important that new commercial development addresses the challenges posed by climate change. Following on from the Code for Sustainable Homes, we believe more progress is now needed in the commercial sector. We understand that it may be technologically and economically possible for all new non-domestic buildings to achieve substantial reductions in carbon emissions over the next decade and for many to achieve zero carbon on non-process related emissions. Buildings outside of dense urban areas and those with low appliance energy requirements, such as warehouses, distribution centres and some retail outlets, should be able to be built to a zero carbon specification more easily. Other building types may take longer to get there.
46. In Northern Ireland, the Department of Culture, Arts and Leisure published a policy in June 2006 on Architecture and the Built Environment (A+BE).²⁵ By investing resources in good design the A+BE policy aims to create "an attractive, healthy, safe and sustainable built environment which functions efficiently and enriches

²⁴ www.communities.gov.uk/index.asp?id=1510503

²⁵ www.dcalni.gov.uk/index/architecture.htm

the experience of living for everyone in Northern Ireland.” As with all development, whether it involves new construction or work to existing buildings, the retail sector can help Government achieve a wide range of policy objectives as well as targets for sustainable development and emissions reductions.

47. We are working closely with industry, including retail representation, through CLG’s Sustainability of New Non-domestic Buildings task group to learn the lessons from existing exemplars that individual organisations have built, so we can fully understand the costs involved and the barriers to progress. We shall use this knowledge to set in place a clear timetable and action plan to deliver substantial reductions in carbon emissions from new commercial buildings within the next 10 years.
48. Developments in transport, such as the Sustainable Travel Towns Initiative²⁶, are being funded by Government to demonstrate effective, sustainable ways for towns to alter their transport demands. We are also supporting local authority transport plans that aim to integrate transport planning with the planning of land use and other services.

²⁶ www.dft.gov.uk/pgr/sustainable/demonstrationtowns/lettersustainabletraveltowns

Taxation

49. The Government set out detail how environmental policy should be developed in its 2002 publication, *Tax and the Environment*. In the 2005 Pre-Budget Report, the Government reiterated the principles that underpin the decision as to whether government intervention is needed and, if so, what the action should be:
- the decision to take action must be evidence-based;
 - any intervention to tackle environmental challenges must take place at the appropriate level;
 - action to protect the environment must take account of wider economic and social objectives;
 - action on the environment must be part of a long-term strategy;
 - the right instrument must be chosen to meet each particular objective; and
 - where tax is used, it will aim to shift the burden of tax from 'goods' to 'bads' (see paragraph 52).
50. Within this framework it is essential that the Government uses the most effective instrument to achieve its aims. For instance, regulation or voluntary agreements can be effective where there are a limited number of polluters, or where market failures make product standards for energy or water efficiency the most cost-effective instrument of behavioural change. Spending measures might have a role to play where the polluter cannot afford to reduce the pollution or where the equity or distributional issues make tax or similar measures unacceptable. Fiscal measures can tackle negative externalities by internalising environmental costs into prices and encourage the behavioural changes needed to move to a more sustainable economy.
51. Overall, it is crucial that environmental policy is the outcome of balanced decision making. All intervention by the Government to meet environmental aims must also take account of the impact of any action on our wider economic and social objectives, including macroeconomic stability, business competitiveness, social inclusion and reducing fuel poverty. Within this principled framework for decision-making, the Government has taken significant steps to tackle environmental challenges since 1997, using both fiscal and non-fiscal instruments.
52. Hypothecation can be acceptable in some circumstances to reinforce the effectiveness of a tax measure. However, this approach needs to be balanced against the need to achieve best value for money and the optimum means of raising revenue from across the economy to fund public services. In general, flexibility over where resources are spent is likely to lead to a more efficient allocation of resources. Over time,

the Government is committed to shifting burden of taxation away from economic 'goods' like employment towards economic 'bads' such as pollution. For example, we have already introduced the Climate Change Levy (CCL) with a 0.3 percentage point cut to employers' national insurance contributions (NICs) and the Aggregates Levy with a 0.1 percentage point reduction in employers' NICs, and we are recycling the revenue from the significant rises to the Landfill Tax. It is estimated that by 2010 the CCL will have reduced energy demand in the commercial and public sector by around 15% compared with a situation where the levy was not in place.

53. On the specific point about the carbon footprint of energy not being passed on as an additional line on the energy bill, the proposed design of the Carbon Reduction Commitment (CRC) has already taken this on board. It is designed as a trading mechanism that creates both financial and reputational drivers to engage organisations at a high level: financial, through purchase of tradable allowances and reputational, through publication of a league table that ranks participants on their performance. The Government is now consulting further on more detailed proposals for the CRC including options for auctioning, performance measurement and recycling of auction revenues²⁷.
54. Retailers suggested that tax / VAT relief on the 'green' products they sell would provide an incentive to develop and promote energy-efficient products to their customers. Although it is not currently possible to reduce the rate of VAT on efficient products without the agreement of all 27 EU Member States, the Chancellor (now Prime Minister) has written to the EU Commission and all EU Finance Ministers to encourage their agreement to a reduced rate of VAT for efficient lighting.
55. The British Retail Consortium (BRC) recently called for the Government to consider a building's energy efficiency when assessing its rateable value, and to allow relief for the most energy efficient. This idea was already being investigated as part of the preparatory work for the CRC: Defra commissioned NERA to consider a range of policy options, including differentiation of business rates. In its report²⁸, published alongside the Energy White Paper, it found that business rates relief is unlikely to have a significant effect on incentivising energy efficiency but nevertheless it might allow local authorities to experiment so as to get "a better understanding of how to influence the energy use and building choices of different organisations – particularly with the advent of building ratings" under

²⁷ www.defra.gov.uk/corporate/consult/carbon-reduc/consultation.pdf

²⁸ www.defra.gov.uk/environment/climatechange/uk/business/crc/pdf/nera-report.pdf

the Energy Performance of Buildings Directive (EPBD). Legislation for the EPBD scheme for inspection of public sector buildings when they are constructed, sold or rented out came into force only in April this year, with the effective dates for certification (and display of certificates) not until 2008, so we have yet to assess its operational effectiveness²⁹. Later this year we shall consult on the requirement to display Energy Performance Certificates in business premises in England and Wales and we very much welcome the BRC's own voluntary scheme for displaying energy consumption data, mimicking the legal duties imposed on the public sector.

56. As well as retailers procuring energy efficient buildings, we wish to encourage them to make use of the buildings effectively and efficiently. This was a factor taken into account by NERA, who pointed out that for many sectors "standard building characteristics may be less important than the use of energy by equipment that is not part of the building fabric (eg: refrigeration in supermarkets)."

²⁹ Northern Ireland current implementation dates: new build January 2008; sales June 2008; rental and public sectors January 2009.

Other Government roles

57. The Sustainable Development Commission is now in the process of carrying out a Supermarkets Review, due to report this autumn, looking at Government policies over the past 10 years to see whether they have helped or hindered the supermarket sector to deliver a sustainable food system across the whole supply chain (ie: including such issues as transport and energy use of buildings). It will make recommendations on what the Government can do to improve that process. These recommendations are likely to be broad-ranging, covering voluntary, regulatory and fiscal measures.
58. Defra has initiated a Food Chain Programme, with an overall objective to reduce the global impacts of UK food consumption and production, principally through reducing the impacts of retail operations in the supply chain, reducing the impacts of food production and manufacturing, and influencing consumer behaviour to reduce the impacts of food consumption. Partnership with stakeholders in retail and other parts of the food sector, including NGOs where appropriate, will be crucial to reaching this objective, and the Government will involve retail stakeholders as the programme develops.
59. WRAP³⁰ (the Waste and Resources Action Programme) – a not-for-profit company backed by funding from Defra and the devolved administrations in Scotland, Wales and Northern Ireland – has for some time been working with retailers on a broad spectrum of waste-related projects; for example, to increase the recycled content of packaging, to trial battery collection points in preparation for implementation of the Batteries Directive, and to develop a materials ‘decision support tool’ that will provide retailers with guidance on when and where to use different packaging materials, especially plastics.
60. Envirowise³¹ offers practical tailored advice and information, including case studies, to help retailers minimise waste and energy costs. As the main Government programme providing advice on improving resource efficiency to industry and commerce, it can assist retailers to set up partnerships with key suppliers to improve business efficiency through reducing waste and making the most of cost savings.
61. The Department of Trade, Enterprise and Investment (DETI), Invest NI and the Carbon Trust work closely to assist independent retailers in Northern Ireland. Carbon Trust Northern Ireland undertook a strategic benchmarking exercise with members of the Northern

³⁰ www.wrap.org.uk/

³¹ www.defra.gov.uk/environment/business/envirowise/index.htm

Ireland Independent Retail Trade Association³² and identified annual savings in excess of £4m and 20kt CO₂ could be achieved through improved energy management, technology interventions and maximising retrofit opportunities.

³² The Northern Ireland Independent Retail Trade Association has over 900 members representing retail space significantly in excess of 120,000 square metres.

Skills

62. We note the call for further input into environmentally related education, training and skills development and would be interested to see the evidence of serious skills gaps and what the barriers are to closing them.
63. Anecdotal evidence from Envirowise has already suggested that the level of environmental awareness within the retail workforce could be limiting the success of recycling schemes and so Skillsmart Retail (the employer-led Sector Skills Council for the retail sector), Basingstoke College of Technology and the Resource Efficiency Knowledge Transfer Network (funded by DIUS) have begun preliminary work on developing a basic level environmental skills programme that can be incorporated into general retail training programmes. It seems unlikely at this stage that public funds could be allocated to pay for the specific training needs of larger organisations.

International co-operation

64. Since the retailers' paper was written, the Government has published its international strategy for combatting climate change in the Energy White Paper Meeting the energy challenge³³; further information about recent progress at an international level was reported in our response to the Better Regulation Commission's report Regulating to mitigate climate change: a response to the Stern review³⁴ and in the Government Policy Review Building on progress: Energy and environment³⁵. The EU's objective is to limit global warming to no more than 2°C.
65. We support the retailers' call for concerted international action to tackle climate change. The UK will continue to press for action through the EU, the G8 and the UN – recognising that only collective action can ultimately solve this unique global challenge: if countries are to invest in becoming low-carbon economies, they will need to know their actions will be reciprocated by others. The risk if we move too far and too fast is that we place British businesses at a competitive disadvantage, or threaten the security and reliability of our energy supplies. However, early UK action would not only gain us the opportunity to become leaders in the emerging markets created by environmental industries but would diversify our energy sources and avoid locking us into the kind of long-term high-carbon infrastructure investments that would increase the costs of moving to a low-carbon economy.
66. Bringing environmental benefits of mature and innovative technologies to new and emerging markets around the world is a key priority for UK Trade and Investment (UKTI). Showcasing British expertise in these fields helps to spread good practice in sustainable business development for the wider benefit of local communities as well as helping to support the UK economy. We have also been working to prevent trade barriers being established in the name of the environment, which would impede sustainable development in developing countries and lessen competitiveness in Europe.
67. We shall seek to improve consumer product information through updating and broadening the Energy Labelling Framework Directive; and under the EU's Energy Efficiency Action Plan³⁶ there would be

³³ Chapter 1 "Energy and climate security: a global challenge":

www.dti.gov.uk/files/file39565.pdf

³⁴ Annex A, paragraphs 7-11:

www.brc.gov.uk/upload/assets/www.brc.gov.uk/gov_response_ccregulation.pdf

³⁵ Chapters 7 and 8:

www.cabinetoffice.gov.uk/policy_review/documents/bop_energy_environment.pdf

³⁶

http://ec.europa.eu/energy/action_plan_energy_efficiency/doc/com_2006_0545_en.pdf

new minimum energy performance standards for 14 priority product groups, including consumer electronics, televisions and lighting. The UK will press for adoption and implementation of these standards and, where possible, we shall try to raise standards by voluntary actions, in advance of any EU regulations. In the future, coalitions with governments beyond Europe, such as Japan and China, could further enlarge the markets for new low-carbon products.

68. The draft Climate Change Bill³⁷ proposes that emission reductions purchased overseas may count towards the UK's targets (consistent with our international obligations). This should ensure that emission reductions can be achieved in the most cost-effective way and recognises the potential for investing in low-carbon technologies abroad as well as within the UK to reduce the UK's overall carbon footprint. Indeed, one of the roles of the proposed Committee on Climate Change (see paragraph 8) will be to advise the Government on the optimum balance between domestic action and international trading in carbon allowances. When giving its advice, it will take into account environmental, technological, economic, fiscal, social and international factors, as well as energy policy.
69. Our aim is to agree the building blocks for an international framework by the end of 2007, leading to detailed negotiations in 2008 and agreement on the framework itself by 2009. This would provide time for countries to ratify the agreement and take the necessary steps to have it fully operational post-2012 (the end of the first commitment period of the Kyoto protocol). As the retailers' paper rightly says: "The next 2-5 years is the key period to develop carbon abatement policies and plans."

³⁷ www.defra.gov.uk/corporate/consult/climatechange-bill/index.htm

Curbing Government's own greenhouse gas emissions

70. In commenting on 'What Government and Retailers need to do together' the retail sector's paper's very first point was that each party should take a lead in curbing its own direct greenhouse gas emissions. Government recognises that it needs to act as a role model for change and has set itself challenging targets for Sustainable Operations on the Government Estate (SOGE). These targets are wide-ranging, including specific ones on carbon emissions from offices and vehicles, energy efficiency, waste, recycling and water consumption. Among SOGE targets are:
- Central Government's office estate to be carbon neutral by 2012;
 - 40% of waste to be recycled by 2010 (75% by 2020);
 - Waste arisings and water consumption each to be 25% lower by 2020 than in 2004-05.³⁸

Devolved Administrations have set similar targets.

71. The Sustainable Development Commission measures and reports on Government progress against these targets every year. Its latest report (2005-06) admits that overall performance is disappointing though "significant progress has been made in some areas." It called for more to be done in the field of waste management and to meet SOGE targets on energy and carbon emissions, and it particularly called for more Departments to adopt an environmental management system, concluding: "It is crucial that EMS is used as a tool to deliver the new outcome focused SOGE targets." This echoes the advice Government itself has been giving to the retail sector to improve their performance (see paragraph 27). Defra has helped set up a national network of regional EMS groups which aims to help public sector bodies, including Government Departments, make faster progress on implementing an EMS by sharing best practice and facilitating access to training opportunities, knowledge and implementation skills.

72. The SOGE targets are part of the UK Government Sustainable Procurement Action Plan³⁹, which also commits the Government to use £150 billion of public sector investment to drive the transformation of particular products. That investment should help provide large-scale demand for low-carbon products such as IT equipment, vehicles and lighting.

³⁸ For the full list of SOGE targets, see Sustainable Development in Government: Fifth Annual Report 2006 published by the Sustainable Development Commission: www.sd-commission.org.uk/publications/downloads/sdig_report_2006.pdf

³⁹ www.sustainable-development.gov.uk/publications/pdf/SustainableProcurementActionPlan.pdf

73. The National Audit Office (NAO) has recently reported⁴⁰ on the extent to which Departments and executive agencies are meeting targets to make their new buildings and major refurbishments more sustainable. It called for action to address fragmentation among Government bodies of the policy responsibility for improving sustainable construction and refurbishment on the Government estate, and for a new, coherent approach to monitoring progress and ensuring compliance. The NAO also identified widespread perception of a conflict between sustainability and value for money – partly because project teams were failing to assess the long-term costs and benefits of more sustainable approaches. It has now made a series of detailed recommendations which the Government will consider and respond to in due course.
74. Importantly, on carbon emissions, it is proposed that the Carbon Reduction Commitment be applied equally across large non-energy intensive organisations in the public and private sector. Therefore, the Government estate would be captured by the CRC, along with the retail sector.

⁴⁰ Building for the future: sustainable construction and refurbishment on the Government estate, April 2007: www.nao.org.uk/publications/nao_reports/06-07/0607324.pdf

Collaborative approach and future discussions

75. As we have already shown, the Government is keen for the business community to be fully involved in setting the direction for national strategies. In addition to those already mentioned, examples where this is happening include the six industry-led Food Industry Sustainability Strategy (FISS) champions groups – on corporate social responsibility, energy use and climate change, waste, water, food transportation, and ethical trading – and the Sustainable Consumption and Production Taskforce, a two-year business-led taskforce convened by BERR and Defra to provide policy guidance and to identify tools and skills and foster debate and learning to enable business to take forward sustainable consumption and production initiatives.
76. The Government also welcomes retailers' close involvement in, and support for, various national campaigns including WRAP's 'Recycle Now' campaign; and we are pleased with the retail sector's initial interest in the work that WRAP is piloting to improve consumer awareness of the problems created by food waste. The continued collaboration of retailers will be important for this work to succeed.
77. The Retail Environmental Sustainability Expert Group (RESEG), whose members come from retail businesses and key parties such as the SDC, Carbon Trust, Environment Agency, Envirowise and Government Departments, is a forum where the kinds of issues covered in this paper can be raised and developed. Originally set up to spread good practice and to encourage innovation and collaboration in the area of retail environmental sustainability, RESEG's remit has now expanded to encompass regulatory issues, on which it reports to the Retail Policy Forum (RPF). The RPF has members from across the retail sector and consults with Government and EU policy officials at an early stage in the development of regulations to improve their quality, identify alternatives and minimise regulatory burdens on the sector.
78. As well as the work done in RESEG and RPF, there will continue to be full consultation on any new sustainability and climate change measures by the sponsoring Government Department. Where appropriate, retailers and/or their representative bodies will be invited to help develop these initiatives to make them as practical and user-friendly as circumstances allow. We urge retailers to become engaged as early as possible in the consultation process so as to be in a good position to identify problems, suggest alternative solutions for achieving the public policy objectives and provide practical outcomes for the business community.

79. The Government has set stringent targets to tackle climate change. It is anxious to work closely with business, including the retail sector, to achieve those targets as effectively and painlessly as possible.