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£3.68 trillion: The price of failing to act on climate change

Landmark report reveals apocalyptic cost of global warming

Gaby Hinsliff, political editor
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Britons face the prospect of a welter of new green taxes to tackle climate change, as the most authoritative report on global warming warns it will cost the world up to £3.68 trillion unless it is tackled within a decade.

The review by Sir Nicholas Stern, commissioned by the Chancellor of the Exchequer and published tomorrow, marks a crucial point in the debate by underlining how failure to act would trigger a catastrophic global recession. Unchecked climate change would turn 200 million people into refugees, the largest migration in modern history, as their homes succumbed to drought or flood.

Stern also warns that a successor to the Kyoto agreement on cutting greenhouse gas emissions should be signed next year, not by 2010/11 as planned. He forecasts that the world needs to spend 1 per cent of global GDP - equivalent to about £184bn - dealing with climate change now, or face a bill between five and 20 times higher for damage caused by letting it continue. Unchecked climate change could thus cost as much as £566 for every man, woman and child now on the planet - roughly 6.5 billion people.

The 700-page report argues that an international framework on climate change covering the globe will be necessary, and that different countries may opt to reduce emissions differently. Options range from many more green taxes to carbon trading.

Stern's verdict will create fierce political debate, with a growing belief in government that taxes on activities such as driving or flying will have to rise.

A leaked letter from the Environment Secretary, David Miliband, to the Chancellor, in the Mail on Sunday, proposes a range of 'green' tax increases.



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Stephen Byers, the former cabinet minister and member of an expert panel of international politicians on climate change, is meanwhile urging new taxes to help change behaviour, including a 'global warming premium' on exotic fruit, vegetables and flowers flown thousands of miles across the world.

'There will need to be a global response [to Stern], but it must also filter down to change at domestic level,' he told an audience of businessmen in China this weekend. 'For the Labour party there must be no no-go areas for policy debate. The politics of taxation is changing and we need to be leading the debate, not playing catch-up. We should consider how we can change the structure of our tax system in a way which benefits the lowest-paid and penalises environmentally damaging activity.'

Byers is the first of several senior Labour figures expected to go public over green taxes, reflecting views within Downing Street that the public now fears climate change sufficiently to pay more for gas-guzzling activities. Charles Clarke, the former Home Secretary, is expected to join the debate, while Alan Milburn raised the issue in a recent speech. Such interventions will irritate the Chancellor, who regards taxation as his turf, particularly in advance of his autumn pre-budget report.

Air freight is one of the most lightly taxed areas of transport since aviation fuel is tax-free and there are no passengers to pay duty. Yet green campaigners say the planet can ill afford the thousands of 'food miles' travelled by exotic produce. One kilo of kiwi fruit flown from New Zealand to Europe discharges 5kg of carbon into the atmosphere. Other options include hiking car tax on fuel-inefficient vehicles and cutting stamp duty on the purchase of energy-efficient houses. Byers will argue tax rises should be offset by cuts elsewhere.

The Stern report will advocate extending the European 'cap and trade' system - under which carbon emissions are capped at a certain level, with businesses which need to emit more forced to buy spare emissions quotas from low-polluting businesses around the world, encouraging industry to find cleaner and cheaper ways of operating.

He will also urge a doubling of investment in energy research and a speedier Kyoto process - meaning that negotiations with the US will have to be undertaken while George Bush is still president. International governments had hoped to deal with a more sympathetic successor after 2008.

Downing Street and the Treasury believe that the report marks a decisive moment in international politics. Stern's is the first heavyweight contribution by an economist rather than a scientist and senior officials believe he will make what might seem a hopelessly ambitious timetable credible. 'This will give us an argument to make,' said a Whitehall source. 'I think we are at a tipping point in terms of the debate, as we were at a tipping point in 2004/05 in terms of the science.'

Stern's forecast cost of 1 per cent of global GDP is roughly the same amount as is spent worldwide on advertising, and half what the World Bank estimates a full-blown flu pandemic

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would cost. Without early intervention, he estimates the cost would be 5-20 per cent of GDP, some paid by governments, some by the private sector. But he stresses that unilateral action will not be enough - if Britain shut down all its power stations tomorrow, the reduction in global emissions would be cancelled out within 13 months by rising emissions from China.

Stern will advocate new funds to help Africa and developing nations adapt, but will argue the key challenge is from emerging nations such as China and India. Emissions from China are nearly level with the US and likely to increase as the Chinese get more cars and electrical goods - up to 30 million households are likely to get digital TVs alone in the next few years. Britain will push this week for more energy-efficient consumer goods.

The Tory environment spokesman, Peter Ainsworth, who has argued green tax should rise as a proportion of overall taxation, said he hoped the Stern report 'spurs the government into being much more proactive than it has been'.

Britain's share of revenue from green taxes is lower now than in 1994, partly because of the freezing of petrol duty after fuel protests.

Green taxes are controversial because if they do change behaviour, tax income falls, emptying Treasury coffers. But supporters argue that, over time, the tax system could be shifted back towards more personal taxation.

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