



HRH THE PRINCE OF WALES'S

BUSINESS & THE ENVIRONMENT PROGRAMME
DEVELOPED BY THE UNIVERSITY OF CAMBRIDGE PROGRAMME FOR INDUSTRY

Corporate Leaders Group on Climate Change

Dear Prime Minister,

As leaders of thirteen major UK based companies committed to tackling climate change, we are very pleased to respond to the challenge you made in your speech to mark the 10th Anniversary of HRH The Prince of Wales's Business and the Environment Programme. You asked that business take an active role in promoting further action on climate change given the leadership positions the UK holds internationally in 2005. In response, we have spent the last four months working together to develop the advice in this letter. We have done so because, like you, we are convinced that we need to take urgent and informed action now if we are to avoid the worst impacts of climate change. Enabling a low-carbon future should be a strategic business objective for our companies and UK plc as a whole.

We want to offer our help, both in terms of direct action by our companies, and through working in partnership with the Government in its efforts to make progress on climate change with UK businesses, the UK public and other governments and businesses internationally. We hope that the proposals and recommendations in this letter will be a useful input to the historic opportunity to work on climate change during the UK Presidencies of the G8 and EU, and will help underpin the leadership position that the UK currently holds on this vitally important issue.

1. Investing now to deliver a low carbon future by 2050

It is clear that the international community needs to stabilize global greenhouse gas emissions at levels that prevent dangerous climate change. We note the Royal Commission on Environmental Pollution's recommendation that in order to contribute to achieving this goal at the global level, the UK reduce its carbon dioxide emissions by 60% by 2050. We welcome the UK Government's commitment to a reduction of this order of magnitude. As business leaders, our concern is with how we can help bridge the gap between today's economy and the radically different low-carbon future that will be needed to deliver this target.

Shifting to a low-carbon future in the UK and internationally will require the adoption of a very broad range of technologies, many of which are at a very early stage of development. Developing and nurturing new technologies takes a long time. If we are to be where we need to be in 2050, serious investments need to be made today in the rapid development of low carbon transport and energy technologies. For example, research done by the World Business Council on Sustainable Development shows that, even if we start seriously developing the market for zero emissions cars now, total global emissions from cars will not start to fall until 2040.

The private sector faces real challenges, as well as real opportunities, if it is to deliver the level of investment needed to ensure that the world's economies continue to thrive in a low-carbon world, and that energy is available to meet the needs of all the world's people. This



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can only be achieved through close partnership between businesses and government. We are therefore keen to work with the Government to help set the UK on a path to a thriving, world-leading low-carbon future.

2. What business needs the Government to do

Our companies and many others have already made significant investments in low-carbon technologies, processes and products. But what we have done so far is not nearly sufficient given the size of the challenge facing us. We need to create a step-change in the development of low-carbon goods and services by rapidly scaling up our existing investments and starting to invest in new technologies. To achieve this, we need a strong policy framework that creates a long-term value for carbon emissions reductions and consistently supports and incentivises the development of new technologies. Without such policies, our companies are not able to justify to our boards or investors the necessary high up-front investment in low-carbon R&D, technologies and processes.

Existing UK climate policies have already had an important impact on our ability to invest in emissions reductions and we welcome the use that has been made of market-based policies such as the EU Emissions Trading Scheme and the Renewables Obligation. However we believe that both UK and EU policy must be developed further still if we are to achieve the shift to a low-carbon economy within the necessary timescales.

An effective policy framework for stimulating low-carbon investment should enable us both to scale up our investment in existing technologies and to accelerate development of new technologies from research opportunities into mature businesses. It should also continue to make clear and skilful use of market mechanisms wherever possible. This will ensure that it will be in the commercial interest of all companies to become engaged, not just those which are already committed to the goal of tackling climate change. In more detail, climate change policy needs to:

- A. Create greater certainty about the long-term value of emissions reductions by setting targets for emissions trading and other related policies beyond 2012. We believe that in order to ensure that the long-term investments that our companies make are consistent with a shift to a low-carbon economy, these policies should set targets now for the year 2025.
- B. Provide incentives and support over and above that provided by the emissions trading market for investment in the development and application of a very broad range of new low carbon technologies. In this area, we note the success of the Renewables Obligation in stimulating new investment and recommend that this policy is kept stable over the long term to maintain investor confidence and that similar but separate policies are used to support the development of a range of other technologies.



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- C. Eliminate the policy inconsistencies and perverse incentives that undermine the effectiveness of climate policy. There are numerous examples of policies that have had the effect of increasing energy demand for instance in land-use planning, in environmental quality, in the method for providing health and other public services, and in the introduction of new energy intensive information technologies. We would suggest that as a means of tackling the risk of perverse and inconsistent policy, Government assesses the impact on carbon emissions of all new legislation and regulation.
- D. Use government procurement policies to stimulate markets for new and existing low-carbon technologies, for example by developing emissions standards that could be used by government and also adopted voluntarily by the private sector.

3. Competitiveness and tackling climate change

While it is clear that tackling climate change will impose some upfront costs on businesses, governments and the public, we believe that with the right policy framework in place, these can be minimized and the UK's overall competitiveness need not be adversely affected. This view is supported by the economic analysis presented in the Third Assessment Report of the International Panel on Climate Change, which shows that:

- Estimated global impacts on GDP of pathways that ultimately stabilize CO₂ concentrations at 550ppm range from 0.2 to 2 percent in 2050 (i.e. an impact of less than one year's economic growth);
- The cost of reducing climate emissions can be substantially reduced by intelligent policy design;
- Delaying action is likely to significantly increase the costs of mitigation and be damaging economically.

Moreover, potentially the economic costs of adapting to unconstrained climate change could far outweigh the costs of mitigation – both for the UK economy and, more importantly, for the vulnerable economies in the developing world. Some of our companies are already experiencing the costs of adaptation both in the UK and abroad. We believe that these are only the beginning of what will be an increasingly commercially significant trend towards rising costs and risks being placed on the private sector as a result of accelerating climate change without appropriate frameworks to enable innovation and mitigation.

The International Energy Agency calculates that \$16 trillion dollars of energy infrastructure investment will be needed worldwide over the next 25 years to satisfy the world's growing energy needs. This could potentially spell disaster for the climate if we stay on our current business-as-usual path, or it can set the stage for enormous commercial opportunities for the UK if it is coupled with a shift to a low carbon economy. We believe that bold policy action to promote low-carbon investment will create long-term competitive advantages for the UK. Members of our group are directly involved in the development of international



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carbon markets, and believe that the value of these markets could be in the order of tens of billions of Euros. We believe that the UK should aim to be the global carbon marketplace of choice, and that creating a clear, long-term UK and EU policy framework will be the best way to ensure that we achieve this goal.

Some sectors will inevitably face more challenges than others in the transition to a low-carbon economy. We believe that this further emphasises the need for long-term visibility and certainty in the public policy arena. We also need to achieve a balance between consistency across borders and manageability. Although our initiative emanates from the UK, our members' operations are global. Our view, therefore, is that the appropriate theatre for this action must be the European Union, at least in the first instance.

4. Our offer: a partnership between business and the UK Government

At present, we believe that the private sector and governments are caught in a 'Catch 22' situation with regard to tackling climate change. Governments tend to feel limited in their ability to introduce new policies for reducing emissions because they fear business resistance, while companies are unable to take their investments in low carbon solutions to scale because of lack of long-term policies.

In order to help break this impasse, we are proposing to work in partnership with the Government in order to:

- Support the development of a world-leading climate change policy framework capable of enabling a step-change in private sector investment in low-carbon technology in the UK;
- Significantly increase support for action on climate change from UK businesses, the public and other governments and businesses internationally;
- Dramatically scale up investment in low-carbon technologies and processes by our companies and others in response to new policy.

In more detail, this work would involve the Corporate Leaders Group:

1. Supporting the Government in strengthening UK and EU climate policy, both by giving input on policy design and by publicising our support for new policy, with an initial focus on the UK climate change programme review and on strengthening Government procurement policy to stimulate innovation in low carbon technology;
2. Working in partnership with the Government in providing leadership on climate change as an issue – with the UK public, UK businesses and governments and businesses internationally. We think that immediate opportunities for doing this include
 - Working with the Government on the roll-out of the new climate change communications strategy;
 - Contributing to the development and implementation of any technology-focused initiatives that may emerge from the G8 Summit at Gleneagles;



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- Engaging in the upcoming bilateral and EU dialogues with China and India.
3. Increasing our investment in the development and application of low carbon technologies as new policies are introduced, and acting as champions for such investment by other UK companies.

In summary, we think that taking serious action to prevent dangerous climate change makes good business sense, and that the only way that the private sector can deliver the level of change needed is to work in partnership with government. We believe that the details of how our proposals could best work in practice will need to be worked out in consultation with you, and look forward to discussing ways forward when we meet.

Yours sincerely,

Sir John Bond, Group Chairman & Stephen Green, Group Chief Executive, HSBC

Neil Carson, Chief Executive, Johnson Matthey

Howard Carter, Chief Executive, F&C Asset Management

Mike Clasper, Chief Executive, BAA

Iain Conn, Executive Director, BP

Jonson Cox, Chief Executive, AWG

Mervyn Davies, Chief Executive, Standard Chartered Bank

Sir Stuart Hampson, Chairman, John Lewis Partnership

Rob Lloyd, President EMEA, Cisco Systems

Ian Russell, Chief Executive, Scottish Power

Hugh Scott-Barrett, Chief Operating Officer, ABN Amro

James Smith, UK Chairman, Shell

Trudy Norris-Grey, Managing Director UK & Ireland, Sun Microsystems