WWF for a living planet

WWF-UK Policy Position Statement on *the financial crisis and economic downturn*

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1. Purpose

This position statement sets out WWF-UK's views on relevant aspects of the financial crisis and economic downturn at both global and UK levels. It highlights the relationship between economic and environmental sustainability, and proposes specific policy measures to address the international agenda for global financial reform, and the UK political debate on reviving the economy from recession.

2. Summary of WWF-UK position

WWF-UK regards the global economic crisis as a critically important opportunity to begin building a future that is economically, socially and environmentally sustainable. There is widespread acceptance that the economic system is failing human wellbeing, and consequently there is a widespread appetite for change. The interdependence of economic and environmental problems offers an opportunity to solve them at the same time, with the same measures. The global economy is dependent on natural resources and a stable climate, and there are limits to the level of natural resource use that can be sustained, and the amount of pollution that can be absorbed. Any measures to address the current crisis will undermine long-term economic security unless they have environmental sustainability and equity at their heart.

International cooperation on financial reform and economic recovery is being pursued in a range of fora including the G20, G8 and United Nations. Meanwhile in the UK, the political debate is dominated by measures to boost an economy in recession. In this section we summarise our key policy recommendations for these two related agendas. While these measures offer solutions to the specific economic problems we face today, they are also the first steps we urgently need to take on the pathway to a sustainable future. WWF-UK believes a transformative change in the economic system is required to deliver our vision of a One Planet Future, where humans and nature live in harmony, thriving within their fair share of the Earth's natural resources. This vision is explained in more detail in section 6.

Key recommendations for the international agenda for reform and recovery

The following key recommendations are consistent with demands of the Put People First coalition of 140 NGOs[1] in the development, labour and environment sectors, of which WWF-UK is a member. These measures, and the reasoning behind them, are explained in more detail in section 4. They are targeted at the G20 countries which have both the responsibility and capacity to demonstrate leadership on reform and recovery measures.

Global financial regulation, capital accountability and green investments:

- Environmental sustainability must be one of the key principles guiding reform of the global financial system. Reforms must include regulations and incentives that promote low-carbon development and sustainable use of the world's natural resources.

[1] The Put People First coalition includes Action Aid, Amnesty International, Christian Aid, Progressio, Oxfam, Friends of the Earth, World Development Movement, TUC and WWF-UK.

- The financial services sector must be regulated to preclude credit creation mechanisms that enable excessive and reckless lending. Credit and risk rating must be independent and well informed, and sustainability criteria should be central to investment practice. Corporate governance and remuneration policies must support prudent risk management and prioritise the long-term interests of owners and other stakeholders.

- The new regulatory environment should stimulate green investments and ensure sustainable use of ecosystem services.

- A more balanced and properly diversified set of policies is required to incentivise pro-environmental behaviour, such as an effective fiscal framework to support equity and sustainable consumption, improved emissions trading schemes and mandatory emissions accounting.

Ensuring fiscal stimulus packages promote environmental sustainability:

- G20 countries should commit at least 0.8% of GDP per annum during the stimulus period to additional climate change measures, and ensure other stimulus measures 'do no harm' in terms of lock-in to high-carbon infrastructure.

Reform of international financial institutions:

- We need new, or substantially reformed, versions of the Bretton Woods institutions such as the World Bank and International Monetary Fund (IMF) and a stronger role for the UN in the management of the global economy.

Equity, capital flows and trade:

- The economic crisis must not be allowed to undermine the pledge by rich countries to provide 0.7% of gross national income as aid funding.

- A fresh approach to the global trading system is required that prioritises equity, includes regulations on labour and environmental standards, and builds economic relationships fit to deal with the triple financial, climate and food crises of the 21st century.

Financing the Global Deal on climate change:

- Cooperation between the G20 countries is essential for securing an effective international agreement on climate change at the UN conference in Copenhagen in December 2009. The economic crisis must not be used as an excuse to delay or weaken a new Global Deal on climate change.

Key recommendations for the UK government

WWF-UK makes the following general recommendations for UK government policy to boost the economy:

- Government intervention to protect jobs and shore up financial institutions and other industries should be attached to conditions that promote economic and environmental sustainability.

- Any fiscal measures to stimulate demand such as tax cuts should be matched by measures that promote sustainable consumption – for example green taxes and incentives, and choice editing to remove unsustainable products from the market.

In light of UK government plans for a fiscal stimulus, WWF-UK proposes the following capital investment and job creation measures:

- Energy efficiency in buildings: a major drive to retrofit existing residential and public buildings with insulation and other energy efficiency measures, and assurance that all new developments meet standards set out by the Code for Sustainable Homes.

- Sustainable transport: make existing transport systems more sustainable and effective rather than increasing capacity or building entirely new systems. Specific measures include: electrification of the railways; improving existing roads; funding for local sustainable transport initiatives; and a range of fiscal and regulatory measures to promote highly efficient vehicles.

- Investing in renewable and low-carbon energy: development of new renewable energy production capacity and transmission networks; an assured support mechanism for large-scale renewables; and immediate introduction of feed-in tariffs to support the take-up of small-scale renewable power by households and community initiatives.

3. Background: interdependencies of financial, economic and environmental crises

Credit and sustainability

The current financial crisis and global economic downturn are inextricably linked to the unfolding environmental crisis. The world has undergone an unprecedented period of economic growth over the last decade that was both economically and environmentally unsustainable, and inequitable between North and South. While this growth has brought some benefits to the world's poor, we are still not on target to meet the UN's Millennium Development Goals.[2] It is widely accepted that ineffective regulation and risky lending practices of financial institutions enabled a credit-fuelled expansion of economic activity to levels that could not be sustained in the long term. We are now seeing the grave consequences of this excessive dependence on credit in terms of large-scale job losses, insolvencies and recession.

This period of economic growth, exaggerated by the credit boom, was equally unsustainable in terms of the global environment. Levels of consumption in

[2] UN (2008), Millennium Development Goals Report.

developed countries now far exceed the capacity of the planet to replenish natural resources, and absorb pollution and waste. Humanity's ecological footprint first exceeded the Earth's total biocapacity in the 1980s; by 2005 demand was 30% greater than supply.[3] There was a four-fold increase in the growth rate of global CO_2 emissions from fossil fuels in the period 2000-07 compared with 1990-99.[4] This outstrips the Intergovernmental Panel on Climate Change's worst case scenario and exacerbates the risk of 'dangerous' climate change (defined as greater than 2°C by the IPCC). An ecological recession is signalled by the rapid decline in biodiversity in many of the world's most important ecosystems.[5] Human wellbeing and economic security are undermined by the degradation of ecosystems upon which we depend for vital goods and services.

The conclusion is clear: an excessive use of credit has profoundly negative social, economic and environmental consequences, and financial and ecological risks are closely related. Borrowing money from the future entails borrowing nature from the future. This ultimately runs the risk of severe ecosystem collapse.

Common causes of crises

The credit crunch, climate change and the decline in biodiversity have common causes: market failure and the systemic impulse to maximise short-term economic growth. In other words, the pursuit of short-term profit by actors in the global economy, and the governance systems that allowed these interests to dominate, have led to negative outcomes for global society and the environment. The credit crunch was triggered by the collapse of the sub-prime market in the US, whereby financial institutions paid the price of lending to people beyond their means. The balance of loans to deposits within financial institutions was such that they were themselves over-leveraged in the drive to generate new business, profits and shareholder value. Financial markets were infused with short-term decision-making and perverse incentives that undermined economic and environmental sustainability. At the macro level, the balance of debt to aggregate savings was such that a liquidity crisis became inevitable. This situation developed in the context of a period of deregulation and insufficient monitoring of the financial system at both international and national levels.

Climate change and the decline of biodiversity have arisen as a result of the failure to evaluate the environmental costs of production and distribution, and reflect these in the price of goods and services. In combination with the excessive availability of credit, this has enabled the satisfaction of unsustainable material demands on the Earth's resources. Further imperfections in markets relating to information, technology, vested interests, inertia and perceptions of regulatory risk, mean that simply internalising environmental costs will not necessarily lead to a sufficient, or sufficiently fast, change in outcome. Other complementary measures are therefore needed to overcome these broader market failures.

[3] WWF (2008), Living Planet report.
[4] Global Carbon Project: www.globalcarbonproject.org/
[5] WWF (2008), Living Planet report.

Opportunities and threats for environmental sustainability in the current crisis

Although in the short term the global economic downturn may ease demands on the natural world, it is not good news for the environment. Major investment is required in the technologies and infrastructure to enable an urgent transition to a low-carbon and significantly more resource-efficient economy. If the link between economic and environmental sustainability is not fully understood and accepted, there is a huge risk that a focus on short-term economic recovery will overshadow concerns about the environment. The danger is that these short-term preoccupations create a generation of 'sub-prime' high-carbon investments that will lock us further into an unsustainable path. For example, the concessions made to sections of European industry in the recently agreed EU climate and energy package, and the slow progress at the recent UN Framework Convention on Climate Change (UNFCCC) conference in Poznan, serve as a stark warning of the challenges of securing a satisfactory new international agreement to tackle climate change in Copenhagen later this year.

Nonetheless, WWF-UK regards this crisis as a momentous opportunity to reorient global development onto an altogether more sustainable path towards a One Planet Future. The warning signs of a dysfunctional economic system are now as obvious as its negative effects on the environment.

In the following sections we set out in more detail the measures that need to be implemented urgently and comprehensively by the international community and the UK government to ensure we fully grasp this opportunity to build a more sustainable, more secure and fairer future.

4. Key positions and recommendations for the international agenda on reform and recovery

Introduction

The G20 group of countries brings together many of the key actors in the global economy, and provides a forum to foster international cooperation on financial reform and economic recovery. WWF-UK urges G20 leaders to take this historic opportunity to make genuine progress on systemic reform to promote global equity, security and environmental sustainability. As a key player in the G20, the UK government has important opportunity to demonstrate leadership on climate change, and a responsibility and strategic interest to advocate policies that promote rather than undermine environmental sustainability.

The G20 represents an improvement over the G8 in terms of representation, and can act as an effective forum to agree short-term responses to the financial crisis and to initiate a process for longer-term reform. But the G20 is still not representative of most of those who will feel the greatest impact of the finance and climate crisis and therefore cannot be regarded as a legitimate body of global governance. The reform process should therefore ultimately take place under the auspices of the UN.

Principles guiding reform

WWF-UK is concerned that, so far, the G20 declaration of common principles to guide financial market reform does not mention the central importance of environmental sustainability or global equity. We believe these omissions increase the risk that reforms will hinder, rather than promote, economic stability and security. Meanwhile, we welcome and support the guiding principles of reform outlined by the UN's Commission of Experts on Reforms of the International Monetary and Financial System:

> 'Reforms and regulations have a goal: the better functioning of the world economic system for mankind's global good. This entails simultaneously pursuing long-term objectives, such as sustainable and equitable growth, the responsible use of natural resources, and reduction of greenhouse gas emissions, and more immediate concerns, including addressing the challenges posed by the food and financial crises.'[6]

Global financial regulation, capital accountability and green investments

Financial institutions and markets must be publicly accountable, transparent and effectively regulated. We need a stable, open, equitable and efficient financial system to help create jobs, foster technological and business innovation, and enhance the long term prosperity and wellbeing of people around the world by financing the shift to a low-carbon future.

The global financial system and institutions rest on a highly connected set of national institutions, regulations and markets. Reforms must include strong, effective and coordinated measures at the national level, backed up by cooperation, transparency and oversight internationally. Existing financial regulation has proved inadequate either to ensure prudent management of individual companies and markets or to protect against systemic risks that can damage the economy as a whole. Nor does it facilitate the inclusion of environmental and social risks.

Financial markets should not be ends in themselves: they should serve the economy by allowing sufficient but controlled supply and circulation of money. The present banking system creates a burgeoning level of money supply through the use of wholesale interest bearing debt with the aim of making profits out of it. This not only threatens financial stability but it also promotes an unsustainable debt-based attitude to consumption.

As a result, the financial system has only been kept from collapse by unprecedented levels of state intervention, and the related economic and social costs will be tough to manage in the near future. Governments must act decisively to address short-term needs but they need to constructively rebuild and maintain the global financial system over the long term. To this end, it is crucial to define and enforce strict rules of conduct for banks being bailed out as a warning to the financial markets: irresponsible institutions should bear part of the cost of public interventions.

[6] UN's Commission of Experts on Reforms of the International Monetary and Financial System (2009), Report of first meeting.

Policy recommendations:

1. Tighter and more comprehensive regulation of the financial sector and credit creation mechanisms:

- *Curb the capacity of banks to generate excessive and poor quality credit during expansions:*

  Financial regulation in general, and capital adequacy ratios in particular, should be counter-cyclical: they should be tight in good times (storing up reserves and restraining risk exposure) and, where necessary, eased in bad times (facilitating lending, drawing on the reserves built up in good times). Rules should be established to limit the leverage ratios of banks, in addition to capital adequacy requirements.[7]

- *Make sustainability criteria central to investment practice (for example, by compulsory carbon reporting):*

  Disclosure and accounting standards should include reporting of risks incurred by financing carbon-intensive or ecologically damaging business activities. Pension funds and other investors should be encouraged to include environmental, social and governance risks in their business practices.

- *Credit and risk rating must be independent, robust and fit for purpose:*

  New and more adequate theories of risk must be developed to help risk assessment over the long term: this would allow independent experts to accordingly inform risk rating agencies. Proper regulation of all rating agencies is required in order to prevent conflicts of interest and reduce reliance on, and exploitation of, simplified ratings systems.

- *Require transparency of financial instruments and ensure appropriate form and scale of financial institutions (for example, by strictly regulating or splitting up too-big-to-fail banks):*

  Large, deposit-holding banks which are vital to the functioning of the economy should not be permitted to engage in high risk activities or activities that conflict with the interests of their depositors. Retail and investment banking activities must be clearly separated.

- *Establish corporate governance and remuneration policies that support prudent risk management and prioritise the long-term interests of owners and stakeholders:*

  Boards of directors must have adequate expertise, training and power to

[7] However, capital requirements are an indirect way of controlling credit creation. A different functioning of the monetary system could address in a more predictable way the generation of new credit by reviewing the freedom of banks in this process. Several proposals are currently under debate among experts and independent think-tanks (e.g. Joseph Huber and James Robertson and the seigniorage reform proposal) and they should be part of the political debate.

rigorously review business models and decisions. Risk management departments must have at least equal status to other bank divisions and risk management should be integral to business strategy. This includes remuneration policies, which must be subject to strong board oversight, be adjusted to take account of risk (including future risk) and encourage reward for long-term success rather than short-term or temporary gains.[8]

2. New green investments to safeguard the economy and the planet:

- *Green and fair procurement:* increased use of the public sector's purchasing power to stimulate demand, information, training and jobs for green infrastructure, sustainable energy and biodiversity.

- *Provide safe private sector investment opportunities with state incentives and guarantees for projects that have high sustainability ratings.* This will require a transparent and accountable screening system.

- *Create a regulatory environment which provides controls and incentives for sustainable use of biodiversity and ecosystem services.*

3. A more balanced and properly diversified set of policies such as direct regulation and fiscal measures to incentivise pro-environmental behaviour:

- *Effective fiscal framework to support equity and sustainable consumption.*

- *Improved emissions trading schemes and mandatory emissions accounting.*

Ensuring fiscal stimulus packages promote environmental sustainability

The G20 forum is also being used to foster international cooperation on national monetary and fiscal measures to boost the global economy. WWF-UK urges global leaders to recognise that any such measures will fail in the medium and long term if they are not founded on the principle of environmental sustainability. The prospect of governments injecting capital to boost ailing economies offers both the opportunity to catalyse a green revolution and the threat of locking us further into dependence on resource-intensive infrastructure and technologies. Capital investment must be used to tackle climate change and build energy security by driving forward the transition to a low-carbon and resource-efficient global economy.

Analysis from Nicholas Stern[9] and the International Energy Agency[10] shows that at least $400-500bn (0.8-0.9% of global GDP) in *additional* low-carbon investment is required annually to stand a chance of restricting warming to the IPCC limit of 2°C. G20 countries, which are responsible for around 80% of global greenhouse gas emissions, must use their recovery packages to make this essential additional investment in low-carbon development. **G20 countries should commit at least 0.8% of GDP per annum during the stimulus period to additional climate**

[8] See FSA (2009), Draft code of practice on remuneration policies and ACCA (2008), Corporate Governance and the Credit Crunch.
[9] Alex Bowen, Sam Fankhauser, Nicholas Stern and Dimitri Zenghelis (2009), An outline for the case for a green stimulus. Grantham Research Institute on Climate Change and the Environment.
[10] International Energy Agency (2008), World Economic Outlook 2008.

change measures, and ensure other stimulus measures 'do no harm' in terms of lock-in to high carbon infrastructure. This equates to around 40-50% of a stimulus worth 3.5 to 4% of GDP spread over two years. So far, many of the G20 countries are falling short of this commitment. Analysis from HSBC shows that while 80% of South Korea's and 38% of China's fiscal stimulus is assigned to climate change measures, the figure for the US is 12%, and the UK's is 7%.[11]

Specific measures should include major public investment in:

- energy and resource efficiency programmes, including retrofitting existing private and public buildings with insulation and efficient heating and cooling systems, ensuring new publicly funded developments are to the highest energy efficiency specifications, and incentivising private sector energy and resource efficiency;
- renewable energy production, infrastructure and research;
- improvement, electrification and decarbonisation of transport systems;
- education and training for environmentally sustainable development; and
- the development of reuse, remanufacturing and recycling technologies for all waste.

Reform of international financial institutions

The current crisis has made even clearer what many already knew: that multilateral institutions have failed to deliver economic stability and, indeed, have overseen an economic system scarred by high levels of inequality and ecological decline. The failure of existing institutions to manage the economy to avoid social and environmental damage is closely connected to their governance structure. Institutions that represent minority interests cannot be held fully accountable and will always be vulnerable to failures of the kind we have seen recently.

To achieve the changes outlined in much of the rest of this paper, it is critical that we see fundamental reform of the governance of international financial institutions, including the World Bank and the International Monetary Fund (IMF). Developed and developing countries need to have a parity of voice and vote, and citizens need to be able to hold these institutions accountable. In the absence of fundamental governance reform, these institutions must have their role reviewed so that form follows function and they are separated from the political decision making process. In the case of financing related to climate change, the only appropriate forum for the strategic and political decision making to take place is under the UNFCCC. A key purpose of these reforms must be to ensure institutions have the capacity and incentive to embed environmental and social sustainability into the global economy.

Equity, capital flows and free trade

WWF-UK believes that a sustainable global economy must be far more equitable than the current reality. If the present extreme inequalities between and within societies persist or worsen, the global economy will be unable to provide a decent standard of living for the estimated 9 billion people on the planet by 2050. Increasing levels of inequality will also provide a recipe for endless conflict as resources become scarcer. We understand that equity underpins sustainability by ensuring people thrive within their fair share of the Earth's limited natural resources. We also recognise that

[11] Nick Robins, Robert Clover, Charanjit Singh (2009), A Climate for Recovery: the colour of stimulus goes green. HSBC Climate Change. Climate change measures are categorised as follows: low-carbon power; energy efficiency; and water, waste and pollution control.

poor countries will not be able to manage their environment well without sources of public finance. This means that these issues are entirely relevant to WWF's environmental agenda and we are able to stand confidently on a common platform with organisations focused on human development and social justice.

The economic crisis must not be allowed to undermine the pledge from rich countries to provide 0.7% of gross national income as aid funding. While the causes of the crisis originated in the rich west, the greatest impact will be felt by poor people living in poor countries. Governments in the north should increase the amount and effectiveness of aid, with a stronger focus on social protection for the most vulnerable. Vertical funds should be avoided but where they are used they must comply with the Principles of the Paris Declaration and the Accra Agenda for Action. Meeting longstanding aid commitments will require only a tiny percentage of the huge sums used to bail out the banking system.

Attempts by world leaders to use the global recession as a spur for greater trade liberalisation through a conclusion to the Doha round of the World Trade Organisation (WTO) or through bilateral and regional free trade agreements must be reassessed. The UK and all world leaders must take this opportunity to step back and develop **a fresh approach to the global trading system that prioritises equity, includes regulations on labour and environmental standards, and builds economic relationships fit to deal with the triple financial, climate and food crises of the 21st century.** This new approach to global trade must work in the interests of people and the environment while strengthening local and regional supply chains and ensuring dialogue and cooperation at the international level.

UK public finance for international investments, including banks with a large proportion of public ownership, must be held accountable for the social and environmental impacts of their activities. This includes, for instance, the Export Credits Guarantee Department, which is responsible for supporting foreign direct investment, much of which is not adequately assessed and as a result undermines environmental sustainability and human rights.

WWF-UK also supports organisations pushing for change in other aspects of this agenda including strict international regulation of tax havens and a comprehensive, fair and transparent international debt workout mechanism.

Financing the Global Deal on climate change

In the midst of the financial crisis, there is a real danger that a global perspective on the challenges facing us may be lost. The coming year will be critical in determining the future of the planet. Cooperation between the G20 countries is a precondition for securing an effective international agreement on climate change at the UN conference in Copenhagen in December 2009.

The scientific evidence that human activities are fuelling climate change is now overwhelming. It is also clear that to keep levels of warming below 2°C from pre-industrial levels – widely accepted as the threshold above which the risks of runaway climate change escalate rapidly – global emissions need to peak well before 2020, then fall by at least 80% from 1990 levels by 2050.

The scientific case for urgency is matched by a narrow window of political opportunity. The first commitment period under the Kyoto Protocol comes to an end in 2012, and governments have committed to reaching a successor agreement in

Copenhagen. Any delay in reaching agreement will risk a dangerous gap between commitment periods, and make it harder to bring global emissions under control.

The financial crisis must not be used as an excuse to delay or weaken a new Global Deal on climate change. Indeed, all governments must embrace strategies, such as investments in renewable energy and energy efficiency, that will help to erase both our economic and ecological deficits.

However, for any Global Deal to be fair and effective in protecting the climate, significant financial flows over and above existing Official Development Assistance (ODA) commitments will need to flow to the developing world. There are two key elements to the financial package of a Global Deal:

Mitigation

It is clear that all industrialised nations need to make immediate and aggressive reductions in their own domestic emissions. However, it is also clear that this is not, in itself, sufficient to prevent dangerous levels of climate change – and that emissions from developing countries, and particularly the emerging economies, will need to fall significantly below 'business as usual' expectations by 2020.

The industrialised world is responsible for the bulk of the excess greenhouse gases already accumulated in the atmosphere; moreover, developed countries have built their wealth on essentially unrestricted use of fossil fuels and other natural resources. Developed countries therefore have an inescapable obligation to pay substantially to cover the additional costs of low-carbon development in the developing world.

There are a range of estimates as to the potential cost of mitigation. For example, the Secretariat to the UN Framework Convention on Climate Change estimated in 2007 that by 2030, some US$200-210 billion per year would be required to reduce emissions with roughly 46% of these funds needed for developing countries. However, this report is based on a scenario which would lead to more than 2°C global warming, the tipping point for dangerous climate change. Mitigation costs to stay below 2°C could therefore be significantly higher.

Mitigation includes the need to tackle deforestation, particularly in tropical countries, which currently accounts for some 20% of all greenhouse gas emissions. The Stern Review estimates that halving deforestation would cost US$3-33 billion per year, while the recent Eliasch review for the UK government concluded that halving emissions from the forest sector would cost $17-33 billion per year. Of course, reducing deforestation would not only help the climate – it would also help to conserve the world's threatened rainforests, and all the biodiversity and ecosystem services they provide.[12]

These are clearly significant sums of money. But as the Stern Review made clear, the costs of tackling climate change (perhaps 1-2% of global GDP) are greatly outweighed by the huge costs (5-20% of GDP) of failing to do so.[13]

[12] Specific financial support for the Reduction of Emissions from Deforestation and Forest Degradation (REDD) needs to be provided. An effective REDD mechanism relies on actions being taken in both developed and developing countries to address the drivers of deforestation, including international demand for forest products or alternative land uses.
[13] HM Treasury and Cabinet Office (2006), Stern Review on the Economics of Climate Change.

Adaptation

A Global Deal must also redress the great injustice caused by climate change. The world's poorest and most vulnerable nations – those which have done least to contribute to climate change – are already being badly affected, and face rapidly increasing impacts as warming accelerates. Developing countries need support to ensure that they adapt, as much as possible, to the impacts of climate change – and the developed nations must shoulder their clear obligation to help cope with the damage caused by their historic emissions.

Once again, there are several estimates of the costs of adaptation in developing countries. The UNFCCC secretariat has suggested a figure of $28-67 billion per year by 2030, and the UN Development Programme has estimated the cost at $86 billion by 2015.

Overall, it is important that the financial architecture for a Global Deal must take place within a new, transparent and accountable framework. Adequate levels of finance must be raised from secure and predictable sources, administered by a transparent and accountable body answerable to the UNFCCC. Finance must be used for activities in developing countries that can be monitored, reported and verified as being the most effective and rapid way to mitigate climate change and its impacts both on the environment and humanity.

5. Key positions and recommendations for the UK political agenda

Introduction

The UK has been identified by the IMF, European Commission, and Organisation for Economic Cooperation and Development (OECD) as likely to be among the countries worst affected by the global economic downturn. The political agenda is therefore understandably dominated by the debate on measures to revive the economy. The main political parties are engaging in a debate framed mostly by the question 'how can we protect jobs and return to the previous trajectory of economic growth by releasing the flow of credit and stimulating demand for goods and services?' We consider this to be the wrong question, and consequently the wrong solutions are being debated. The question should be 'how can we respond to the current crisis in a way that achieves genuine economic security and human wellbeing, and without reverting to economically and environmentally unsustainable patterns of consumption?'

WWF-UK believes that while it is necessary to release the flow of credit, it is essential that this is used to rebuild our economy upon sustainable foundations. The transition from an unsustainable to a sustainable system will inevitably entail the conversion of unsustainable jobs into sustainable jobs. This will require smart transition policies to manage potential social impacts of the decline of unsustainable industries. In the current crisis, any government intervention to protect jobs and shore up financial institutions should be attached to conditions that promote economic and environmental sustainability in both the public and private sectors. Any fiscal measures to stimulate demand such as tax cuts should be matched by measures

that promote sustainable consumption – for example, green taxes and incentives – and choice editing to remove unsustainable products from the market.

Gordon Brown recently said, 'People will want to use the changes we have got to make as a result of the downturn to take the next step towards building a far more environmentally sustainable economy.'[14] In the November 2008 pre-budget report[15] however, along with some welcome but limited measures to improve energy efficiency, the government announced new road building schemes, tax breaks for high-polluting cars and a VAT cut to encourage consumer spending without corresponding measures to promote sustainable consumption. This response, together with its continued support for airport expansion, gives us reason to doubt the sincerity of the government's green rhetoric.

In January 2009 Gordon Brown announced a £40bn capital investment plan to boost the economy, which aims to create 100,000 new jobs in public works including housing, schools, hospitals and transport infrastructure.[16] This programme could herald a defining moment in the transition to a low-carbon, One Planet Future, or it could lock us further into our resource-intensive ways. On the basis of the Stern and IEA analyses mentioned previously, WWF-UK urges the UK government to invest at least 0.8% of GDP per annum, or 1.5-2% of GDP over two years, on low-carbon development as part of any recovery package. The rest of the package should 'do no harm' in terms of locking us into high-carbon infrastructure such as new roads. The recent research from HSBC that asserts that only 7% of the UK's fiscal stimulus package includes measures to tackle climate change suggests there is much work to do. If no further fiscal stimulus is forthcoming, existing stimulus and business-as-usual spending plans should be reconfigured to ensure a much stronger focus on measures to tackle climate change that matches the investment required.

So that the country takes the right path out of recession, WWF-UK adds its voice to the chorus across the spectrum of civil society, labour and industry organisations calling for a Green New Deal.[17] However, this must be seen as a stepping-stone to wholesale market transformation, rather than as an end in itself. In the following sections we outline our policy recommendations for what we consider to be key opportunities offered by a major government capital investment plan, with each intervention in the short term designed to be the first step that leads to a more fundamental systemic change.

Energy efficiency in buildings

In the drive to achieve an 80% cut in carbon emissions by 2050, increased energy efficiency in all aspects of our lives will be crucial. Here we set out measures in the buildings sector that will benefit the economy, create jobs and mitigate climate change.

[14] The Observer, 4 January 2009
[15] Pre-budget report, November 2008: www.hm-treasury.gov.uk/prebud_pbr08_index.htm
[16] Number 10 press release, 5 January 2009: www.number10.gov.uk/Page17906
[17] Such as the Environmental Industries Commission; Put People First NGO coalition; UNEP's 'Green Economy Initiative'; Green New Deal Group (including New Economics Foundation, Finance for the Future); Trades Union Congress, Oxfam, Environment Agency, Friends of the Earth.

Housing

The UK's housing sector has 26.2 million homes and is responsible for 27% of the UK's carbon emissions.[18] This represents a huge opportunity for investment in an energy-efficient, low-carbon future, as well as a huge challenge given the scale of the task. Improving the sustainability of our housing stock will enable businesses to develop low-carbon innovations and protect and create jobs in the UK construction industry, which has been hit particularly hard by the recession (with potentially 450,000 job losses between 2008 and 2010[19]). WWF-UK believes tough targets are achievable despite the current economic climate, but pressure on families and developers to cut costs means there is an important role for government to incentivise and support investment in energy efficiency.

Retrofitting the existing housing stock

It has been estimated that between 80% and 90% of homes standing today will still be in use in 2050,[20] so it is imperative that the government takes steps to ensure that *all* our housing is as sustainable as possible and fit for the future. WWF-UK supports the UK government target of 30% reduction from existing homes by 2020 on 2006 levels (as stated in the Heat and Energy Saving Strategy). In the immediate term the government should put in place policies and incentives to support a **large-scale programme of retrofitting** the UK's existing housing stock, including energy efficiency, renewable energy and smart metering. The programme should aim to reduce emissions from the existing housing stock by a minimum amount – for example 40kg CO2/m2/year, as in Germany – focusing first on reducing energy demand and second on generating clean energy. Specific policy measures should include:

- **provision of a one-stop shop** that will take people through the process from the provision of advice on measures and funding, through to installation. This removes the 'hassle factor' identified by many householders as one of the key barriers to action;
- **major re-skilling programme for construction workers** covering energy efficiency and renewable energy installation in both existing and new build homes; and
- **free Energy Performance Certificate** for every home in the UK, which would lead to rapid job creation for domestic energy assessors, and provide a full mapping on the country's actual, not theoretical, housing energy needs.

We also recommend the following fiscal policies to overcome financial barriers and incentivise installation of energy efficiency measures:

- **Major increase in grant funding for sustainable energy measures** for low income homes and to support implementation of the more expensive measures such as solid wall insulation and renewable energy technologies;
- **low interest loans for energy saving measures and renewable technologies** – based on experiences in Germany. High upfront costs are a major barrier to the uptake of energy saving measures in the home;
- **reduction of VAT on energy efficiency measures to 5% on the supply and installation of energy efficient products and materials.** While the 2.5% VAT

[18] WWF-UK How Low report (2007) http://assets.wwf.org.uk/downloads/how_low_report.pdf
[19] The 2020 Group by BBC news: http://news.bbc.co.uk/1/hi/business/7904936.stm
[20] Existing Homes Alliance (2007) Declaration on the future of existing housing.

reduction is welcomed, this is time-limited and WWF believes that a reduction to 5% over a longer period would make the installation of energy-efficient home improvements much more attractive;
- **Council Tax rebates** – for improvements to the energy efficiency/carbon reduction of homes. This simple financial 'reward' for sustainable behaviour will help change the perception that environmental action is somehow 'painful'; and
- **Stamp Duty rebates** – a differential stamp duty to incentivise improved energy efficiency of housing at point of sale.

Such policies would help support the housing sector in this difficult time by redirecting resources from the house builders that are currently not building new homes, and supporting SMEs that install energy efficiency and low-carbon measures. A programme of retrofitting existing housing also presents an opportunity to allow the housing sector to further develop low-carbon products and services that can be adopted for use in the new build sector once the market improves and helps to build in certainty to the market during an uncertain time by reducing the stop/start nature of the current programmes of energy efficiency.

Delivering energy efficiency in new build homes

The new build sector must also be supported during the recession to ensure *all* new developments meet the standards set out by the Code for Sustainable Homes. This would ensure house builders are market ready with better quality homes that are cheaper to run when the housing market improves. The government must stick to its target to ensure that all newly built homes are zero carbon by 2016 and provide the support house builders need to enable them to achieve these targets.

Public buildings

The government's proposed capital investment plan will include major refurbishment and construction of public buildings such as schools and hospitals. As with the housing sector, delivering energy efficiency and low-carbon energy supply must be a central aim of this programme in terms of both retrofitting and new build. The public sector must lead the way by ensuring all new building developments meet the highest standards of energy efficiency.

Sustainable transport infrastructure

Transport is an obvious candidate for capital investment, given the potential for job creation and widespread public dissatisfaction with the UK's transport systems. It is essential that measures to address the economic downturn by investing in transport systems are environmentally sustainable and provide substantial job opportunities in the short term.

In the pre-budget report in November 2008, Alistair Darling announced the bringing forward of transport infrastructure projects worth £700m, of which around 75% will be spent on new road building schemes.[21] The SACTRA studies of the 1990s[22] showed that additional road capacity may temporarily ease localised congestion but leads to

[21] The Guardian, 25 November 2008.
[22] Standing Advisory Committee on Trunk Road Assessment, Department for Transport

an increase in road transport by stimulating new demand and realising latent demand. Notwithstanding the potential long-term transition to low-carbon vehicles, this policy will have unacceptable environmental impacts including increased carbon emissions (road transport already accounts for 22% of the UK's total emissions[23]), and air and noise pollution. As the Campaign for Better Transport has noted, building new roads is very capital-intensive but creates few new jobs compared with road maintenance.[24] Hence this policy is neither environmentally sustainable nor particularly good for generating employment.

Another policy central to the government's transport strategy is support for airport expansion. This stands in stark contrast to the government's own target to reduce carbon emissions by 80% by 2050. Notwithstanding efficiency improvements, on a 'business as usual' trajectory, in 2050 aviation emissions will account for at least 50% and possibly 100% of the UK's carbon budget.[25] Although airport expansion may bring some short-term, localised economic benefits, there is evidence that these have been over-stated. It is clear, though, that the environmental costs in terms of carbon emissions and local impact are enormous. In other scenarios, there is a risk of creating 'stranded assets' as medium- to long-term demand may not match supply if the cost of flying escalates due to increased oil and carbon prices.

To summarise, for both economic and environmental reasons, WWF-UK strongly advises the government against expanding carbon-intensive transport systems that further lock us into dependence on oil and the path to runaway climate change.

Instead, we urge the government to improve the quality of public transport to get people out of cars and planes and into more sustainable modes. In doing so they should be mindful that increased capacity in public transport could lead to an overall increase in emissions from the transport sector: as people switch to public transport, the resulting additional capacity in the road system is likely to be filled with additional car users. Any measures that increase capacity of public transport should therefore be matched by measures to discourage travel by car and plane. The government should take a holistic approach to transport strategy that manages absolute capacity. Dismantling existing infrastructure could potentially be part of that mix. Decisions on new infrastructure need to take into account the carbon emissions and other environmental impacts stemming from the construction phase.

We suggest that in the short term, investment in transport systems should focus on making the existing systems more sustainable and better quality rather than increasing capacity or building entirely new systems.

Policy recommendations:

- Electrification of the railways[26] in parallel with investment in new rolling stock: to enable decarbonisation of the rail network in parallel with decarbonisation of the power sector;
- maintenance of existing roads rather than construction of new ones: improving quality for the benefit of cyclists and pedestrians as well as motorists;

[23] e-Digest of Environmental Statistics, January 2007, Department for Environment, Food and Rural Affairs: www.defra.gov.uk/environment/statistics/index.htm
[24] The Guardian, 25 November 2008.
[25] UK government aviation white paper and Tyndall Centre projections respectively, cited in WWF-UK (2008) One Planet Mobility.
[26] Electrification of entire network would cost £4.5bn. Prioritisation of London-Bristol and London-Sheffield lines would cost £1bn (Liberal Democrats (2009) Green Road out of Recession proposals).

- funding for local authorities and sustainable transport organisations for local sustainable transport initiatives, e.g. cycle and pedestrian networks and cycle training;
- refurbishing rail and bus stations;
- a range of measures, both fiscal and regulatory, to promote highly efficient vehicles on a well-to-wheel basis[27]. This will save money on fuel costs and reduce the economy's vulnerability to future oil price hikes;
- investment in infrastructure for electric vehicles, for example charging points in municipal car parks and battery swapping stations initially in London and then other major cities. This would lead to 'shovel-ready' jobs and remove barriers to uptake; and
- fiscal measures to reduce the cost of videoconferencing equipment and incentivise usage. For example, a programme to install public for-hire facilities in regional economic centres would provide jobs and support businesses on reduced travel budgets as well as enable greener meetings.

In the current economic climate, a smarter approach to travel will help struggling businesses to cut costs. Evidence from WWF-UK's Travelling Light report suggests that, contrary to the government's mantra, reduced air travel does not adversely affect business success. Advances in technology have made videoconferencing an attractive alternative to many time-consuming business flights. There is a real opportunity here to help businesses invest in this technology now, in order to embed carbon and financial benefits in the long term. WWF-UK also believes that in the long term we need to move to a new business model where the financial success of transport companies is not conditional upon stimulating and meeting increased demand for energy-intensive transport. This transition to a One Planet Economy is explained further in the final section.

Investing in renewable and low-carbon energy

The two top priorities for the UK government in tackling climate change must be a radical energy efficiency programme in all sectors of the economy (including in buildings, as outlined above) in tandem with the rapid decarbonisation of the power sector. In December 2008, the UK accepted a legally binding target under the EU's Climate and Energy Package to ensure a ten-fold increase, from 1.5% to 15%, in the proportion of final energy usage from renewable sources over the next 11 years.

In light of the poor private sector investment climate, and the barriers to the transition to new technological systems (including infrastructure such as the existing transmission network), government intervention is required to achieve an expansion of renewable energy production capacity on this scale and on time.

There is also a huge opportunity for investment in renewable energy developments to counter the recession by creating jobs and positioning the UK as a true world leader in renewable technology innovation. Germany employs 500,000 in its renewable energy industry, while the UK languishes on 7,000.[28] Furthermore, investment in renewables is critical to strengthening our economy by increasing energy security: by reducing dependence on imported fossil fuels, the UK will be more resilient to the risks and limits posed by the volatile prices and political instability associated with oil, gas and coal imported from overseas.

[27] Well-to-wheel is the life cycle assessment (LCA) of the efficiency of fuels used for road transport.
[28] TUC (2009): Unlocking Green Enterprise – a low-carbon strategy for the UK economy.

Studies by WWF-UK have demonstrated that the UK's carbon emissions could be cut by 80% by 2050 (including the UK's large share of international aviation) without resorting to unsustainable technologies such as nuclear power or excessive reliance on imported biomass.[29] Another study by Poyry energy consultants commissioned by WWF-UK and Greenpeace-UK showed that delivery of the government's renewable energy and energy efficiency targets for 2020 would remove the need for any investment in new unabated coal power stations or nuclear plant in order to 'keep the lights on'.[30]

Rapid technical advances and price reductions in large-scale renewables such as concentrated solar power (CSP) and offshore wind have the potential to quickly replace coal and nuclear 'base-load' generation. But there are challenges in introducing these large-scale but geographically remote technical solutions, and although costs are approaching fossil fuel prices they will require major infrastructure investment. This investment should not overshadow the development of smart local solutions: in many locations these will be an essential part of providing resilient electricity and heat/cooling.

The UK is blessed with some of the greatest potential renewable resources in Europe, enabling us not only to meet our energy needs, but also our obligations to mitigate climate change. WWF-UK asserts that this can and must be achieved without overriding considerations of the potential impacts of renewable energy development on habitats, ecosystems and communities.

Policy recommendations:

- Commit, as a priority over conventional forms of electricity generation, a significant proportion of any capital investment plan to developing new renewable energy production capacity;
- large-scale electricity grid upgrades (including working towards a European 'super-grid') and reinforcements to enable connection to the grid of power flows from remote large-scale renewables such as offshore wind farms to areas of demand;
- implement an assured financial support package of mechanisms for large-scale renewables, in addition to the banded Renewables Obligation;
- introduce without delay feed-in tariffs (aka renewable energy tariffs) to support the take-up of small-scale renewable power by households and local communities;
- invest more heavily in research, testing and training for the development of new, but not yet mature, renewable energy systems, such as wave power;
- accelerate market transformation in the energy industry from business models based on maximising oil, gas and electricity supply to energy services companies that provide installation and maintenance for renewables, low energy appliances, and housing energy efficiency retrofit;
- investment in technology and infrastructure for the roll out of large- and small-scale Combined Heat and Power (CHP) to maximise efficiencies;

[29] WWF, IPPR and RSPB (2007) The 80% Challenge. This report used the same models as those in the UK government Energy White Papers and in the Stern Review, and concluded that deep cuts in the UK's CO_2 emissions were achievable and affordable without resorting to unsustainable technologies such as nuclear power.
[30] Poyry (2008): Implications of the UK meeting its 2020 renewable energy target http://assets.wwf.org.uk/downloads/poyry_2020renewablestarget.pdf

- ensure that no new coal-fired power stations are built without full-scale carbon capture and storage (CCS) from the outset. This is best achieved by an emissions performance standard (EPS) for new power plant, set initially at a level which is achievable by a highly efficient gas plant (350gCO2/kWh) and tapering over time. The government has a key role to play in ensuring that any new infrastructure for CO_2 disposal under the North Sea is developed in a strategic, safe and environmentally sensitive fashion; and
- a well-focused CCS demonstration programme to accelerate learning about this technology and to determine its technical and economic feasibility. Funding for a large-scale demonstration programme and associated transport and storage infrastructure could be derived partly from existing sources, including EU financing mechanisms and other public funds. However, a clear regulatory framework such as an EPS is essential to provide sufficient certainty that utilities will share the investment and technological risk of such a demonstration programme.

More detailed policy measures can be found in WWF-UK's position statement on renewable energy.

6. Towards a One Planet Future: the role of the economy

The measures outlined in the previous sections to address the current crisis should be seen as immediate steps on the path to more transformative change in our economic system. Here we explain further our vision of a One Planet Future where humans and nature live in harmony, thriving within their fair share of the Earth's natural resources. In particular, we propose a changed role for the economy to contribute to human wellbeing in the context of a system with ecological limits.

Our One Planet Future vision expresses fundamental values, goals and non-negotiable principles that are underpinned by respect for all life:

- **Equity** is a fundamental value – that we should offer all people the same opportunities and fair shares in use of the world's resources and the fruits of development.
- **Wellbeing** is a goal for human advancement that encapsulates a broad definition of what 'thriving' means.
- **Respect for ecological limits** is a non-negotiable condition – our planet has finite ecological processes that are the essentials for all of life. These ecological processes cannot be eroded or overloaded for any significant period of time without negative consequences.

The purpose of the economy

As previously discussed, the current crisis in the global economy and financial institutions stems from their designated purpose to maximise short-term economic growth. In a One Planet Economy, the frame of economic purpose is changed so that it distributes resources more equitably, sets out explicitly to improve human wellbeing and moves from an exploitative relationship with the natural world to a symbiotic relationship, which maintains, and where possible improves, ecological function.

Within that frame:

Markets can help determine thresholds of ecological interaction, allocate ecological surplus and ecological service, and non-renewable materials. Markets need to ensure the individual actions of companies add up to an ecologically rational market that gives as much ecological credit (if not more) than it takes ecological debt, while aiming to maximise human wellbeing.

Within that market:

The financial system needs to help manage the reality of ecological limits, translating ecological parameters into cost and prices of services and assets, and finding longer-term investment and valuation models that are more in tune with ecological processes.

Key industries need to:

- evolve whole value chain responsibility, moving to closed loop, zero waste systems – only taking from the natural world levels of renewable resource which can be renewed, and managing the renewal of these resources;
- where appropriate, find local solutions so as to minimise negative supply chain transport impacts;
- develop and support progressive legislative frameworks that establish the right incentives for sustainability improvements; and
- develop and support sustainable consumer behaviour.

For example, as mentioned previously, in the energy industry this implies a transition from an oil, gas and electricity supply market to an energy service market, providing installation and maintenance for renewables, low energy appliances, and housing retrofit for energy efficiency.

Within that industry context **businesses** need to:

- find new ways to meet human demands through service rather than products;
- seek new relationships and strategic partnerships so that industry systems evolve transformational efficiencies of resource and energy use (synergies should also be sought between economic systems such as heat from power stations heating greenhouses); and
- innovate new production processes that are clean and resource-light.

More detail on the nature and process of this systemic change will be available in WWF-UK's *One Planet Future: changing the way we live* and *Pathways to a One Planet Economy* reports, due later in 2009.

7. Why is WWF concerned with this issue?

The transition to a sustainable global economy is central to achieving WWF's vision of a future where humans and nature live in harmony, thriving within their fair share of the Earth's natural resources. The interconnections between economic and ecological systems lie at the heart of our work to safeguard the natural world, tackle climate change and change the way we live.

WWF-UK works directly on the issues raised in this position statement in the following ways:

Changing the way we live

- Helping set the UK on a measurable path by 2012 to level and ultimately reduce our ecological footprint;
- defining a vision for a One Planet Economy considering values, the role of nature, and some principles for a one-planet economic and governance system, and couple this with an overall political strategy – or pathways – to achieve this vision in practice;
- working with high-impact systems (including transport, food, housing and energy) to help achieve our One Planet Future vision both in policy terms and through systemic reform of markets;
- promoting One Planet Finance and helping London become the global leader in green finance by 2011; and
- supporting WWF global initiatives on creating sustainable trade and development with and in the developing world, including use of footprint measures among the emerging economies.

Tackling climate change

- Securing, by the end of 2009, a robust Global Deal on climate change and ensuring that this comes into force at the end of 2012;
- ensuring that the UK displays strong international leadership on climate change including robust implementation of the new UK and Scottish Climate Change Acts, creating targets for Northern Ireland and delivering on tough Welsh targets;
- capitalising on the UK's position as the world leader in carbon trading to make sure the EU trading scheme is as tough as possible;
- setting the UK and European power sectors on a path to zero emissions by 2035;
- securing a fundamental rethink of aviation policy to ensure that emissions from flights leaving UK airports stabilise at around 2010 levels; and
- working to ensure both new and existing buildings meet tough standards for carbon emissions.

OTHER RELEVANT WWF POLICY POSITION STATEMENTS

WWF-UK position statement on renewable energy
WWF-UK transport viewpoints

FEEDBACK

We are keen to receive your views and comments in response to this Policy Position Statement which we will be updating regularly. We also need to be aware of any new piece of work/research/evidence that you have undertaken that may affect this Policy Position Statement. There may also be gaps in the current position which we may not be aware of and which you may wish to highlight for any future review. Click here to email your feedback and state which Policy Position Statement you are referring to.