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**green
alliance...**

**Green conservatism:
protecting the
environment through
open markets**

Green conservatism: protecting the environment through open markets

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Foreword



Lord Howard of Lympne

We face a unique combination of problems. Our national infrastructure is in need of renewal and vast investment while, at the same time, the public are becoming increasingly irritated by intrusive large scale projects brought into their neighbourhoods. The impact of climate change presents the challenge of how to deal with this practical problem in a way that allows us to prosper. At the same time the public struggles to manage increasing costs of homes, food and energy, as our land, supply chains and resource markets are stretched.

Too often, the environment is seen as a peripheral issue in politics, but for the public it is the real world. It is the bill through the letterbox and the view through the window. Conservatives understand the duty we have to be custodians of our planet and our special places and it is those of us from the right who are ready to offer solutions to the problems we face.

As Guy Newey argues, it is about making sure the market works for the public by stirring up innovation, not rewarding incumbents. Peter Franklin explains why we must see the slow take-off of carbon trading schemes as a failure on our patch. The correct answer to greenhouse gas emissions is to see them as a resource we can only afford to release in limited quantities. Pricing that correctly into the market is the best solution if we're to avoid a state-heavy, regulatory approach. Getting the market innovating will produce the results we need, something which has already happened in the waste industry, as Dan Byles identifies.

Rory Stewart rings a note of caution on how much of our conservative values are represented by the market. By exploring the cultural importance of small scale farmers he makes clear the case for valuing and protecting that which the market cannot track.

“Conservatives understand the duty we have to be custodians of our planet and our special places”

Both Laura Sandys and George Freeman discuss new ways of delivering our infrastructure and how the public has become suspicious of a few big businesses dictating the policies and infrastructure of the country. They argue that it is the public which is picking up the bill for energy and transport upgrades. It is they who face the rising cost of food and other resources. If we are to deal with the public's suspicion of the intrusion of shale gas or onshore wind into their communities, Laura and George argue that politics must put people first, helping them to understand and get involved with their infrastructure.

Conservative thinkers understand environmental problems and they are more than ready to roll their sleeves up to deal with them. I am sure these essays will make an important contribution to our national debate.

The benefits of real free trade in carbon



Peter Franklin
Former Conservative policy
adviser

There's no use denying it, the environment is a difficult area for the Conservative Party. And the biggest environmental issue, climate change, presents the greatest difficulties.

Although Margaret Thatcher was the first world leader to warn about the threat of global warming, and although David Cameron famously highlighted the issue too, other prominent Conservatives, including Nigel Lawson and Peter Lilley, have been outspoken in their opposition to the mainstream agenda on climate change.

Other right-leaning voices, both in politics and the media, have gone even further, denying the reality of climate change altogether.

Climate sceptics can be found in the other parties too, but in the Conservative Party the debate is out in the open, with battle lines drawn between those holding the establishment view and those in outright opposition. In some ways, it is healthy to be having this open debate; the last thing we need is an environmental correctness that brooks no dissent.

However, the argument I want to make here is that the choice that conservatives are presented with: either complete acceptance or complete denial of the establishment view, is a damaging and false one. To understand why, I think we need to look to the past, when the Conservative Party found itself in a similar position on a different issue.

In 1989, John Moore, then secretary of state for social security in Margaret Thatcher's government, delivered a speech entitled 'The end of the line for

poverty'. By only considering poverty in the absolute sense of widespread malnutrition and homelessness, conservatives effectively removed themselves from the debate over the modern day poverty of social exclusion, worklessness and dependency. The field was, therefore, abandoned to our opponents, allowing them a free hand in shaping the public policy response.

“As conservatives we should regard this as a problem on our patch. After all, who else has more reason to find a market solution to a resource based policy challenge?”

It wasn't until many years later that conservatives, led by Iain Duncan Smith and his Centre for Social Justice, returned to the fray, successfully changing the terms of debate as a result of three key actions. First, accepting the reality of the issue at stake; second, exposing the flaws in the established policy response; and, third, proposing solutions not just pointing out problems.

It's now time for conservatives to come together to consistently apply this three-fold approach, ie accept, expose and propose, to the issue of climate change. The sooner we engage both with the urgency of the challenge and the flaws in the existing policy framework, the sooner we can get on with the real task at hand: the development and implementation of workable policies that stand a chance of succeeding.

Climate change is, first and foremost, a resource allocation problem. The world's capacity for dumping carbon into the atmosphere without compromising climate stability is limited. Therefore, it should be regarded as a valuable natural resource and a scarce one at that.

Typically, the most efficient way of allocating scarce resources is to ensure that they are transparently priced and freely traded. As we know, pricing and trading carbon is difficult, as has been made clear by the mixed results of current attempts to do so. In particular, the faltering progress of the EU's Emissions Trading Scheme (ETS), which has already come close to collapse, has thrown the entire concept of carbon markets into doubt. As conservatives we should regard this as a problem on our patch. After all, who else has more reason to find a market solution to a resource based policy challenge?

It is sometimes said that the market represents the 'law of the jungle'. That, of course, is nonsense; there are no markets in 'the jungle', all are dependent on a framework of law. However, some are more dependent than others, and carbon markets more than most. If it weren't for government intervention, the cost of releasing carbon into the atmosphere would be zero.

In designing carbon markets we should be completely upfront about this intervention. Many of the problems of existing carbon markets stem from the pretence that the price of carbon is somehow discovered, through the ostensibly neutral workings of the relevant trading mechanism. In fact, the price

is ultimately determined by top down, state led decisions, such as emissions targets and the allocation of free permits.

“If it weren’t for government intervention, the cost of releasing carbon into the atmosphere would be zero”

Arguably, the EU ETS is not a market at all, but a way of laundering political deals through the semblance of a market. Moreover, because a complex trading system is still involved, the price of carbon, though dependent on public policy, is unpredictable, if not downright unstable. Thus, what we end up with is the worst of both worlds: all the politicisation of direct government intervention and all the unpredictability of the market place.

It would surely be better to openly fix a stable and transparent price for carbon, for instance through a carbon tax, thereby sending a clear price signal into real markets, such as the stock market, rather than rely on quasi-market mechanisms that depend on continued political patronage for their very existence.

We also need to take a clear sighted view of the interaction between the main mechanism for carbon price setting and other climate change policies. The effect of these side mechanisms, such as the Renewables Obligation, is to create not one

price for carbon, but many. These may be justified in terms of certain strategic policy objectives, such as diversifying Britain’s energy mix, but their effect is to send mixed signals into the market place, often with perverse consequences.

As conservatives we should be arguing for carbon markets that more adequately deliver on what markets are meant to do, which is to achieve the most efficient allocation of resources at the least cost. This is much more than a technical exercise in policy design. It means taking up cudgels against the many and varied interests currently milking the system for all its worth. And that won’t be easy, because while some of these interests are obvious rent-seekers, others will be able to draw upon public sympathy. We should press on regardless.

After all, the purpose of cutting our carbon emissions is not to provide a living for this or that company, industry or technology, but to sustain our very way of life.

Move over Big 6, we need the Big 60,000



Rt Hon Greg Barker MP
Minister of state for energy
and climate change

Choice, competition and a dynamic market are all a recipe for success. When the UK electricity sector was privatised in the 1990s, one vast state run monopoly became a teeming market of 14 new firms, competing for the business of the British consumer.

Thirteen years of Labour government took a different approach to the electricity market. For my money, we ended up with the worst of both worlds. Competition dried up and the sector drifted away from dynamic pluralism to domination by a small number of big companies. By 2010, just six energy firms controlled over 90 per cent of the UK sector.

We know that, invariably, the tighter the regulation, the more difficult it becomes for anyone to enter a market. The more uncertain a market's future, the less likely new players are to join in. That is why we don't need to abolish the regulator Ofgem and replace it with yet another quango, as some have suggested. It would be another quango, with another name, probably in exactly the same office building but with even more powers to pull the regulatory noose ever tighter; another quango to create even higher barriers to entry for new players.

So where do we go from here? We certainly need big, successful national energy companies, with balance sheets capable of supporting the huge investment in both new UK energy projects, as well as reaching overseas. They are a source of valuable earnings and strategic investment. We must not be against national champions. However, in the 21st century, that can't be the be all and end all of the UK energy sector story.

It is clear that even the most ambitious Conservative government couldn't just turn the clock back to the 1990s and recreate the healthy competition from that period. Perhaps, as the UK economy continues to grow, under a Conservative administration, major global energy companies could be tempted into our market to the extent that the Big Six might become the Big Seven or even the Big Eight. One or two of the existing smaller independent generators might rise to genuinely challenge the status quo.

The good news is that our Electricity Market Reforms (EMR) will, at long last, create a genuine level playing field to encourage the existing cohort of independents, as well as potential new players, to scale up and join in a more competitive energy market; but this is not the whole answer. In addition, we have to re-imagine the entire sector and not squeeze the existing players into the ever tighter embrace of regulation that risks nationalising them in all but name.

To complement EMR, we should unleash a completely new model of competition and commercial opportunity. As well as boosting the prospects of energy independents, other companies, for whom energy is not a core activity but which have the potential to generate electricity, should be encouraged to join the market.

To achieve this, we will need companies, communities, public sector and third sector organisations to grab the opportunity to generate their own energy at real scale and start to export

their excess energy on a competitive, commercial basis. Not just a few exemplars, but tens of thousands of them.

But this won't happen on its own. There can be nothing timid about our approach. Nor will we make things better by just cutting the big players down to size. We will continue to need more, not less, investment and far more, not fewer, players in the market. We need to focus on building up, not knocking down market participants. To do that at scale, we need to be more ambitious in considering what energy demand and supply in the UK could look like.

“We have still only just scratched the surface of the potential for community energy in the UK”

Thanks to huge leaps in technology and innovation, aided by the coalition's massive investment in UK science and R&D, we no longer have to exclusively rely on distant, monolithic power plants to supply our energy needs. Yes, Britain's energy security and the low carbon transition both demand a continuing big role for large scale energy projects. Indeed, Britain can lead the world in offshore wind and new nuclear. But large scale technologies such as these are an important part of a diverse energy mix, not the entire recipe.

Back in 2006, I published a pamphlet called *Power to the people* which called for a radical new approach, to usher in an age of popular decentralised community energy. In government we have made great progress: the number of decentralised energy systems in homes and businesses has leapt from a few thousand to over half a million and is continuing to grow all the time.

Solar technologies alone now account for over 2.5GW of installed capacity and continue to grow at a terrific rate. The UK is emerging as the most exciting growth market for solar in Europe. However, we have still only just scratched the surface of the potential for community energy in the UK.

With falling costs, there are a whole range of locally deployable low carbon energy technologies that can now be exploited economically. From combined heat and power (CHP) systems, solar PV, geothermal, coppiced biomass and a range of energy from waste technologies, right through to hydro and micro hydro schemes and more; the UK is bursting with innovation and potential. The key to unlocking this opportunity is a dynamic private sector.

Conservatives love real markets. We follow the tradition of the entrepreneur, the risk taker, the self starter and the business creator. We unleash innovation and will always champion the SME and the local solution. We are instinctively on the side of the disruptive new entrant.

The Big 60,000 would mean thousands of new local community energy companies, serving both their

own needs and those of their neighbourhoods. It would mean thousands of companies and organisations grabbing a genuine new commercial opportunity, making their operations more resilient, resource efficient and reducing the risk of energy price shocks.

This is not a pipe dream. It can be a reality in a prosperous industrialised country with a growing population. In Denmark, distributed energy meets around 30 per cent of the nation's heating and electricity needs and in the industrial Netherlands nearly 40 per cent of energy is met from decentralised sources. The largest share is met by gas fired CHP.

There is a lesson here for the environmental lobby. Gas is not a bogeyman. Gas is our ally. In any credible long term plan to decarbonise our economy, when extracted and utilised to the highest environmental standards, gas is still an essential intermediate energy source. If we are to scale up community and distributed energy and, crucially, at a time of a rising cost of living, ensure that energy bills are affordable for consumers, over the medium term we will need more gas, not less. Unabated coal should be the committed environmentalist's number one target, not the cleanest and most efficient of fossil fuels. Of course, we will need to think harder and act even faster to decarbonise gas usage in the long term. But, in a balanced, secure energy sector, gas, as well as both large and small scale renewables, new storage technologies and demand response systems, will still have a vital part to play for years to come.

So here is the challenge for the next Conservative government. How to encourage both massive investment in our large scale energy infrastructure, especially offshore wind and nuclear, and re-engineer our grid to be smarter, whilst also unleashing the potential for all scales and types of community and distributed generation?

I have stated on record, my personal ambition is to see over 20GW of solar deployed in the UK by the next decade. We could achieve that huge figure by covering just 14 per cent of our industrial and commercial roof spaces with increasingly efficient solar photovoltaic panels. New projects like the 5MW array at the Bentley Motors factory in Crewe, the UK's largest rooftop solar array, and the 1MW 'solar bridge' at Blackfriars in London are fantastic examples of how this can be done.

CHP, particularly in larger industrial, commercial and retail premises could also help to supersize our ambition. To do this at scale, gain the best deal for the consumer and maximise carbon and investment efficiencies, we will need to plan strategically at the local level for renewable heat networks: industrial, commercial and residential. Success will require a clear integrated vision to deploy renewable heat and electricity in the most efficient way. The private sector, communities and local government will all need to work in partnership with overarching support from national government.

We must encourage not just homeowners and social landlords to appreciate the attractions of self

generation and exporting electricity and heat but also, most importantly, our business sector, large and small.

“Community energy is the perfect partner for a step change in energy efficiency”

If CHP can work in Slough Business Park, at British Sugar in Norfolk, at Waitrose in Bracknell or in the heart of Sheffield, Birmingham and even in Whitehall, it can work anywhere. And community energy is the perfect partner for a step change in energy efficiency.

There is nothing to focus the mind on energy efficiency like starting to generate more of your own energy. Experience of the past three years has shown that installing a decentralised, low carbon energy system is a terrific spur for people to slash their unnecessary consumption. Thousands of newly deployed, distributed energy technologies have been quickly followed by the installation of sensible waste saving measures. In the US they call it the D3 agenda. This is the coupling of demand response and demand reduction technologies and measures with decentralised energy. D3 is growing like wild fire in corporate America. Now we need to drive it here in the UK.

But, if we are to create thousands of new local energy companies, we should look to do even more to hack away the regulatory barriers that stop companies

and community groups exporting to the grid or creating their own local, mini grids. We will need to further align commercial and community incentives and eradicate any remaining, over complicated or overlapping government policy that stands in the way.

To create the necessary smart infrastructure, a future Conservative government should continue to build grid resilience and flexibility and future proof any upgrades. Self generation must become the automatic default option of the progressive, ambitious, go ahead company and the obvious choice for the disruptive entrepreneur, whether they are a retailer or a manufacturer, running a multi-national or a brand new start up.

“Self generation must become the automatic default option of the progressive, ambitious, go ahead company and the obvious choice for the disruptive entrepreneur”

But government doesn't have money to throw at this agenda. And we need the interests of the consumer at the heart of this, if we are to create genuine competition and deployment at scale, without placing a burden on energy customers.

Thanks to falling costs and innovation, this is achievable. We can build the Big 60,000 and unleash

unprecedented consumer choice. The government must be a partner in this. It requires vision, ambition and a coherent strategy to shoot for it. But the prize is growth, jobs, economic resilience, a better deal for the consumer, a cleaner, greener, safer environment and energy security. Doesn't that sound like a conservative agenda?

Avoiding an energy civil war



Michael Liebreich
CEO, Bloomberg New
Energy Finance

As things stand, energy risks becoming the most divisive issue within the Conservative Party, the place usually held by Europe. On one side are the Roundheads, determinedly modern, concerned about climate change and convinced that renewable energy holds the key to future prosperity and environmental nirvana. On the other, the Cavaliers, dismissive of climate change and convinced that the right combination of tax relief and shale gas will enable the UK to reclaim its glory days as an energy exporter.

First, the Cavaliers need to accept that climate change is real. Here is what we know: the concentration of CO₂ in the atmosphere has increased by a third since the industrial revolution; the increase matches the volume of fossil fuels that man has burned; CO₂ is a greenhouse gas; the added CO₂ is causing a very substantial imbalance between the amount of energy entering and leaving the planet's envelope; the earth's atmosphere and oceans are heating up; the past decade was the warmest on record; the ice caps are losing mass at record rates; and the world has been experiencing unusual patterns of storms, drought and flooding. Vanishingly few scientists and no learned scientific societies espouse an explanation for all this other than human-caused climate change.

Instead of accepting this, the Cavaliers have chosen to take refuge among the uncertainties of climate science, of which there are still plenty. They celebrate anomalous data points, select idiosyncratic start and end points of time series, ignore

inconvenient facts and, when challenged, postulate a global scientific plot.

Second home truth: the world's energy sector is in the throes of a profound transformation. The old energy architecture - large scale fossil and nuclear power stations at the centre of a monolithic, analogue and over engineered grid - is no longer the most effective or efficient way of meeting our energy needs. The electricity system of the future will be based on a mix of super efficient appliances, renewable energy, natural gas and nuclear power, held together with a digitally managed smart grid, with power storage integrated throughout. Our cars and trucks will either get vastly more miles per gallon, or be electric. The transition may take twenty years or seventy years, but it is inevitable.

“The old energy architecture is no longer the most effective or efficient way of meeting our energy needs”

This is no longer just the pipe dream of sandal wearing tree-huggers. Worldwide over a quarter of a trillion dollars has been invested in renewable energy, energy efficiency and associated technologies in each of the past three years. Germany derives over 25 per cent of its electricity from renewable energy. Texas, synonymous with the oil and gas industry, generated nearly ten per cent of its power from wind last year. China is the world's largest investor

in clean energy, with around half of its new power capacity over the next 20 years expected to be renewable, rather than coal, gas or nuclear.

At the heart of this transformation is the dramatic reduction in the cost of renewable energy. The best onshore wind farms produce power as cheaply as gas or coal fired power stations. In Brazil, wind provides the lowest cost source of electricity. Roof top photovoltaic panels provide cheaper electricity than the local utility in almost all sunny countries. Geothermal, waste to energy, solar hot water, hydro power, sugar cane based ethanol: all can already be fully competitive under the right conditions without any subsidy at all.

Cavaliers will respond that the main forms of renewable energy: wind and solar power, are intermittent. However, engineers are smart, and there are plenty of ways of managing intermittency without resorting to expensive back-up power. First, you improve your resource forecasting. Second, by interconnecting the grid over larger areas, much of the variability of renewable energy can be evened out. Third, just when an increased proportion of renewable energy means you start losing control over supply, the introduction of digitally controlled smart grids gives you better control of demand. Finally, there is power storage, currently mainly in the form of pumped hydroelectric power but, in future, most likely in the form of batteries for electric vehicles. The cost of each of these techniques is coming down just as rapidly as the cost of renewable energy.

The Roundheads are right to say that this sort of new energy architecture can reliably meet a modern economy's energy needs, whilst simultaneously addressing climate change, as well as air pollution, which is a silent killer in every country of the world, including the UK. The question Roundheads tend to ignore is whether this transition can be achieved at an affordable cost.

“It is hard to discern any conservative principles at all behind the current government’s energy policies”

For the left, being pro-environment and anti-business are one and the same. Not surprisingly, the left's approach is based almost exclusively on controlling or blocking enterprise. Feed-in tariffs are nothing less than state price controls. Renewable energy targets are indistinguishable from Soviet five year plans. Complex planning processes add costs, slow down projects and increase risk. The big mistake of the Roundheads has been to leave unchallenged the assumption that these are the only tools available to drive the transition, instead of coming up with good conservative solutions, ones which have wealth creation, personal responsibility and freedom at their heart.

It is hard to discern any conservative principles at all behind the current government's energy policies: an Electricity Market Reform Bill which enshrines high,

state mandated prices for renewable energy, nuclear power and even back-up gas capacity; a Green Investment Bank that takes state allocation of capital to its most extreme form; a Green Deal which bribes people to implement energy efficiency with their own money; and most recently the award of monopolistic 15 year contracts to manage smart grid data and communications. The belated realisation that none of this speaks to concerns about rising energy bills resulted in a policy forcing utilities to reduce the choices offered to consumers.

Then there is Europe. In the mid-2000s, it was an article of faith that Europe was leading the world towards a low carbon, clean energy future. Even as late as 2009, Europe accounted for nearly half of all investment in clean energy worldwide. But, if 2009 saw the high point for European leadership on clean energy, it also saw the low point: the descent into chaos of the much heralded Copenhagen climate talks.

Today Europe's energy policy is in disarray. The EU's Emissions Trading System (EU ETS) is producing such low carbon prices that its coal usage has been growing faster than that of any other region in the world. Its utilities are decommissioning gas power stations and trying to build new coal plants, when they are not abandoning the continent altogether. Undaunted, the European Parliament is pushing to increase the renewable energy target from 20 per cent by 2020 to 30 per cent by 2030.

Instead of meddling in member country affairs, the EU should restrict its activities to areas in which its

involvement is truly needed, such as technical standards, inter operability, energy security and data protection.

The EU should also be working on deep reform of the EU ETS, not a cosmetic fix such as the current discussion about ‘back-loading’, ie withholding some credits from the markets for a few years. If you want a higher and more stable carbon price, one of interest to infrastructure investors rather than just commodity traders and hedge funds, you have to move to price targeting. That means creating an independent carbon central bank, with powers to undertake open market operations and to create and cancel credits. The current UK solution, imposing a floor price for carbon credits, is a gross violation of market principles and should be anathema to any real conservative.

“Not even shale gas extraction companies believe fracking will have much impact on gas prices”

Most importantly, Europe needs to get serious about building a single energy market: the ability to sell the full range of energy related services from anywhere to anywhere within Europe. Wind power in Brazil is among the lowest cost sources of electricity in the world. Why is this? First, a reverse auction system ensures that providers compete to produce at the lowest cost. Second, Brazil has a grid

which, if superimposed on Europe, would allow a Portuguese wind farm to sell its electricity to a client in Moscow. In Europe, a Portuguese power producer can’t even sell its electricity in France.

If Europe wants to lead the world on clean energy, it needs to get on with the tough work of deregulation and the introduction of competition. Where is the Easyjet of European energy, or the Virgin Atlantic? Where are the new services, the new providers? Only by releasing a maelstrom of entrepreneurial and competitive activity will Europe achieve its goal of a clean energy system without driving costs to uncompetitive levels. And the issue of competitiveness has become particularly urgent in light of the US’s unconventional oil and gas revolution. A revolution which, despite the hopes of many, is not going to be replicated in the UK, let alone the rest of Europe.

The Cavaliers are of course absolutely right that we should support shale exploration and extraction. The UK’s resources are enormous: extracting just ten per cent might provide enough gas supply for fifty years. This government deserves credit for clearing all of the obstacles so that the UK shale gas industry has a chance to prove itself, unlike in other European countries. But the third home truth is that not even shale gas extraction companies believe fracking will have much impact on gas prices.

Shale gas has been an astonishing success story in the US, shifting the country within a few years from being a long term gas importer to a potential

exporter, and pushing prices down to as low as a fifth of current UK prices. But there are caveats. The US gas price has now rebounded by over 90 per cent from its lows to around \$3.50/MMBtu. Shale gas operators in the US need a long term gas price of around \$5/MMBtu to justify continuing to drill, frack and build pipelines. And that is in a country where conditions are ideal: great geology, low population densities, an existing pipeline network, a fragmented regulatory environment, landowners with sub-surface mineral rights and a liquid market for rigs and drilling services. In the UK, it is hard to see shale gas coming to market much below \$8/MMBtu: around the same as the wholesale prices which have been driving up utility bills so sharply over the past few years.

Then there is the question of public acceptance. To replace the decline of UK continental shelf gas production through 2030, before beginning to replace any coal or nuclear power, we would need to frack 2,400 wells, which means around 240 fracking pads. Each one is an industrial development, requiring many truck movements and together occupying an area the size of Lancashire. As we are seeing in Balcombe, the dislike held by the British public for wind turbines near their homes may pale into insignificance compared to their dislike of fracking.

Those pointing out that current UK oil wells chug away inoffensively once drilled are missing the point: the output of a fracked gas well declines 85 per cent in its first two years. If the UK ever becomes

dependent on shale gas, it will never be able to kick the fracking habit.

“The dislike held by the British public for wind turbines near their homes may pale into insignificance compared to their dislike of fracking”

So whilst the Cavaliers are right that we should support fracking, it behoves us to do so with a sense of humility: acknowledging the environmental uncertainties, respecting the local impacts and being realistic about the potential speed and scale of development. The watchword should be ‘trust, but verify’. Issues of surface water disposal, methane in drinking water, fugitive emissions and, yes, even earthquakes need to be taken seriously. Data on fracking fluids must be made publicly available. Above all, robust, publicly accessible baseline data for air and water quality must be established at each prospective fracking site before operations begin. Conservative principles of respect for property and privacy demand no less, and without this sort of openness the shale gas industry will never be trusted.

Cavaliers with a sense of history would do well to remind themselves of *Roads for prosperity*, the 1989 white paper launching “the largest road building program for the UK since the Romans.” After seven

years of almost continuous, village by village protests, the policy was sent to the junkyard, when it was finally accepted that it was a vast vote losing gift to Labour and the Liberal Democrats in the south east.

As we approach the final year of the coalition government, the time is right for a robust, fact driven debate about energy. We have an opportunity to explain what we would do differently if no longer trammelled by our Liberal Democrat partners in the next government. We have a window of opportunity to ditch aspects of policy which go against our principles and to come up with a truly conservative set of proposals to manage the transition to a new energy infrastructure.

We also need to decide what David Cameron should focus on in his renegotiation of the terms of the UK's membership in the EU. This is our opportunity to demand three things: that Europe stops meddling in our domestic energy decisions; that it focuses on its core mandate of creating a single market in energy services; and that it reforms the EU ETS carbon trading scheme so it does the job expected of it.

Neither the Cavaliers nor the Roundheads have all the answers. We need the technological savvy and creativity of the Roundheads, but we also need the deep respect for conservative principles of the Cavaliers. It is time to decide what a future conservative energy policy will be, and to head off the risk of civil war.

Letting people reform their own energy market



George Freeman
MP for Mid Norfolk

Bold energy market reform is central to sustainable decarbonisation and the energy efficiency revolution we badly need. We need radically to empower the consumers of energy: families, businesses, communities, to take far greater responsibility for their energy choices. As energy becomes an increasingly expensive commodity, and one of the major impacts on family budgets and the competitiveness of industry, we should empower consumers to monitor usage and costs better, to use less and generate more, and enable them to switch provider more easily and support any of the myriad of new green energy technologies coming on stream.

For far too long the effect of successive energy policies has been to build a dependency culture in which energy is something the government does rather than something we do for ourselves. It's time to embrace bold market reforms to drive the energy revolution we need. Ironically, both the post war dependency on nationalised coal and the 1980s privatisation, and the consolidation which followed it, have entrenched an institutionalisation of 'big government' dependency in energy policy which is now holding back the revolution we need. For too long consumers have been encouraged to think of energy as a plentiful, cheap commodity which government and big utilities can be relied on to provide for us, rather than a precious commodity we all have to take a greater responsibility for conserving and generating.

Now, the twin pressures of finding tens of billions of pounds to upgrade our woefully ageing energy

infrastructure, and the urgent need to embrace decarbonisation and meet legally binding green targets Tony Blair committed us to, are driving a fresh round of big government solutions, with DECC spending billions in subsidies to attract the investment we need, helping to fuel an unsustainable solar and wind boom.

“Consumers have been encouraged to think of energy as a plentiful, cheap commodity which government and big utilities can be relied on to provide for us”

This legacy has left us facing a perfect storm in energy policy: how to renew our national infrastructure and go green, and tackle rising consumer bills? Energy market reform is key to solving that conundrum and we need to embrace bold new thinking to drive consumer empowerment. ‘Vote blue, go green’ was about a revolution in environmental policy in which we shift the environmental agenda from being driven by big government making big promises at big summits, which the small consumer then has to pay for reluctantly, to a much more diverse, insurgent, entrepreneurial, localist and innovative model, in which we, the consumers, are empowered to drive more open market, innovative new solutions to energy efficiency, microgeneration and green energy.

In my constituency I have seen the possibilities of communities taking control of their own energy use. More and more farms and businesses in Mid Norfolk are now mini power stations: feeding into the grid and actively investing to cut expensive energy waste. The enlightened self interest of millions of families, businesses and communities is a more powerful force for change than any government bill. That’s why I believe we need a revolution in microgeneration, consumer empowerment and the increased use of new market incentives already seen in ideas like ‘negawatts’. It is also why we must shift from fixating on one technology as the solution: the UK has a world class research base and venture capital cluster in cleantech solutions with a myriad of new technologies, from hydrogen fuel cells and geothermal to tidal and marine energy, any one of which might yet prove to be more suitable than subsidising mass solar or wind. Let’s give consumers the freedom and power to drive demand for efficiency and innovation, and allow local entrepreneurs to bring down cost and increase competition, to create an energy market that works for all.

We need to think more creatively about real options for market reform. There is no shortage of ideas. ResPublica’s recent pamphlet *Making it mutual*, for instance, set out a range of bold ideas, including making large companies offer part-ownership of projects to local communities, looking again at the planning framework which currently excludes insurgent energy providers, giving communities the right to own the local grid and a legal right of first

use of the energy generated. I believe we should look at all such reforms as ways to achieve the dual conservative objectives of breaking up the current energy monopoly and empowering local communities to drive new technological solutions.

“There must be a new focus on reforming big utilities, to weaken their grip on the market”

There are already encouraging signs. Boris Johnson’s target for London to produce 25 per cent of its energy from local sources by 2025 is one. The potential effect of such a move is huge, attracting estimated longer term investment of more than £8 billion, not to mention 850 jobs a year until 2025. Meanwhile, Ofgem’s recent proposals to help new providers enter the market through greater price transparency, and for financial penalties if the Big Six fail to comply, sends a powerful signal to open up the market and create a more level playing field for independent suppliers.

We need such bold ideas and examples, with the public sector working with the private sector. There must be a new focus on reforming big utilities, to weaken their grip on the market. We should incentivise consumer choice by giving a new deal to local energy entrepreneurs, helping new providers on issues like planning and encouraging people to use less energy and generate more. The old ways of

working are no longer appropriate for today’s challenge. Only by embracing the new: new technologies, new providers and new models, will we be able create the energy revolution we need. Customers are now ready to embrace and drive it. Let’s seize back the green agenda from big government and unleash the little platoons to drive a green revolution through a modern energy market.

Costing the consumer the earth



Laura Sandys
MP for South Thanet

The era of austerity has placed the green agenda under intense scrutiny, putting its advocates under pressure to reiterate the case for the investment needed to deliver a low carbon economy. We have become lazy about making the case for climate change, assuming that the ‘truths’ are now embedded in the global psyche. We have also become complacent, thinking that the cost of tackling climate change will go unchallenged in perpetuity.

With government budgets being cut across the world, covering everything from national defence to welfare benefits, it is right that our low carbon policies come under pressure to justify their value to society, the bill payer and the tax payer. This need for justification comes at the same time as energy prices have risen by 117.2 per cent in ten years, hitting families hard.

To ensure that these policies gain the public support that they deserve, we need to do more to convince people who are not members of Friends of the Earth or Greenpeace. We must do three things: reassert why we are taking this action and focus on the cost benefits; give consumers the tools to take action to mitigate the increasing cost of these changes, not least in energy; and take direct action to open up the energy market, to deliver much greater competition and innovation. Opening up the market will drive costs down while securing industrial benefits, by encouraging greater productivity and security for our economy as a whole.

It has been far too long since either green NGOs or politicians referred back to the beginning of the climate change story. The exact and specific issues around climate change and resource efficiency get muddled in the public's mind with other areas of environmentalism: from CFCs and the Rio earth summits to GM and allotments.

“We must also reframe the messages from the 2006 Stern Review and start explaining the total cost of climate change to society”

This is not to say that these issues aren't important, or that climate change isn't relevant to these other green activities or aspirations, but climate change needs to be re-explained and translated, from a catastrophe that is impossible to control into a reality that we can play a part in mitigating. In addition, we must also reframe the messages from the 2006 Stern Review and start explaining the total cost of climate change to society. This should be explained in terms of mitigation, resource constraints, disaster management and economic disruption, thereby framing our current investment plans in a wider cost context. We need to get back on the front foot, by recasting the debate and humanising the problem, as well as the solution, and find new voices to frame the economic case.

While the case must be made that a low carbon economy will be cheaper in the medium term and

much more secure in the long run, we must consider the householders who are footing the cost today, either through their energy bills or their taxes. The green movement could be accused of dismissing the public and their cost pressures, as they seem to pay far less attention to helping their members and society to reduce energy bills, than to lobbying to decarbonise our energy system.

This country has been pitiful on energy conservation and useless at reducing waste. It has given little value to low energy consuming products and, most catastrophically, it has never addressed the hugely wasteful housing stock in relation to energy. The government's Green Deal is a huge leap forward in tackling our inefficient homes and sieve-like commercial property. This could be helped by the green movement which could further promote energy efficiency products and provide real information to help reduce bills. Energy efficiency lacks consumer appeal, so the sector needs to get on the front foot at a time when consumers are totally focused on addressing their energy costs. This is the time for energy efficiency in its widest sense and, with the prime minister's commitment to make the UK the most energy efficient country in Europe, the political ambition is there too.

The government needs to focus on delivering greater liquidity and innovation to the energy sector. The market has become sclerotic, if one could say that there is a market at all. Decreasing from 16 companies to six in 13 years under Labour is a disgraceful shrinkage of a market that can only work to deliver value for consumers through new entrants, innovation and aggressive competition.

Again, it is for government departments to focus on the consumer, be guided by what is best for the consumer and determine the business model around the consumer. For too long Whitehall has been dominated by the necessity of supply not the nuances of demand and, if we are to see transformation in energy and other markets, we must start putting the consumer first.

“Having a low carbon economy is not just good for the environment, but it also makes financial sense”

Climate change is a real threat to real people in every community across the globe. Having a low carbon economy is not just good for the environment, but it also makes financial sense. However, these arguments are being eroded as we focus on large scale energy production rather than reduction and there appears to be little strategic response from those who know how important this issue is, both economically and in terms of security. We have failed to properly communicate this threat and give the public the tools it needs to help address the challenges. It is why we need to rework our electricity market to encourage low carbon investment. Worst of all, we have failed to support consumers in reducing their bills, whilst dealing with the threat to the planet.

Why aren't we building enough homes?



Toby Lloyd
Head of policy, Shelter

“Buy land. They're not making it anymore.”
Mark Twain

There is something profoundly wrong with our housing system. No matter how high house prices rise, the market does not respond with more supply.

No other market behaves like this. If the prices of wine, flip-flops or smart phones rise, producers react by making more of them. The difference between all these things and houses is that you can increase supply by importing products, but you can't build a house without somewhere to put it. And that means engaging in the land market.

Try buying some land and you will discover the market has some very odd features. First, it's extremely hard to find out what bits of land might be for sale. Landowners sometimes advertise a site for sale but this is rare. Most sites are bought by a developer or agent approaching the owner directly to suggest a possible sale.

Second, it's often very tricky to find out who the owner is. The ownership of most land is recorded at the Land Registry and can, in theory, be discovered but it's not an easy process, and you need to know how to do it. Often, it turns out that the registered owner is a company, frequently registered overseas, so you may never be able to track down someone who could discuss selling the site.

The next barrier is simply that most landowners have no intention of selling their land, at least not

unless you offer them a very high price. Many landowners turn out to have no interest in building: 50 per cent of land with planning permission in London is owned by non-developers. So what is a fair price? Nine times out of ten the site will not have a selling price advertised. It's all up for negotiation and, as there aren't many transactions, and each site is different anyway, it's not easy to compare your bit of land with another to work out a fair value.

If you are trying to work out how much to offer a landowner, you could make a sensible estimate of where house prices will be in three years but you may be outbid by someone who makes a more bullish estimate.

The result of the land auction process is that the worst scheme, the one that offers the least to the community, the poorest quality homes and charges the most for them, is generally the one that wins, because this is the one that offers the most cash up front to the landowner. As a result, development is already at the margins of viability. Even a relatively small economic shock can see construction grind to a halt rapidly, because there is simply not enough margin left, after the landowner has taken their cut, for the developer to afford to build.

In a falling or stagnant market the best strategy is to hold onto the sites and wait for values to rise, or to prioritise 'margin over volume', as the largest house builder in the country puts it. And when recovery does come, land markets quickly price in expected

future value gains, keeping development at the margins of viability and making output growth painfully slow. The combination of developers' ability to withhold supply and the viability trap, both consequences of the land market, creates a downward trend in overall house building. Over recent decades total supply has plummeted with each economic crash and then only inched up during times of growth, never quite reaching the previous peak before the next crash has come along.

“The worst scheme, the one that offers the least to the community, the poorest quality homes and charges the most for them, is generally the one that wins”

Minimising output to maintain prices is not a strategy that many other industries can adopt. Providers of social care or hamburgers can't stockpile their products for five years, waiting for the right market conditions. But those that own land, or equivalent natural resources, such as oil, always have that option because no new supplier will undercut you, and there is essentially no holding cost for land. Even if land prices do fall for a bit, over the long run they always seem to rise, so waiting makes sense. Inevitably, developers find themselves holding onto land banks, and often making more out of trading them than they do from construction.

In fact, British developers have long been a curious mix of land traders and construction managers.

As Adam Smith and David Ricardo noted, there is no easy way around this phenomenon: Ricardo's 'law of rent' states that the value created by positive development accrues to the person that owns the land. The fault is not with the developer, at least as far as they are acting as a developer rather than as a landowner, nor the residual valuation method inherent in land markets. Land markets tend to internalise productive value from elsewhere in the economy and return them to the landowner, leaving little potential return for building companies, residents or the wider community. Typically, land markets successfully capture almost all the financial gains from public investment in, for example, new train stations or better schools.

One proposed solution is to loosen planning rules, to flood the market with land with permission to bring down the cost. Endless urban sprawl may be acceptable in Texas and other land-rich places, but it has serious environmental, social and political implications that render it untenable in the UK. Blaming planning exclusively for land scarcity ignores the fact of concentrated land ownership in some areas, and the incentives landowners have to hold on to sites, hoping for a change or reversal in planning policy. Ultimately, this approach misunderstands the nature of land markets: we have a planning system because the right bits of land are inherently scarce, not the other way round.

Interestingly for our current times, the law of rent implies that we cannot solve the problem just by applying more money to it. In fact, pouring more cash into the land market only pushes the price of sites up still further. Therefore, the search for solutions has to turn to other kinds of intervention that can disrupt this pattern and prevent land markets from extracting all the value from development before it's even happened.

“Any serious attempt to address our housing crisis must include measures to change incentives and price signals in the land market”

Any serious attempt to address our housing crisis must include measures to change incentives and price signals in the land market, to secure land at low cost and get it into the hands of those who really want to build. For example, by setting up community land auctions, compulsory purchase of land in key areas and using the tax system to capture future price increases caused by public investment.

Housing is different because land is different from other assets. This understanding is integral to solving our housing crisis.

Why markets matter for a greener future



Guy Newey
Head of environment and energy, Policy Exchange

The market economy has achieved a rare feat. It has become the backbone of the world's most successful economies, exposing the weaknesses of centrally planned alternatives, while garnering scant affection. Attitudes towards markets, even among those who have benefited richly from them, are rarely warm, ranging from suspicion to open hostility. This often stems from a misunderstanding of what 'the market' is, its genius and its limitations.

Suspicion towards markets is often acute among those who are most concerned about environmental issues. They associate market systems with greed, big business, power over governments and resistance to regulation. However, this view has little to do with genuine markets.

The risk for those concerned about protecting our natural resources and environment is that, if market processes are abandoned in favour of central planning, success is less, not more, likely. This is why a true understanding of what Jesse Norman has called 'compassionate economics' is crucial before we can harness the power of markets to prevent our hugely successful species from continuing to use the planet as a place where we extract and dump with abandon.

The economist John Kay has argued that a successful market economy has three defining characteristics. The first is the use of price mechanisms as a better way of allocating resources than central planning. Second, markets are a process of discovery or experimentation, where success is rewarded and, crucially, failure not tolerated. The third, and most

neglected, element is that markets diffuse power, both political and economic.

The first characteristic of markets, prices as signals, is reasonably well understood. It has also been successful in tackling environmental problems. One example is the landfill tax, where the UK government has put an increasing price on waste sent to landfill (see Dan Byles' piece on page 31). The result has been the creation of new firms, innovation and jobs. However, these are useful by-products of the policy, not measures of success. The crucial outcome is that the amount of waste going to landfill has fallen.

“The technology that can deliver energy at a lower cost than fossil fuels, with or preferably without a carbon price, should thrive”

The second element of successful markets is the process of discovery. Successful technologies that can outcompete rivals are rewarded, while others fail. In the case of climate policy, the technology that can deliver energy at a lower cost than fossil fuels, with or preferably without a carbon price, should thrive. Those that cannot will disappear. The key insight of the 1980s and 1990s privatisations was not that private companies are better than publicly owned ones, but that competition drives

improvements. In fact, there is little evidence that private monopolies are any better at providing services for consumers than public ones. The success of gas and electricity markets in delivering huge levels of investment and security of supply, at a lower cost to consumers than the centrally planned Central Electricity Generating Board (CEGB), was a success of increased competition, not privatisation.

The final characteristic of successful markets, that economic and political power are diffused, is the least well understood. Ministers, from all political parties, are determined to show they are the most pro-business: they welcome the support of the CBI; they are in favour of light touch regulation that favours incumbents; they engage with stakeholders; and the masters of industry advise them. The coalition's system of buddying, where big businesses are given a direct line to a particular minister, is just the latest example.

But being pro-business is not the same as being pro-market. In fact, markets are most successful when they can overthrow incumbents. Apple has destroyed the business model of mobile phone firms and big record companies, in the same way that the Gutenberg printing press put medieval scribes out of business. Both were of huge benefit to consumers, if not record firms. In the energy sector, horizontal drilling and hydraulic fracturing has overturned almost every expectation about the cost of energy in the United States. Solar panel manufacturers in China are outcompeting German firms, to the benefit of both consumers and the environment, but

to the frustration of incumbents, who are trying to erect border tariffs.

When political and economic power is centralised, it is much more attractive for incumbents to lobby for policies that support their product, such as subsidies, regulations or trade barriers, than take on rivals in a competitive market. Such lobbying is often hidden under the guise of providing certainty and almost always comes at consumers' expense. Every sector tends towards protecting incumbency, but in the energy sector it is particularly rife, with both well established fossil fuel firms and low carbon companies touting established technologies. The proliferation of lobbyists in Whitehall claiming that their technology is the answer to climate change, if only it can get that little extra bit of government support, highlights the problem. If they really believed their own spin that they could compete in an open market, then they would welcome competition.

From the early 1980s until the early 2000s, the drift in policy was towards increasing competition and less political interference, achieved partly through privatisation. It delivered great benefits to consumers. Since then, there has been a drift away from markets towards more planning, often because politicians did not like the answers that the markets were throwing up.

Intervention breeds more intervention. The government's proposed Electricity Market Reform (EMR) was meant to be a limited way of

encouraging more investment. But it created a perceived need for a capacity mechanism, leading to the bizarre situation where the UK may subsidise gas fired power plants. Independent renewable firms now feel that the EMR's support mechanism is inadequate and want their own niche market. The latest manifestation is an effort to mandate the exact make-up of the electricity system in 2030, because "we know that will be the cheapest way to decarbonise." Every assertion and intervention is based on clever, but flawed, models that try and predict the unknowable. As interventions multiply, the model becomes law, innovation is stifled and consumers lose out.

“Some of those most concerned about protecting the natural environment shun the economic system most closely comparable to the genius of nature”

The history of energy policy is littered with efforts of wise men predicting the future, forming commissions and issuing horizon scanning strategies. Their insights are frequently as wrong as the industry consensus in the early 1980s: that oil prices would remain high for the next 20 years.

The likely conclusion of this process in the UK is that the entire electricity market will, once again, be planned. Generators will lobby hard for higher guaranteed prices and politicians will cave in. Risks

will be socialised and profits privatised. Such crony capitalism is the exact opposite of what a well functioning market should look like. It is even worse than full public ownership. More worrying, it risks the overall costs of decarbonisation being higher than they need to be. What chance for China and India, let alone the US, following such an example?

This is not to say that governments do not have a crucial role in the market, particularly in addressing environmental problems. They must set the rules of the market and ensure that the polluting costs of activities are priced into decisions. They must also provide innovation support for developing technologies. Fracking was a crucial beneficiary of tax breaks and public support, although its ultimate success was because it could undermine its rivals in an open market. But governments should limit such intervention and concentrate on encouraging competition, to ensure that the most cost effective, resource efficient solution emerges.

The irony is that some of those most concerned about protecting the natural environment shun the economic system most closely comparable to the genius of nature. Ecological systems are a confusing tangle of experimentation, where species that thrive in particular niches can be overtaken when conditions change and monocultures are vulnerable to assault from predators or disease. Markets are chaotic and throw up surprising answers. But the flexible, resilient, homeostatic market economy offers the best chance we have for dealing with the huge environmental challenges we face.

The government's role in helping markets waste less and use more



Dan Byles
MP for North Warwickshire
and Bedworth

When discussing the power of free markets to develop complex yet efficient solutions, I am drawn to the apocryphal story about the visit of a Soviet ambassador to London during the Cold War. The ambassador observed that, unlike in Moscow, bread of many different varieties was widely available in thousands of outlets across the city, freshly delivered daily and available without queuing. When dining with a British official, he asked, “tell me, who is responsible for planning the distribution of bread in London?” The official replied, “nobody.” They stared at each other in disbelief, one at the question, the other at the answer.

Economics is essentially about the distribution and use of scarce resources. At the heart of microeconomics is the supply and demand model, and this simple concept is among the most powerful models for explaining rational human behaviour. Bring economics into the real world and the basic model can get a little lost in the complexity, but understanding the basic concept can be useful when considering a competitive, market driven solution to environmental issues such as waste management and recycling.

Governments of all flavours have used various methods to compel individuals and businesses to act in a way the government of the day wants them to. The tools at their disposal range from simple diktat: banning or enforcing certain behaviours through the law, to various degrees of incentive, disincentive and even nudging.

As a free marketeer, I am of the view that competitive market based solutions are more effective and more efficient than bluntly legislating for a desired behaviour. Too often, legislation focuses on the mechanism. This can lead to inefficient and suboptimal solutions, and is rarely as effective as incentivising the desired outcome. It is true that markets cannot deliver an optimal approach in every situation but, where they can, they do so in ways that no central planner could hope to match.

Economic incentives can be organic to the marketplace or artificially imposed. Consider the issue of community benefit for energy infrastructure projects. In some cases these developments will provide a natural, organic benefit to a local community through jobs and investment. Hinkley Point B nuclear power station, for example, puts an estimated £40 million per year of direct economic benefit into the local economy, in terms of jobs, supply chain and support services. An onshore wind farm on the other hand provides little in the way of a comparable local economic benefit, and so we have an ongoing debate about appropriate, artificial community benefits such as reduced energy bills, community investment funds, etc.

Where the natural incentive is there, the market will provide a solution. The challenge for government comes in knowing when an artificial incentive is required and delivering that incentive in the lightest touch way to allow the market to devise the most efficient solution.

One example where competitive thinking, stimulated by prods from government, has created a market place is in waste management. Traditionally, we have dumped unwanted waste in landfills or incinerated it. While this may be the appropriate solution for some waste products, it is obviously suboptimal for most. Not only are potentially reusable resources discarded, the negative impact in terms of land use and emissions are in many cases avoidable.

“The challenge for government comes in knowing when an artificial incentive is required and delivering that incentive in the lightest touch way to allow the market to devise the most efficient solution”

Government approaches to waste management have covered the entire spectrum, from mandatory recycling through to disincentives such as the landfill tax. What strikes me from speaking to innovative waste management companies is that sometimes the right push from government at the start can lead to private sector companies identifying new ways of reusing and recycling waste products. These would never have been imagined previously, and often save their customers a significant amount in the process.

Lancashire based Remsol, for example, has developed a business model that extracts value both for themselves and for their customers from the process of effective waste and environmental management. An example of where the right push from government can lead to an innovative, market driven and money saving solution, Remsol were asked by a client to develop a solution to disposing of bulk liquid bitumen waste. Previously, this waste was mixed with dry, absorbent solid wastes and sent to landfill. The push for change came from an impending government ban on mixing wastes in this way. The market driven approach Remsol brought to the problem led to a novel solution that no government diktat could have identified: blending the waste into secondary liquid fuel and using it to power cement kilns. This reduced landfill disposal and cut their customer's disposal costs by 45 per cent.

“It is by unleashing competitive market forces that we will find the most efficient and innovative ways to resolve environmental issues”

Even without government intervention, the market can show a remarkable ability to adapt to issues such as rising commodity prices. The recent news that Veolia are investing in new facilities to ‘mine’ street sweepings is a recent unusual example. They hope to

recover up to £1 million worth of platinum, palladium and rhodium a year from the dust swept up from UK streets; this is as clear a demonstration as any that there is potential value in almost all waste, and it can be recovered with a bit of ingenuity and lateral thinking.

I consider that well thought through incentives to develop competitive, market driven solutions can be stronger and more reliable than government diktats. And, despite being a strong believer in the free market, I accept that sometimes those initial incentives are required from government to create the conditions for the market to thrive. But, ultimately, it is by unleashing competitive market forces that we will find the most efficient and innovative ways to resolve environmental issues such as waste management.

Encouraging enterprise in transport



Richard Hebditch
Campaigns director,
Campaign for Better
Transport

Britain has one of the most market based public transport systems in Europe. That, at least, is the theory. In practice, both rail and bus markets are dominated by a few big companies, including many state railways from the rest of Europe, and there are many levels of state intervention to address market failures. This matters for our environment as the resulting poor public transport opportunities mean that many people remain dependent on their cars for most journeys.

The bus market has the least involvement from central and local government. There are few formal barriers to entering the market. All potential operators need to do is to inform the Traffic Commissioners of their intention to run services 56 days prior to their start and to meet certain basic safety requirements. Despite this, sustained head to head competition between bus operators is rare. Incumbent operators have many advantages from existing infrastructure of bus garages, awareness of routes among established passengers and the ability to respond to new entrants with short term price cuts.

But the lack of formal barriers to entry into the market means that opportunistic operators can appear for a short time, undercutting established operators with poorer quality buses, less well trained drivers and cheaper fares. These short term 'bus wars' rarely lead to sustained competition but create uncertainty for established operators, leaving them wary of investing to grow the market overall and improve the quality of their offer.

In addition, around one in five bus services are provided by local authorities. These are often

evening and weekend services and those in rural areas. These services are necessary. Evening and weekend services are needed for young people to get to jobs, such as those in tourism or retail, which don't work on a traditional nine to five basis. Older people rely on rural services so that they can continue to lead independent lives.

But local authority budgets are being squeezed by the rising cost of social care and falling income from central government grants. A better way has to be found for councils to work with operators to provide necessary services that wouldn't otherwise be provided.

One way is stronger partnerships. The fear of new, poor quality, short term entrants, coupled with short term funding from government, harms long term investment plans from operators and councils to develop the market for buses. Instead, we should allow councils to raise the quality standards required for bus companies to operate in their area but, in return, councils need to work with them to make bus travel simpler and provide better information to passengers. There can still be competition, but competition between companies which are in it for the long term, competing on quality and price rather than short-lived bus wars that help nobody. The 19th century-sounding traffic commissioners are not smart regulators of buses and a better, more localised, approach is needed to support local bus partnerships.

In addition, a new way to support essential but unprofitable services is needed. Community

transport groups, usually social enterprises, can innovate in ways that traditional companies do not and could deliver more of these services. But local authority contracts are too restrictive and are not focused on outcomes. Social enterprises are unwilling to take on and invest in developing routes for fear that increased profitability will mean that the big bus companies will then move in.

“A better way has to be found for councils to work with operators to provide necessary services”

Community bus partnerships could offer a better approach. Councils would contract with social enterprises to deliver a network in rural areas based on agreed outcomes. The social enterprise would also be given protection from competition for a number of years, through existing legislation, to provide the certainty they need to invest in improvements to grow passenger numbers. Community rail partnerships, which involve parish councils, community groups and others, have shown that they can turn around previously underused and unprofitable rail lines. There is no reason that involving the community more would not do the same for buses.

With rail the competition is between different holding groups to win franchises from the Department for Transport. But there is a fundamental problem with franchising. The formal process of franchising assesses, in great detail, bidders' plans as

if government is buying something from them. However, it always awards the franchise on the basis of which company offers the most money back to government in absolute terms over the next fifteen years, or who has the lowest subsidy requirement.

Applying this same system to all franchises doesn't work. Where the government is likely to need to support the cost of running services, or where there is little that train companies can do to grow passenger numbers, it makes sense to run services on the London Overground model. In this model, the private company gets on with running the service under contract from the public sector which takes on more of the revenue risks. This is now likely to happen with services over which Boris Johnson has won control from the Department for Transport, from London Liverpool Street out to the Essex border.

Where there is more scope for train companies to innovate and grow passenger numbers, such as intercity services, we need a new model where fare payers and tax payers share the benefits and train companies have a real incentive to invest in improving services. More open access operators, operating additional services outside the franchise system, could also offer competition on these lines and spot gaps in the market, which the large franchised train companies miss with their less flexible business models.

With both rail and bus services split into individual operating units, there is a lack of strong leadership to consider wider network benefits. For instance, bus and train companies lack incentives to join up

their services. The potential short term costs of amending bus routes or improving station facilities can stymie such initiatives, despite the long term increases in fare revenue. On rail, new initiatives across the network, such as railcards, are rare, as reforms to the whole network move at the pace of the slowest train company.

“Bus and train companies lack incentives to join up their services”

Private sector involvement should lead to more innovation, more customer focus and increased efficiency. But the bus and rail markets often do not deliver this. A better way has to be found to support a wider mix of providers and more effective procurement by the public sector. This could deliver the step change needed to make public transport a better option for many more and cut the environmental costs from our dependency on the car.

The market versus the environment



Rory Stewart
MP for Penrith and the
Border

If you want to see why a conservative approach to environmental policy is necessary, consider the fate of Britain's small upland farms. They are vanishing. Two thirds of our farmers and independent farms have been swept aside in the last few decades. As they disappear, the basic structure of rural life is being undermined: farmhouses are converted to expensive homes in empty valleys, where it is increasingly rare to see a farmer in a field. We are losing the children who kept local schools open. We are losing the farmers' work, their memories and their intimacy with the land. We are losing the humans who gave much of the life and interest to rural Britain, for offcomers as much as locals, and we are failing to protect them. This is, in part, the result of an increasingly narrow, reductive, theoretical approach to markets and the environment, which is the antithesis of conservatism.

All the government policies and subsidies on land use, and the messages of every political party for 20 years, seem to have been narrowed down to 'the market' or 'the environment'. These two slogans define the rules and subsidies; they are the two pillars which prop up the multi-billion pound Common Agricultural Policy of the European Union. Such policies propagate a context (a version of which already exists in the United States) in which land becomes either an industrial factory for the production of the maximum amount of food at the cheapest price, or a national park almost devoid of human cultivation.

Of course, any number of policy makers will insist they have nothing against small farms. They point

out that a well developed marketing strategy can provide a premium for specialist, local produce; and, that a flexible and innovative co-op could increase reach and leverage for small farms. But, in practice, these successes are the exception; the figures show farms getting larger and larger all the time. One reason is obvious. If a single farmer has sixty cows, they are tied to them every day of the week, twice a day. But 20 times as many cows might only need five times as many people, and people are expensive. Scale makes it possible to build up the reserves to ride out fluctuations (sheep or feed prices can half or double within a year), allows diversification and economics of scale and increases leverage with buyers.

“All the government policies and subsidies on land use, and the messages of every political party for 20 years, seem to have been narrowed down to ‘the market’ or ‘the environment’ ”

Environmental policies also often work against small farms. Biodiversity and carbon capture targets require that wetlands and mires increase, mosses and ferns re-emerge, and that ground cover, peat and tree cover expand to sequester carbon. This means fencing off some areas entirely from stock, reducing the overall number of sheep per hectare, sometimes to a quarter of what the land once held, and reversing the draining, cutting, grazing and

moorland management necessary to support heavy flocks. Environmental subsidies were, of course, introduced to compensate upland farmers for the income foregone from their sheep. But, as flocks diminish, shepherding skills have also been undermined and much of the pasture degraded.

Increasingly farmers will cease to be sheep farmers, or to see any way to make a living from sheep should subsidies cease. George Monbiot makes the point that “subsidies in their current form surely cannot last much longer... farming will gradually withdraw from the hills... rewilding [the reintroduction of wolves, lynx, wolverines]... is better deployed in the uplands.” The enterprises best able to breed sheep on a significant scale, and ride out the fluctuations in the market, are now the large estates which can allow small numbers of sheep to wander freely with little care or supervision. Those estates are also those who have the resources: the staff, the time, the agents, to put together the most complex and ambitious proposals for extra environmental subsidies.

Officials do not state what is happening. Instead we hear reassuring sounds about the upland farmers’ role in creating and maintaining the network of dry stone walls, the barns, the environment and ‘rural services’. But, no agency is tasked to measure or record the impact of government policies on small farm numbers. Privately, the free marketeers mutter, “these family farms are too small, their land is too marginal, it is inevitable that they will fold,” and dominant environmentalists quietly encourage farmland to be handed directly to the RSPB, or

planted with trees, and the National Trust allows water to ruin the lowland pastures of their small tenant farms, apparently on the advice of the Environment Agency.

The philosophy underlying this approach to the land is profoundly at odds with the conservative tradition. At times it is even what Yeats calls “whiggery: that levelling, rancorous, rational sort of mind that never looked out of the eye of saint or out of a drunkard’s eye.” It is an approach that is, firstly and indubitably, narrow. It acknowledges essentially only two values, perhaps because they are those which can most easily be measured: profit, and biodiversity, ie how to maximise the income, or the species numbers, on a given patch of land.

“Conservatism should emphasise the multitude of values that exist in the landscape”

Second, it is reductive. When it acknowledges other aspects of the landscape, it presents them as the means towards the achievement of those market or species’ objectives. Thus, if small farmers are valued, it is in terms of their productivity, or their contribution to environmental stewardship.

Third, it imagines, to paraphrase a hundred seminars and strategic plans, that “with the right approach there need be no conflict between different objectives.”

Fourth, it builds an intricate architecture of universal economic and biological arguments, and incentivises officials to develop abstract models, and standard metrics.

Conservatism, by contrast, should emphasise the multitude of values that exist in the landscape: including history, archaeology, beauty, past perceptions of that landscape and the continuing life and memories of its inhabitants. It should approach these features as independently valuable: as ends in themselves, not simply as a means towards some larger financial or biological objective. It should highlight the deep tensions and conflicts between these values and emphasise that policies on species, productivity and cultural heritage involve often tragic choices and, at best, fragile compromises.

Conservatism should reject a model of understanding based on isolation, in favour of one based in a deep absorption in a particular place and community. It should aim to understand, preserve and develop the intricate, inherited energies, imaginations, memories and texture of the traditional British landscape. Such things are inherently human and derive their energy from communities and from small family farms. Which is why, when the neo-liberal approach assesses landscape in terms of its financial or biological value, emphasising money, plants or animals, conservatism should instead emphasise the human.

Nor is this simply a philosophical stance. Concrete conservative policy alternatives exist. France and Japan have already put policies in place to support

small farms, because they acknowledge their intrinsic value for society. British politicians may not yet be ready to go that far, but we could at least begin to count the number of farms we are losing and ask officials to assess and reveal what impact their rules, policies and subsidies are having on small farms. We could ask national parks to provide detailed predictions on what they expect their hills to look like in 50 years' time, to clarify not in the abstract but, specifically, valley by valley, what landscape they are seeking to create. We could ask charities like the National Trust to make the interests of small tenant farmers a priority equal to their environmental targets. We do not need more agricultural subsidies but we could target more of the existing billions, not on wolverines, or vast estates, but on preserving small upland farms.

“We know, regardless of whether we call ourselves conservatives, that our small family farms are a final fragile link to our ancestors and our traditional culture, and that we will miss them terribly when they are gone”

And the public understands that this matters. They do not need to accept a definition of conservatism, still less call themselves conservatives: they simply need to embrace the human in the landscape. As

people who live in and travel through the British landscape, as opposed to cutting it to fit a theoretical model, we the public sense intuitively that small farms are not only ways to maximise profit or support non-human species, but are instead bearers of human culture.

We instinctively place a high value on Lake District farms as being the legacy of more than a thousand years of small cultivation; and we are pleased by the ways the farms, the farmers, their children, their stone walls and their sheep, make the British countryside still quite different from that of the USA. We know, regardless of whether we call ourselves conservatives, that our small family farms are a final fragile link to our ancestors and our traditional culture, and that we will miss them terribly when they are gone. The duty for conservatives now is to express this intuition, to insist on its importance, and to turn it into policy.

“Too often, the environment is seen as a peripheral issue in politics, but for the public it is the real world. It is the bill through the letterbox and the view through the window”

Lord Howard of Lympne

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