

Confidential Filing

Car Exhaust Emission Standards.

ENVIRONMENTAL

AFFAIRS

[In attached folder: Royal Commission on Environmental Pollution Report on Emission from Heavy Duty Diesel Vehicles]

~~XXXXXX~~: April 1989.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
21.4.89							
25/4/89	PA						
30.5.90							
6.6.90							
27.6.90							
2.7.90							
9.11.90							
8.1.91							
4.7.91							
3.9.91							
PREM 19 / 3599							
Series closed							

016
THE RT HON JOHN WAKEHAM MP



Department of Energy

17, Whitehall

London SW1E 5TA

071 238 3149

copy
Roy
file

TPM

Phillip Ward Esq
Principal Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

5 December 1991

Dear Phillip

CO₂ EMISSION PROJECTIONS

Your Secretary of State and mine spoke on Tuesday about the desirability of publishing the new CO₂ projections promptly in order to forestall any unwelcome press speculation.

I attach the draft of a PQ and answer which my Secretary of State intends to issue on Friday.

I am copying this to Barry Potter (Prime Minister's Office), Richard Gozney (FCO) and Jeremy Haywood (Treasury).

Yours
John

J S NEILSON
Principal Private Secretary

(Jph) ←

DRAFT PQ AND ANSWER

TO ASK THE SECRETARY OF STATE WHAT FURTHER DEVELOPMENTS HAVE
TAKEN PLACE ON FUTURE CO₂ EMISSIONS

The Government made a commitment last year to return UK CO₂ emissions to 1990 levels by 2005 if other countries play their part. It also made clear that it would monitor progress towards achieving this challenging target. There have been several significant and helpful developments since then. These include a number of new proposals for more efficient gas fired electricity generation, following the introduction of competition into the electricity industry, which will reduce CO₂ emissions. In the light of these and other changes my Department has prepared some new scenarios for UK CO₂ emissions taking into account recent trends.

The latest scenarios suggest emissions in millions of tonnes of carbon (mtc) could be within the following ranges:

1989	2000	2005	2020
157	156-178	166-200	188-284

These figures are produced on the same basis as those in the Digest of Environmental Protection and Water Statistics.

Previous ranges (in mtc) based on data submitted in 1989 to the IPCC and subsequently published in Energy Paper 58 were:

1985	2000	2005	2020
158	174-206	178-225	188-316

Details of the new scenarios and the assumptions underlying them are being prepared for publication early next year.

While it is welcome that these new developments indicate reduced growth in CO₂ emissions there remains substantial uncertainty

about the future path of UK emissions, not least because of uncertainty about future industrial structure. It remains our view that the Government's target is a demanding but realistic one. We do not make commitments that we are not confident we can achieve.

Discussions on further action to limit CO₂ emissions will continue at the Joint Energy and Environment Council due to take place in Brussels on 13 December. The Government will play a full and active part in these discussions.

1877
OFFICE
MAY 2 1877



**Royal Commission
on Environmental Pollution**

Church House
Great Smith Street
London SW1P 3BE²

Your reference

Our reference **RC/68/6**

Direct line: 071-276 2128

Enquiries: 071-276 2080

Facsimile: 071-276 2098

3 September 1991

**Principal Private Secretary
to the Prime Minister
10 Downing Street
London
SW1A 2AA**

→ file

Dear Sir or Madam

in attached folder

I am pleased to enclose an advance copy of the Royal Commission's Fifteenth Report 'Emissions From Heavy Duty Diesel Vehicles'. The Report is to be laid before Parliament today and will be published at 11.00 am tomorrow.

The Chairman and members of the Commission will be holding a press conference at The Institution of Civil Engineers, One, Great George Street, Westminster at that time. A copy of the press release which will be issued tomorrow is enclosed for your information.

The contents of both the Report and the press release should be treated in confidence until publication.

Yours faithfully

P S Dale

**P S DALE
Assistant Secretary to the Commission**

CF
M 18u 9/85/9.
WTC.

MR CHAPMAN

7th August

cc Mr Hill (o/r)
Mr Rosling

GEN 4: MEASURES TO COMBAT CO₂

You may find it useful to see the attached list of measures which Departments have identified to reduce man-made emissions of CO₂. Departments are currently working out:

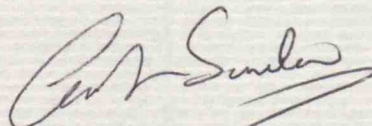
- a) how much CO₂ each measure could save;
- b) the cost (both economic and other) of the measure.

These measures are generally described as 'no regrets' measures, in the sense that they are steps which the Government might take even if there were not a threat of global warming.

But you will see that they are far from painless. Most of them either involve increased public expenditure, or measures which are likely to be unpopular with quite significant numbers of people e.g. road pricing, car parking restrictions, speed limiters in cars etc.

In parallel with these measures we shall be considering a carbon/energy tax in the EC. The Commission are expected to come forward with a proposal next month. The UK accepts the principle of such a tax. We shall want to ensure that its scope and level suits our interests. Discussion in Brussels is likely to take at least a year, and possibly a good deal longer.

GEN 4 will receive a report on the attached measures, together with an indication of their likely effectiveness and cost, in the autumn.



CAROLYN SINCLAIR

MEASURES

TRANSPORT

Increased investment in public transport in urban areas:

- light rail
- enhanced bus services

Increased investment in inter-urban public transport:

- passenger
- freight

Restraint/discouragement of cars in urban areas:

- road pricing
- car parking restrictions/-increased parking charges
- pedestrianisation
- planning changes

Discouragement of inter-urban driving:

- road tolls

Increased investment in public transport combined with measures to restrain private vehicle use:

- urban areas
- inter-urban journeys

Alternative fuels

Traffic management to improve flows:

- all vehicles
- buses only

Improvements in vehicle efficiency:

- increasing fuel prices:
 - one-off increase
 - declared policy of sustained increases
- other fiscal measures (differentiated VED, etc)
- regulation
- tradeable permits
- regulation combined with policy of increases in fuel prices

Improvements in vehicle use:

- publicity/training
- better enforcement of speed limits
- lower speed limits
- speed limiters for cars

ENERGY

Continuation of existing EEO programmes

Strengthening of EEO programmes:

- local information, advice and training eg new local advice centres (aimed at domestic and small business sector)
- labelling:
 - appliances
 - homes (mandatory for homes changing hands)

- Energy Management Assistance Scheme (EMAS - Grants and advice for small to medium sized businesses)

- information and advice for large energy users in industrial, commercial and public sectors - development of Best Practice Programme, new publicity campaign aimed at top management, strengthening of REEO network

New Initiatives:

- changes in electricity price regulation formula

- tightened building regulations for new development

- application of building regulations for properties undergoing renovation

- standards for properties changing hands

- appliance standards:

- domestic

- industrial and commercial

- fiscal measures:

- VAT reduction for energy efficiency goods / energy efficient appliances

- stamp duty reductions for energy efficient properties

- fiscal incentives for industrial / commercial investment

- grants for domestic insulation measures

- special funds for public sector investment:

- housing

- non-housing

- require electricity companies to supply low energy light bulbs and spread the cost over consumers' bills

cc 70



2 MARSHAM STREET
LONDON SW1P 3EB
071-276 3000

POLICY IN CONFIDENCE

My ref:

Your ref:

Rt Hon Norman Lamont MP
Chancellor of the Exchequer
HM Treasury
Parliament St
London SW1

2 August 1991

WJ

Dear Chancellor,

with WEC/PM

CARBON DIOXIDE EMISSIONS: CARBON/ENERGY TAXES

Thank you for your letter of 24 July.

We agreed in GEN 4 that we would meet again in the early Autumn to discuss future policy on UK CO₂ emissions. We will need to consider the options for carbon or energy taxes at that stage, including our response to the Commission's proposals (now expected to emerge after the Summer break).

I agree that there is no need to set up any new formal interdepartmental machinery for analysis of the options. Our officials will be meeting over the Summer to prepare papers for our consideration.

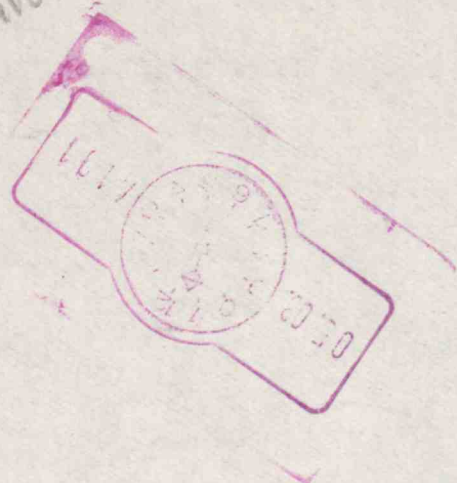
I am copying this letter to the Prime Minister, to Douglas Hurd, John Wakeham, Malcolm Rifkind and Peter Lilley and to Sir Robin Butler.

*Yours sincerely
Michael Heseltine*

MICHAEL HESELTINE
Approved by the Secretary of State
and signed in his absence



ENV AFFS: Enormous
Stds 4/87





→ file. ~~cepu~~
Biehp.

PRIME MINISTER

GEN 4: FUTURE OF UK CO₂ EMISSIONS

You will have seen Michael Heseltine's paper on this subject. It might be helpful if I set out my reactions in advance of Thursday's meeting.

I can readily agree with Michael's desire to take matters forward in this important area. I accept that we need to have a clearer idea of how we might meet our conditional target of stabilising CO₂ emissions by 2005; and also that we will need to have a position on CO₂ emissions in 2000 when the Commission's proposals on burden sharing are discussed later this year. To this end, as Michael's paper indicates, my Department is working hard to refine the emission projections and to strengthen our energy efficiency programme.

Where I have difficulty with Michael's paper, however, is the timescale which he suggests for taking decisions. In my view, we do not have sufficient information to reach any firm conclusions before the end of September. There is still a good deal of uncertainty surrounding the various inputs to our decision making. First of all, the revised emission projections, which are a crucial input, will not be available in final form. The current projections exercise, which will give a clearer picture of the range of possible emissions in 2000 and 2005, on a business as usual basis, will not be completed until the end of the year, although initial results will be ready in September. Our position for the year 2000 must be formulated with care: the economy will have less time for adjustment and we will want to avoid substantial additional costs from the premature replacement of equipment and plant. This is particularly important in relation to the electricity supply industry, in view of our prospectus commitments.

Secondly, work will still be continuing on the energy efficiency policy review, the interim report on which I circulated under cover of my letter of 4 June to the Chancellor. It is clear from Michael's paper how important energy efficiency is to achieving our CO₂ targets, whether for 2000 or 2005. But to achieve the contribution suggested in the paper, existing programmes will

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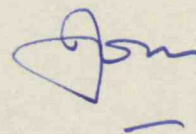
have to be strengthened and important new measures introduced, as the interim report points out. A great deal of work by officials in a number of departments will be necessary. I do not think it is now realistic to aim for completion earlier than October. This timescale is consistent with that indicated in Gillian Shephard's response of 17 July to my letter of 4 June.

Since Gillian's letter, there have been further discussions between Energy and Treasury officials about the question of how the tax system could promote energy efficiency. They have agreed that it would be sensible to bring together expertise on energy efficiency with that on taxation policy and assess the advantages and disadvantages of different taxation possibilities. This analysis would then be available to allow proposals to be considered by the Chancellor in the run up to decisions about the next and subsequent budgets. Similar analysis will of course be needed on energy/carbon taxes when we have the Commission's proposals in final form.

I can well understand that the meeting of the Environment Council on 1 October features strongly in Michael's proposed timetable for action. However, I am not convinced that we need to be over constrained by that meeting. Although we now have a some idea of what will appear in the Commission's paper on carbon dioxide targets etc, we will not know for sure until their proposals formally emerge in August or September. In my view, therefore, it should be perfectly possible for us to prepare an initial position for the October Council and to say that we are considering our full response which we will give in due course. I would hope for example that we may be able to mention our further work on energy efficiency.

Against this background, I would suggest we ask our officials to carry out the various tasks which Michael has identified with a view to our making decisions in time for the joint Energy/Environment Council in December. Such a timetable will still be very tight, but it should be manageable.

I am copying to members of GEN 4, and also to Sir Robin Butler and Sarah Hogg.



Secretary of State for Energy

24 July 1991

POLICY IN CONFIDENCE

CEPO

~~LWE~~
2.25 PM
BHP
16/7

2 MARSHAM STREET
LONDON SW1P 3EB
071-276 3000

My ref: HS/PSO/19060/91

Your ref:

15 JUL 1991



The Rt Hon Norman Lamont MP
Treasury Chambers
Parliament Street
London
SW1P 3AG

—slap

Thank you for your letter of 25 June about the expected Commission proposals on carbon/energy taxes.

When I met Hans Alders, the Dutch Environment Minister, to talk about his plans for the Dutch Presidency he said that the Dutch Government gave high priority to making progress on these proposals. I therefore agree that we need to develop a clear UK position, which is as constructive as possible, and is based on a proper analysis of the options. The approach you suggest, of accepting that there is a case in principle for a carbon/energy tax and proposing analysis of the options, seems to me to be a helpful one.

Our officials are in touch to discuss the UK's aims and how we can best influence Community discussions. We will need to consider how we seek to take forward discussions within the Community and where we would want decisions to be taken, but I would not want to prejudge these questions at this stage. As John Wakeham says, it would be very difficult to avoid discussions within the Energy and Environment Councils, even if we were to decide that we wanted to.

We will also, as you say, need to look at the effects of any proposals on our international competitiveness. But the competition implications will vary depending on the precise proposals, and again I would not want to prejudge our position on this issue.

I understand that the Commission has yet to agree its proposals. I suggest we should aim to have an agreed view on these issues by early September to allow us to respond positively to the Commission's proposals when they come forward and to give an early steer to the analysis of options.

I am copying this letter to the Prime Minister, to Douglas Hurd, Malcolm Rifkind, John Wakeham and Peter Lilley and to Sir Robin Butler.

for me

MICHAEL HESELTINE



ENV AFF : Car emission standards Ap 89.



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GPC

THE RT HON JOHN WAKEHAM MP



→ file

Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

n.s.p.m.

The Rt Hon Norman Lamont MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

4 July 1991

Dear Norman

EC: CARBON DIOXIDE EMISSIONS

will request if required.

Thank you for circulating your timely letter of 25 June to Michael Heseltine on UK participation in any discussions on energy/carbon taxes which take place in the EC. As you are no doubt aware a draft Communication to the Council about CO₂ targets is currently circulating within the Commission. A version of this document is likely to be considered by the Dutch Presidency in the near future.

This underlines the importance of agreeing the UK's line prior to the commencement of any discussions in Brussels. It is not necessary for the UK to come to a view at this stage on the merits of particular taxes; but we have had to consider whether, given our White Paper and electricity privatisation prospectus commitments, the UK can - and should - take part in EC discussions on carbon taxes in the near future. Our view is that such discussions are not precluded by the White Paper nor the prospectuses; and given that such discussions are inevitable (they will take place whether or not the UK is involved) and that we have consistently argued that careful scrutiny of all the implications of taxes is required, there are dangers in the UK not playing a full part. The issue is a complex one, and without our involvement in the discussions, it must be likely the complexities will be overlooked in the Commission's apparent enthusiasm for such taxes.

I therefore share your view that the UK should encourage and play an active part in any discussions at EC level on the introduction of carbon/energy taxes, while reserving its position on specific proposals that may be tabled. For prospectus reasons it should be made clear that the UK is taking part within the context of the White Paper statements; and that while the White Paper accepts the principle that stabilisation could be achieved by taxation or other means, the UK is not yet committed to one particular option for controlling emissions.

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We ought now to review in some detail the implications of the taxation proposals under discussion within the Community. I think it would be helpful if your officials could set up some machinery to take forward consideration between Departments of this difficult area.

Finally, while I do not doubt that ECOFIN will have the lead role within the Community on the taxation issue, I expect that discussions within the Energy and Environment Councils will be necessary given the energy and environment issues involved.

I am copying this letter to the Prime Minister, Douglas Hurd, Michael Heseltine, Malcolm Rifkind, Peter Lilley and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read "John Wakeham".

JOHN WAKEHAM

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copy



Spill CS.

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

ndjm

25 June 1991

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Dear Secretary of State

*LSW request
if requested.*

EC: CARBON DIOXIDE EMISSIONS

Thank you for your letter of 3 June about the anniversary report on the Environment White Paper.

You mention that we are to discuss a paper on market instruments and CO2 in GEN 4 soon. Separately from that, you might like to know my thinking in relation to an area of policy which concerns me directly, namely the proposals on carbon/energy taxes which we expect the Commission to bring forward soon. We shall probably come under pressure from the Dutch who seem intent on pushing ideas for environmental taxation as a major theme of their Presidency in the second half of this year.

We have already accepted that achieving our conditional target on CO2 emissions is likely to require increases in the relative prices of energy and fuel but that such measures - including tax changes - will not be introduced in the next few years. As far as carbon taxes are concerned, we have simply said that such market-based measures might offer a more efficient route to carbon abatement than regulatory means. If, as we hope, a climate change convention, and perhaps associated protocols, are ready for signature during UNCED in 1992, we should then be in a position to consider the timing of measures which might enable us to meet our conditional target. Of course, we would go ahead only if other leading countries were prepared to take similar action.

add →



Against this background, and against the possibility that the Commission will bring forward specific proposals on carbon/energy taxes this summer, I believe we should be looking for ways of developing the line we take in this field with the Commission and our EC partners. Being seen to be more "constructive" in this area would help create a more favourable basis on which we can continue to argue - as I believe we must - for conditionality in our CO2 target. At the same time, we must be cautious in our response to fresh Commission proposals and avoid any commitment to the outcome of Community discussions as we cannot know whether that will prove to be acceptable. But we can agree that there is a case in principle for a carbon/energy tax, when the necessary conditions are satisfied, and respond to any Commission proposals by encouraging the Community to set in hand work on an analysis of the impact of such a tax on consumers and industry.

The introduction of a carbon/energy tax would of course bring with it the risk of substantial problems both for the economy and for the conduct of economic policy. Such a tax, for example, would have a significantly adverse effect on the competitiveness of our industry. Some have argued that this problem could be resolved by reaching agreement within the Community on a common structure for a carbon/energy tax and perhaps a minimum rate. However, this would temper the effects on our competitiveness only within the Community. The arguments in favour of conditionality would continue to apply vis-a-vis the rest of the world. For this reason, I continue to have considerable difficulty with the proposition that the Community should adopt a "beacon" approach in international negotiations on climate change, either with respect to objectives or measures. The essential arguments for concerted action within the Community apply with equal force with respect to our non-EC competitors.

The fuller examination we should seek would have to consider also the distributional and inflationary effects of a carbon/energy tax and how it would interact with the rest of the taxation system. There are extremely difficult problems to resolve here. The Commission should be encouraged to consider more than one option. A carbon tax, for example, would have the virtue of being targeted on the problem of carbon dioxide emissions. However, it would score poorly in terms of the competitiveness and distributional considerations noted above, when a hybrid carbon/energy tax - though less well targeted - might perform better. It is important also not to lose sight of the need to examine other market based instruments such as tradeable permits, drawing on the work being carried out in the OECD and elsewhere.

I should mention one further important consideration. I understand that some of the preliminary work by the Commission has included suggestions that revenue from any tax should add to Community own resources or, as an alternative, that Member States should be required to spend revenues on specified environmental

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programmes. My strong view is that the proceeds of any new tax should accrue to the Member States, and not to the Community, to allow them to decide how best to offset the national impact of the tax. This is important from a fiscal policy viewpoint, and would accord better with the principle of subsidiarity.

We are, of course, far from the point of decision on whether to introduce a carbon/energy tax, or on what form it should take. Much will depend upon a successful resolution of the difficulties I have set out. And I am mindful also of the restrictions which statements on behalf of the Government in the context of electricity privatisation place on further discussion of this topic. We should be careful, therefore, about what we say in public about our approach.

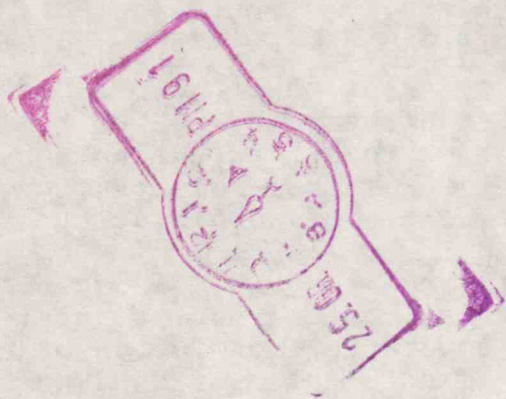
Finally, if we are to be successful in our attempt to institute an exhaustive analysis of Commission proposals, it is important that a carbon/energy tax be considered in the usual Community forum, namely ECOFIN. Of course, this would not preclude discussion in the Environment and Energy Councils if this seemed appropriate.

I am sending copies of this letter to the **Prime Minister**, the Foreign Secretary and the Secretaries of State for Energy and Transport.

Kate Caselti

ff **NORMAN LAMONT**

(approved by the Chancellor of the Exchequer and signed on his behalf)



CONFIDENTIAL

n.b.P.M.

~~CCP~~

BHP

9/1



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Lilley MP
Secretary of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

8 January 1991

Dear Peter

FISCAL INCENTIVES TO ENCOURAGE FUEL ECONOMY

WILL REQUEST A REQUIRING

In your letter to the Chancellor of 28 November, you helpfully gave your views on proposals to graduate car tax according to fuel economy. We are continuing to study these proposals with interest, but I know you will not expect me to say more at this stage.

There is, however, one specific point to which I ought to respond. You suggested, and Malcolm Rifkind agreed, that your desires for a period of notice of any such changes could be met by an announcement as soon as possible, followed by implementation in April 1991.

As we are still considering the policy issues, we cannot make an announcement in coming weeks. But I agree that, should we decide to graduate car tax according to fuel efficiency, a period of consultation with the industry before implementation would be highly desirable.

I am copying this letter to the Prime Minister, to the Secretaries of State for Energy, Environment and Transport, and to Sir Robin Butler.

*Yours ever,
Gillian*

GILLIAN SHEPHARD





THE DEPARTMENT OF TRANSPORT

FROM THE SECRETARY OF STATE

The Rt Hon Norman Lamont MP
Chancellor of the Exchequer
H M Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

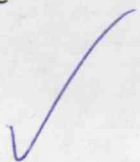
Prime Minister
To note. You are aware of the background - see video of differentiating the Special Low Tax (SLT) in some cases, according to official fuel economy figures.
The difference of miles between STp & DTI is about:

- i) any "pre-announcement" before Budget & its timing;
- ii) whether changes are from April 1991 or implemented over time, to give manufacturers time to adjust production.

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 071-276 3000

My Ref:

Your Ref:



Dear Norman

BHP
10/12
at post

FISCAL INCENTIVES TO ENCOURAGE FUEL ECONOMY

I have seen copies of Cecil Parkinson's letter of 9 November to your predecessor and Peter Lilley's letter of 28 November. I should like to add a few comments of my own.

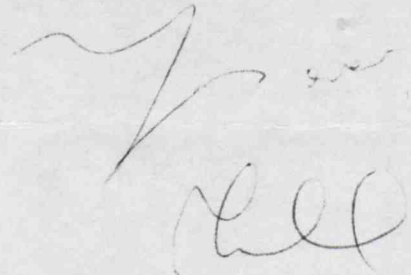
I wholeheartedly endorse Cecil's proposals. It is obviously right that we should give the car industry a clear signal that we mean business on encouraging fuel economy. And it would show our EC partners that we are taking vigorous action.

I am sympathetic to Peter Lilley's concern that the industry should be given reasonable notice so that it has time to adjust. I can see that this may help to secure a positive longer term reaction from industry. I also support the idea that the period of notice should begin now with a view to introducing tax changes in April. I recognise that this would be something of a departure from standard Budget practice. But it would not be necessary to reveal the proposed tax rates, simply to announce that you, as Chancellor, were considering this structural change. I believe that there have been in the past other structural changes which were foreshadowed in an analogous fashion. I hope you will be willing to proceed in this way so that we can get things moving.

I do not however agree with Peter's view that we should phase in higher tax rates over a period of years. I think we need to show that we are prepared to take decisive action to change manufacturers' and consumers' perceptions. Promising to phase in the change over a number of years would weaken that signal and confuse the market.

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I am sending copies of this letter to the Prime Minister, to the Secretaries of State for Energy, Environment and Trade and Industry, and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Malcolm Rifkind', is written over a faint, large watermark of a map of the United Kingdom. The signature is fluid and cursive.

MALCOLM RIFKIND

CONFIDENTIAL

ENVIRONMENTAL: Car Exhaust

April 89



dti

the department for Enterprise

n.b. P.M.

BHP

3/12

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

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The Rt Hon John Major MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5623
Our ref JW22056
Your ref
Date 28 November 1990

Dear John

FISCAL INCENTIVES TO ENCOURAGE FUEL ECONOMY

Cecil Parkinson wrote to you on 9 November with his proposals for changes to the Special Car Tax to reflect fuel economy. I thought it would be helpful to write with my views on these proposals.

I broadly support the proposed changes to the SCT. The industry needs a clear signal from us to demonstrate our commitment to addressing the problem of carbon dioxide emissions. Within the European Community we will see increasing pressure for measures in this area and I am encouraged by the prospect of the UK being able to lead many other countries with concrete steps addressing the problem. I am particularly anxious to avoid a rigid regulatory approach to tackling CO2 emissions from vehicles, which would be inflexible and probably ineffective. An effective set of market based measures would provide a powerful demonstration of our approach in practice. I do, however, have two particular concerns with the changes Cecil has proposed.

Prior Notification

Although it is difficult to predict with any accuracy the effect of the proposed changes, overall a move to buying smaller engined cars would seem certain in the immediate term to increase imports. UK manufacture is relatively under-represented in the smaller car range (less than 1.2L). Last year only 34.4% of cars bought in the UK in this range were UK manufactured. Over the medium to longer term our aim must be

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Recycled Paper



the department for Enterprise

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to see manufacturers producing more smaller engined cars in the UK rather than importing from plants elsewhere in Europe or other countries. At present only Ford and Nissan seem set to expand UK manufacture at the smaller car end, all the other companies' expansion plans relating to medium to large engined cars.

Second, a steeply graded tax would (quite rightly) bite most on manufacturers of very large cars (notably Range Rovers, Jaguar and Rolls-Royce cars) which is certain to prove politically sensitive. On environmental grounds this must be the right course. But equally I see a strong case for ensuring we introduce the changes in a way that recognises the considerable implications for all manufacturers and gives them a period of time in which to prepare themselves.

My major concern is therefore to ensure that there is a short period of prior notification. A notice period of between three and six months, during which stocks could be cleared and the production mix could be switched towards the smaller-engined model variants, would seem reasonable to me. As Cecil suggests, this is likely to bring forward purchases of larger (and defer purchases of smaller) cars. But I do not see this as a major problem; this temporary effect on the pattern of demand will help to clear stocks made up of an inappropriate mix of models. I predict a hostile reaction from the industry if they are given no breathing space to adjust their mix of stocks in this way. Looking beyond the immediate impacts, aside from sending a clear signal to consumers to buy more fuel efficient cars, our aim must be to ensure the industry redirects its development efforts, investment plans, future product mix and marketing to meet that need. A short period of notice should help secure a positive longer term reaction.

In the same spirit, I would strongly advocate that, if the top rate of tax is to be higher than, say, 15%, any higher rates should be phased in over a period of years, much as has been done with the progressive tightening of the company car tax scales over the last three budgets.

This again would at least ensure the worst affected companies are given reasonable warning and time to adjust.

There is, in addition, another set of reasons for advocating a period of notice. It seems to me that the proposed change may give rise to technical and administrative difficulties, and it would be embarrassing to leave unforeseen loopholes which could have been avoided if the industry had had a chance to comment before the details were finalised. For example, if the tax increase for high fuel consumption is steep, there

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will a much increased incentive for consumers to buy cars made to a low performance/low fuel consumption specification, and have them kitted out after sale with turbo-chargers and the like (or, at the limit, even have the engine changed). Another potential difficulty is with parallel imports of cars mad to a specification not generally available in the UK, for which there may be no official fuel consumption data. These considerations also point in the direction of a short period of notice being prudent.

On this subject, I should correct one point Cecil made in his letter. I am not arguing for implementation of the measure to be delayed. I should be more than happy for the period of notice to begin now, with an announcement as soon as possible that the scheme would be introduced at the start of the coming tax year. Indeed, I see some advantage in introducing the scheme in April rather than July which, being uncomfortably close to the August peak, could create special difficulties for the industry.

Revenue Neutrality

My second main concern is to keep the changes revenue neutral, or better still, to reduce the overall take of SCT. An overall increase would quite justifiably further antagonise the industry which has long complained about the SCT as a disincentive to new car sales. There would be understandable consternation if, at a time of a downturn in the UK market (most forecasts predicting a drop to below 2m cars this year from 2.3m last year), changes increasing the overall level of SCT were introduced. Environmentally a faster turnover of new for old cars ought to be encouraged, as new cars are on the whole more fuel efficient and, from 1992, will be fitted with catalytic converters. A reduction in average SCT would move us closer to the EC average in taxation on new cars. Overall, revenue neutrality might be maintained by balancing a reduction in average SCT with a modest increase in fuel taxes. Like Cecil, in the event of oil prices falling back, I would be in favour of raising fuel duties to maintain prices at the pump; recent petrol price movements suggest there is already scope for this. A fiscal package which combined higher fuel duties with a graduated SCT set at a reduced average level would have strong attractions both industrially and environmentally.

Company Cars

On the company car side, in principle I support the idea of restructuring the scale rates to reflect fuel economy. This would make for a consistent package as well as avoiding the

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distortions and anomalies created between different bands of engine size in the present system. Our main concern again, however, would be to ensure a period of prior notification. UK manufacturers are particularly dependent on the company car market and to a certain extent have geared their mix of engine size to fit in with the current structure of company car tax breaks. As with the SCT changes, our aim should be to solicit a positive industrial and consumer response.

I hope these comments are a help. Copies of this letter go to the Prime Minister, Cecil Parkinson, Chris Patten, John Wakeham and Sir Robin Butler.

Yours ever
Peter

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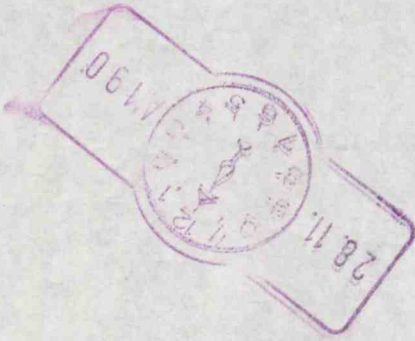


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ENVARK

Exhaust Emissions

Apr 85





THE DEPARTMENT
OF TRANSPORT

BAP
13/4



FROM THE SECRETARY OF STATE

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

071

The Rt Hon John Major MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

My Ref:

Your Ref:

- 9 NOV 1990

FISCAL INCENTIVES TO ENCOURAGE FUEL ECONOMY

When I wrote to the Prime Minister in June suggesting that we should look at the range of fiscal incentives that might be used to encourage greater fuel economy, you invited me to put forward some specific suggestions in the normal Budget round.

Since the summer we have come under increasing criticism that we are not reacting to the threat of global warming, and the coverage of recent negotiations has tended to give an impression that we are lagging behind some of our European neighbours. This criticism is misplaced: our target represents a tough but realistic goal whose achievement will require major changes in consumer behaviour, particularly in the transport field; our critics find it easy to bandy dates and numbers without considering the actions necessary to turn targets into achievements.

The 1991 Budget offers a real opportunity to show that we do take the threat of emissions seriously and we are prepared to take the steps necessary to meet the target we have set by inducing, through taxation, major increases in fuel efficiency. Better fuel economy offers the most direct and least painful way of reducing CO2 emissions without affecting the individual's aspirations to own and run a car. The fuel economy message is one we can get over to consumers as a way in which they can help tackle global warming, whilst acting in their own interests.

Large improvements in fuel efficiency can be achieved, but the lead times are quite long because only a small proportion of the fleet is renewed each year. Many of the cars being purchased now will still be on the roads in the early years of the next decade when we will be looking to meet our target. We therefore need to

give a strong message to manufacturers and consumers that we want to see improving fuel economy and are prepared to take action to bring it about.

Special Car Tax

My officials have been discussing with yours the use of tax incentives to encourage fuel economy. The attached paper examines the pros and cons of the various tax options. It concludes that the most effective way is to change the present standard percentage rate of Special Car Tax (SCT) to vary according to the official fuel economy figures which are measured for each model. As well as discouraging the ownership of "gas guzzlers" this would provide a very real incentive for the manufacturers to put fuel saving equipment on to their vehicles and to engineer them for economy rather than performance, which has dominated their thinking in recent years. Such a tax would avoid the potential problem of discriminating against diesel cars, which suffer from any tax based on engine size.

I believe we have to give the market a strong signal of our intentions. The attached paper gives three examples of graduated SCT, though there are an infinite number of permutations. The main requirement is for a scale which increases steeply with decreasing fuel economy. I think we should consider a tax scale as steep as Option B set out in the paper, under which the rate of SCT would be set at 0% for cars using 5 litres per 100km rising to about 30% for those consuming 15 litres per 100km or more. This change would be broadly tax neutral, many car prices would actually be reduced. We could not be accused of damaging the industry and discouraging people from replacing old inefficient cars with new ones. This will be an important point in dealing with the manufacturers.

Our officials have made some attempt to estimate the effect of such a tax change and I understand that the figuring suggests that the direct effect on demand is very small. I do not think we should worry too much about that: the statistical support for the estimates is rather weak, and I believe we can use this action to spearhead a campaign which will change consumers' and manufacturers' perceptions. It is impossible to produce reliable estimates of the way in which the manufacturers will react, but we would be providing them with a financial incentive to improve the fuel performance of their vehicles.

Officials have examined the impact of these changes on the UK motor manufacturers. Overall, British manufacturers - and the balance of payments - may benefit from fuel economy incentive taxes. Manufacturers of large cars, such as Jaguar, may well complain, but we cannot encourage economy without their suffering some penalty. I understand that Peter Lilley feels that we should delay implementation of such a measure until there had been time for consultation with the industry. I do not favour that; it would reduce the public impact of the proposal and might even bring forward purchases of large cars as individuals sought to avoid the tax change.

If this proposal is taken forward we would need to step up our enforcement effort to ensure that manufacturers' fuel economy figures were reliable. This would have modest resource implications for my Department which, of course, have not been reflected in the Departmental PES settlement.

My officials have been holding discussions on the Special Car Tax exemption given to certain categories of vehicle used by the disabled. I would hope that a satisfactory conclusion can be reached ensuring that the small numbers of disabled who may be forced to use larger vehicles do not suffer unduly from any tax change.

Company Cars

Companies now account for well over 50% of new car purchases and, amongst the larger cars of over 2 litres, their share rises to more than 70%. We have to make employers and employees pay greater attention to economy and that means changing their purchasing patterns as well as those of the private owner. If companies purchase large or high performance cars, there is a lasting effect on the fleet.

We must build on the momentum of the last three budgets which have shown that we are prepared to tackle this problem. But the increasing popularity of the company car shows that people still perceive it as a benefit which is well worth having. I would like to see the income tax scale rates increased and refined to reflect the true value of the company car. If we are raising the price of the less fuel efficient vehicle by changing Special Car Tax, that change should be reflected in the company car scale rates. The attached paper shows how crude the use of engine size can be in differentiating between different vehicles, and consideration should be given to relating scale rates to fuel economy instead.

Petrol Prices

Measures on Special Car Tax and company cars will primarily affect purchases of new vehicles, so they feed through to the rest of the fleet very slowly. We ought to ensure that the fuel economy message registers with all motorists and with freight hauliers as well. To some extent our proposed extension of the MOT test to cover emissions will help to ensure that vehicles are kept in tune, but we ought to supplement that with some financial incentive which will influence drivers' behaviour as well as vehicle condition. I do not see any merit in using Vehicle Excise Duty for this purpose because it is a tax on vehicle ownership rather than use. And it would hit low mileage motorists particularly hard. Obviously I recognise the political sensitivity of the RPI and that may restrict your freedom of manoeuvre in regard to petrol and DERV duties. At this stage it is impossible to gauge how the Gulf situation will affect oil prices, but if

there are signs that the price will fall back, I would hope that duties could be raised to maintain prices at the pump as far as possible. That would be entirely consistent with the line set out in the White Paper.

Chris Patten mentioned the need to maintain the momentum towards the use of unleaded fuel. The latest figures suggest that higher petrol prices are making the consumer consider unleaded fuel and its share of the market is now up to 36%. I agree that we should try to maintain the proportionate differential in favour of unleaded, if only to make plain that this is a long term policy.

VED on Commercial Vehicles

Chris also mentioned the possibility of relating goods vehicle VED to fuel economy. I think that would complicate matters unduly. Our VED rates are meant to ensure that each class covers its track costs. If we try to tackle fuel economy through VED as well we risk undermining that policy. There would also be the EC ramifications to consider. I would prefer to use DERV duties and market forces to provide the spur to fuel saving.

Conclusion

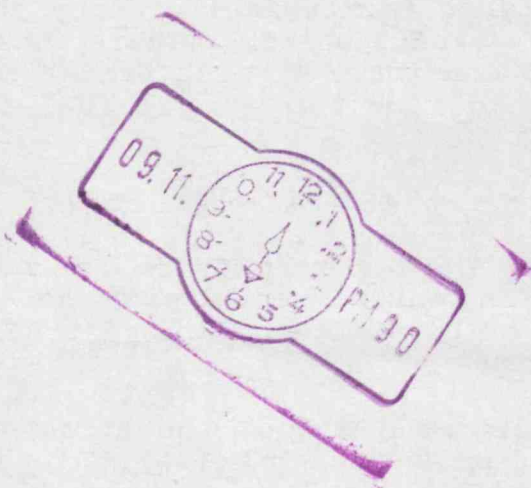
I believe we have the opportunity to use the 1991 Budget to show that we are tackling environmental problems with determination and imagination. I would welcome the opportunity to discuss these proposals with you.

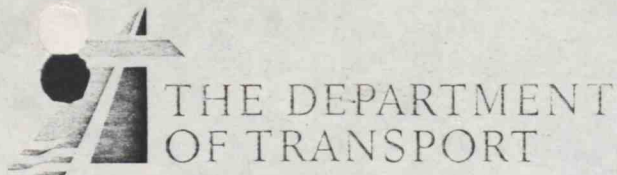
Copies of this letter (without the attachment) go to the Prime Minister, Chris Patten, Peter Lilley, John Wakeham and Sir Robin Butler.

*James
Lilley*

CECIL PARKINSON

ENV AFFAIRS: CW EXHAUSTS Ap' 89.





THE DEPARTMENT
OF TRANSPORT

FROM THE SECRETARY OF STATE

The Rt Hon John Major MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister?

CAS

2/7



2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE (XXXXXXX) 071-276 3000

My Ref:

Your Ref:

2 JUL 1990

Dear John,

MISC 141: POLICIES TO REDUCE CARBON DIOXIDE EMISSIONS FROM TRANSPORT SOURCES

I am grateful for your letter of 22 June and for the other responses to my minute of 18 June to the Prime Minister.

I welcome your offer to discuss proposals on fiscal incentives for more fuel efficient motoring which the Prime Minister has endorsed. My Department is urgently preparing a paper which can form the basis of preliminary discussions between officials.

Those discussions can certainly cover Nicholas Ridley's suggestion of linking VED to fuel efficiency. But there are technical problems with that and unless we were to raise the rate substantially from the current £100 pa I doubt that it would have much effect. I am convinced that we have to tackle the new car market: new cars are responsible for a large share of total mileage and new purchases determine the shape of the vehicle fleet in the long term.

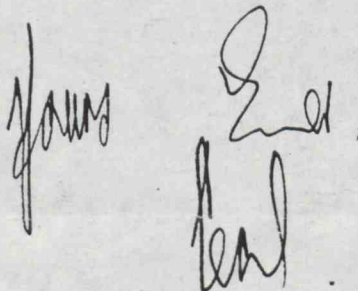
Douglas Hurd has made the point that such measures are important in order to maintain the credibility of our position in negotiating international targets for CO₂. We are bound to be criticised if we set targets but do not include in the White Paper any proposals which show that we are serious about achieving them. I agree with Nicholas Ridley that we would not want such measures to come as a complete surprise to the industry, on the other hand discussion of specific measures could be counterproductive in simply encouraging purchases of large vehicles to be brought forward. The White Paper is not the place to announce specific changes, I would hope that it could make plain that proposals to link motoring taxes to fuel economy are under active consideration, so that measures will not come as a surprise if

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they are put forward in a future budget. If we can find an acceptable form of words I think this would help both to improve the reception given to the White Paper and provide the necessary signal to the industry.

I also agree with Nicholas Ridley that framing regulations to encourage fuel economy is going to be difficult. However, given that the EC Commission already have a remit to look at this, I think we should be ready to put forward our own positive proposals if we can - or at least to steer the Commission away from anything which we would find unacceptable. My officials will discuss this with Nicholas Ridley's.

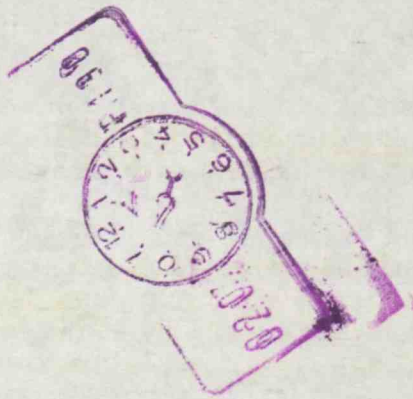
/ I am copying this to the Prime Minister, members of MISC 141 and to Sir Robin Butler.

Handwritten signature of Cecil Parkinson, consisting of a stylized 'C' followed by 'Parkinson' and a flourish.

CECIL PARKINSON

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EW AFFAIRS; Car Exhausts 489



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 June 1990

Dear Tricia,

**MISC 141: POLICIES TO REDUCE CARBON DIOXIDE
EMISSIONS FROM TRANSPORT SOURCES**

The Prime Minister was grateful for your Secretary of State's minute of 18 June setting out a number of proposals to reduce the CO₂ emissions of vehicles. She has also seen the comments of the Secretary of State for the Environment, the Chancellor of the Exchequer, the Foreign Secretary and the Secretary of State for Trade and Industry.

The Prime Minister is content that Mr Parkinson should proceed in the way he proposes and should start discussions with the Chancellor of the Exchequer on the fiscal incentives he suggests. She has noted and endorses the comments made by colleagues on Mr Parkinson's specific proposals.

I am copying this letter to the Private Secretaries to other members of MISC 141, Peter Storr (Home Office) and to Sonia Phippard (Cabinet Office).

Yours sincerely,

Caroline

CAROLINE SLOCOCK

Ms Tricia Rennie
Department of Transport

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SR

①
PRIME MINISTER

PROPOSALS TO REDUCE CARBON DIOXIDE EMISSIONS FROM TRANSPORT SOURCES

Mr Parkinson has put forward a number of proposals on reducing carbon dioxide emission from cars at Flag A. Comments from colleagues are at Flag B. Carolyn Sinclair offers advice at Flag C.

Mr Parkinson is proposing:

- that he discuss with the Chancellor the scope for fiscal incentives to encourage efficient motoring. These are relating the special car tax to fuel efficiency and making similar changes to the company car tax regime. These proposals receive support from colleagues, subject to discussion with the Chancellor. The main point, made very strongly by Mr Ridley, is that this will not be enough. Mr Ridley argues that no substantial improvement can be expected in fuel economy unless there were an increase in the price of fuel. But on these specific proposals, he warns against relying too much on the Special Car Tax, given that in the longer term there may be a case for phasing it out; and hopes a wider range of options might be considered, including differential Vehicle Excise Duty. Mr Ridley also points out that consultation on the proposals will be important, so that they are not sprung on the industry overnight. No-one argues with the view about that Mr Parkinson's modest proposals will have a neutral effect on RPI;

- that the UK should take the initiative on measures to regulate the emission of CO2 within the EC, given that the EC is otherwise likely to come up with measures which may favour the German motor car industry over our own. Again colleagues agree, but it is less clear what these measures might be. Mr Ridley is particularly sceptical, suggesting he would be happier to look at proposals to control the use of cars, such

as speed limits. Mr Hurd suggests that proposals might initially focus on improved customer information rather fuel efficiency standards;

- that tougher speed limits should not be introduced. They are already widely disregarded and enforcement of tougher standards would have implications for police resourcing. He suggests that speed limiters might be introduced for lorries (they are already used for coaches) but not for cars. Again, there is general agreement for this;

- that he should work on a number of minor measures to discourage the use of cars in town;

- seeking to change attitudes to speed in cars.

Content to endorse Mr Parkinson's proposals and the other points made by colleagues?

CS

Caroline Slocock
27 June 1990

Yes
not

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the department for Enterprise

cefu

CONFIDENTIAL

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Rt Hon Cecil Parkinson MP
Secretary of State for Transport
2 Marsham Street
LONDON SW1

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5623
Our ref JW5AKO
Your ref
Date 25 June 1990

Dear Cecil

MISC 141: POLICIES TO REDUCE CARBON DIOXIDE EMISSIONS FROM
TRANSPORT SOURCES

Many thanks for copying to me your minute of 18 June to the Prime Minister. I very much welcome your initiative because we urgently need to make progress in settling our approach to policy in this difficult area so that we can be as positive as possible about it in the autumn White Paper.

You and some other colleagues will know of the recent work by the motor industry, coordinated by the Society of Motor Manufacturers and Traders (SMMT), exploring the scope for improvements in the fuel economy of new vehicles over the long term. This study reinforces the message the industry gave me earlier in the year, which I reported in my minute of 2 March 1990 to the Prime Minister, that no substantial improvement in fuel economy can be expected unless market conditions provide the necessary incentives. However, the latest work from the industry also has a more positive side to it: it suggests that provided there were a drastic transformation of market conditions and that customers were induced to place a much higher priority on fuel economy than at present, it would be probably be technically possible to make very considerable gains (perhaps nearly a doubling of new car average mpg) over the long term (say by 2020). Even this substantial improvement would of course be insufficient, on our Department's traffic projections, to prevent further increases in CO2 emissions from cars.

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Fiscal incentives

Against this background I welcome your proposal for closer examination of possible tax measures to encourage greater fuel economy. I should like my officials to be closely involved in any discussions between ours and John Major's on this. I am attracted in principle to the specific suggestions you make, on special car tax and on the tax regime for company cars, though not without some reservations: in particular, I wonder whether we want to rely too much on Special Car Tax, bearing in mind that in the longer term there may be a case for phasing out this rather anomalous tax altogether. I hope, therefore, that we can consider a wide range of options, including for example differential Vehicle Excise Duty.

Any differential taxation along these lines would have profound implications for the industry, which would have real problems if a new structure were sprung on them overnight. I recognise the difficulties of consulting publicly about possible tax changes but in this case I believe it would be important to do so.

You mention fuel taxation. We have ruled out action in the short term but we do need to keep in mind the possibility of long-term strategic action. The difficulties are well-known; but if they could be overcome there is I think no doubt that a substantial and sustained real rise in the retail price of fuel would be by far the most effective single action we could take. Schemes for differential Special Car Tax and the like may make a worthwhile modest contribution to our environmental objectives but in my view we cannot tackle the heart of the problem without looking at strategic long-term action on fuel taxes. Unlike taxes on new cars, fuel taxes influence both the type of cars bought and their subsequent use. Subject of course to the Chancellor's prerogative on tax matters, I hope we can look at the long term options.

Regulation

I should be happy to join with you and colleagues in trying to work up regulatory options with which to forestall Commission proposals. But I have to say that I am not optimistic about our chances of identifying options which will be both effective and acceptable - at least not in the form of regulatory standards for new cars. Any effective standard would need to be based on some form of mpg requirement (or its equivalent expressed in terms of grams of CO₂ per kilometre), and it is hard to see how to avoid this operating as a very

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severe and restrictive distortion of the market. The American experience is not encouraging. I would be happier in contrast, to look at the options for regulations on the use of cars. Speed limits are one example which you mention; I am sure we could think of many more possibilities.

As for compulsory fitting of speed limiters, I go along with your judgement that this may be right for lorries but not - or not yet - for cars.

I am copying this letter to the Prime Minister, the Home Secretary, members of MISC 141 and to Sir Robin Butler.

John Major
Andrew

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ENN Allard:
Ac Rg

116





Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

22 June 1990

Rt Hon Cecil Parkinson MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

Your Cecil,

MISC 141: POLICIES TO REDUCE CARBON DIOXIDE EMISSIONS FROM TRANSPORT SOURCES

I have seen your minute of 18 June to the Prime Minister, and Chris Patten's of 21 June.

I am generally content with the line you propose on regulation and speed limits.

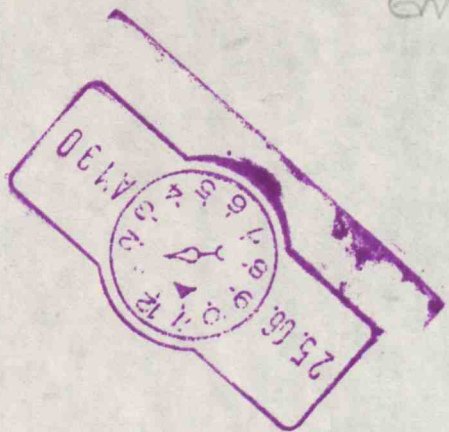
On your other point, I would, of course, be very happy to consider and discuss with you any proposals on fiscal incentives to more fuel efficient motoring that you would care to put to me.

I am copying this letter to the Prime Minister, members of MISC 141 and to Sir Robin Butler.

*Yours Ever,
John*

JOHN MAJOR

ENV AFFAIRS: Car Exhaust
Emission standards Pt 1



CONFIDENTIAL



B.

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PRIME MINISTER

MISC 141: PROPOSALS TO REDUCE CARBON DIOXIDE EMISSIONS FROM
TRANSPORT SOURCES

—will CAS?

Cecil Parkinson wrote to you on 18 June proposing a series of measures to reduce carbon dioxide emissions from transport sources. I strongly support these proposals.

We have taken justifiable pride in only setting targets when we have identified how to achieve them. It is vitally important that we are able to demonstrate in the White Paper that we have in hand a credible range of measures to achieve the 30% reduction on projected carbon dioxide emissions to which we are committed.

Transport presents a great difficulty because of the strong growth in vehicle use. To convince people of our intent in this area we need to present clear and positive steps. Our earlier discussion in MISC 141 demonstrated that the proposals set out in Cecil's letter are essential even to begin reducing carbon dioxide growth from transport. I particularly endorse his proposals to discuss fiscal changes with the Chancellor. As he indicates, the steps would have no impact on RPI, would demonstrate our willingness to give clear economic signals and would have a significant impact on vehicle emissions. The promise of more action on company cars is essential. Without measures like these the White Paper could look rather thin.

I also endorse the idea of an approach to the EC on vehicle standards. The US caused major dislocation to its industry by an ill-conceived regulatory regime. If we are to prevent comparable problems we need to act now to put forward our own views.

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Reduced speed limits would have a significant impact on fuel consumption. I think the White paper should say that we cannot rule this out for the longer term, but I accept that, in view of the problems of enforcement, this should not be pursued now.

I am copying this minute to the Home Secretary, members of MISC 141 and Sir Robin Butler.

A handwritten signature in blue ink, appearing to be 'P. Wood'.

CP

21 June 1990

Approved by the Secretary of State
and signed in his absence

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cc/u.

PM/90/044

THE PRIME MINISTER

Misc 141: Policies to Reduce Carbon Dioxide Emissions from
Transport Sources

WITH CAS?

I have seen the Secretary of State for Transport's minute of 18 June to you on this.

I support its general thrust. We have taken a high profile internationally on climate change. We have, as a result, had a considerable influence on the way discussions have developed so far. The announcement of our target of stabilising CO2 emissions at 1990 levels by 2005 has further shown our seriousness on the issue. Now we have to indicate how we intend to achieve this target. This will form part of the environment White Paper in the Autumn. If our international credibility and influence on this subject are to be maintained, it is plainly important that the measures outlined in the White Paper are visibly, and if possible quantifiably, adequate to ensure that our target is met.

It seems likely that any package which meets this criterion will have to include fiscal measures. I therefore agree that it would be useful for the Transport Secretary to begin to discuss possible such measures with the Chancellor and perhaps others at an early stage. Other interested departments might also start such consultation and bring the results to Misc 141 in due course. I hope that no option - such as petrol tax increases (probably with compensating tax cuts elsewhere) - need be ruled out until we are sure that we have a package big enough to achieve our goal.

/I agree

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I agree too that proposals from the European Commission, when they come, are likely to include a degree of regulation. We should certainly begin working up our own ideas on this, with a view to forestalling proposals for action which might be disadvantageous to us. In line with our view that the market should play as great a role as possible these ideas might initially focus on improved customer information rather than on setting fuel efficiency standards for vehicles by law. The imposition of such standards in the United States some years ago caused considerable disruption to the US motor industry. I agree that we might in due course approach the EC on vehicle standards - this would allow us to capture the high ground in the Community.

I agree that better enforcement of existing speed limits is essential and a prerequisite to considering lower speed limits, for which I do not detect public support. There may well be public support for extending the use of speed limiters to lorries. I agree with the Transport Secretary that extending them to cars will not be popular and I do not think the White Paper should air the idea.

Copies of this minute go to the Home Secretary, members of Misc 141 and Sir Robin Butler.

(DOUGLAS HURD)

Foreign and Commonwealth Office
21 June 1990

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MISC 141: POLICIES TO REDUCE CARBON DIOXIDE EMISSIONS
FROM TRANSPORT SOURCES

Cecil Parkinson has minuted to you with proposals designed to reduce emissions of CO₂ from road transport. He wants a steer from colleagues as to what should be said about this in the Environment White Paper.

This note looks at each of his proposals.

Fiscal incentives

Cecil Parkinson advocates:

- relating Special Car Tax (which does not feature in the RPI) to fuel efficiency rather than the present flat rate tax of 10% on value;
- increasing the taxation of company cars, especially fuel inefficient ones;

These are strong arguments for both measures:

- a differential Car Tax could be revenue neutral with higher taxes on some cars balancing lower ones on others. A significant tax on fuel inefficient cars could help to change the pattern of company car buying;
- increasing the taxation of company cars, especially fuel inefficient ones, would send the right signal about individual motoring, especially in towns. 87% of the cars coming into central London every day are subsidised

in some way by employers. Despite the increases in taxation in recent Budgets, the popularity of company cars continues to grow. A recent survey showed that 35.9% of middle managers now get a company car compared with 19.5% in 1985.

The Treasury are likely to agree with Cecil Parkinson on substance. But John Major may not be keen to have tax changes trailed in a White Paper in advance of the Budget.

Regulation

Standards for vehicle emissions are laid down by the EC. Cecil Parkinson warns that the Commission can be expected to make proposals for controlling CO₂ output. These could be framed in a way which suits eg the German car industry more than our own. He suggests that we forestall this by taking the initiative in Brussels and putting forward our own suggestions to influence the Commission's thinking.

As a tactic this is fine. But the problem is to identify practical means of building greater fuel efficiency into cars. The USA went down this route in the 1970s, and at first was able to make substantial improvements because so many of their cars then were large gas guzzlers. They are finding it harder now to achieve significant improvements.

Nicholas Ridley will probably agree in principle that we should try to influence whatever comes out of Brussels on vehicle emissions. But he may point out the difficulty of identifying the right kind of technical proposals. DTI and Transport need to do more work on this together.

Speed Limits

The options are:

- better enforcement of existing speed limits;
- use of speed limiters on lorries and cars;
- lower speed limits generally.

Better enforcement of speed limits is likely to have limited effect - 60% of motorists exceed the 70 mph limit on motorways now. It is hard to see what a lower limit - say 60 mph - would achieve beyond increasing cynicism about speed limits. The shift of police resources which would be needed to make a real impact on driving speeds would be substantial and controversial.

Mandatory speed limiters on cars could have a dramatic effect. But such a step would be seen as draconian in the present climate, and the limiters would no doubt be open to adjustment by unscrupulous garages.

Cecil Parkinson rules out speed limiters for cars, but wants to make them mandatory for lorries. This would make a small contribution to reducing CO₂, but would be helpful in reducing NO_x.

Civilising Urban Car Traffic

Here Cecil Parkinson proposes a number of small measures designed to discourage the use of cars in towns.

Changing attitudes to speed

This is an important issue raised in paragraph 4(ii). Cecil Parkinson asks colleagues whether we should open up a debate

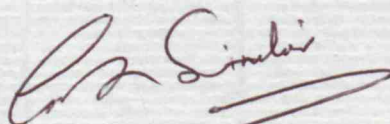
on fast driving in the White Paper. Given the practical and political difficulties of reducing speed by fiat, there is much to be said for encouraging a change in people's attitudes. It is possible that in a few years time a large car driven fast will be regarded as socially beyond the pale.

Conclusion and Recommendations

You may want to let other colleagues comment first, especially John Major and Nicholas Ridley.

On the points in paragraph 6 of Cecil Parkinson's minute:

- (a) Agree that it is worth considering the scope for fiscal incentives to encourage more efficient motoring (you will want to see how John Major suggests playing this).
- (b) Agree that DTI/Transport should work up specific technical proposals on vehicle emissions which could be used to influence the debate in the EC.
- (c) Agree that we should propose the compulsory use of speed limiters on lorries in the EC.
- (d) Agree that we should not pursue compulsory speed limiters on cars, or lower speed limits, at this stage.
- (e) Agree that it would be worth opening up the subject of fast driving in the White Paper.



CAROLYN SINCLAIR

A.

CONFIDENTIAL



CCPL
attached
CBS

PRIME MINISTER

MISC 141: POLICIES TO REDUCE CARBON DIOXIDE EMISSIONS FROM TRANSPORT SOURCES

1. I am grateful to colleagues for supporting my recent proposal for extending the MOT test to cover vehicle emissions. I shall issue a public consultation document about this shortly. The purpose of this minute is to consider other measures for reducing carbon dioxide emissions from transport sources.

Fiscal incentives

2. Decisions on fiscal matters are, of course, for the Chancellor. But we are being increasingly criticised because the fiscal regime does little to encourage more efficient motoring. I have already warned MISC 141 that to stabilise CO2 emissions from road transport would require major petrol price increases. Such action would be difficult in the short term because of the need not to increase inflation. There are however some fiscal changes which could be made fairly quickly. These changes are as follows:

(i) relating the Special Car Tax on new cars directly to fuel efficiency. The tax is currently charged at a flat 10% of the wholesale price. It could instead be applied on a sliding scale dependent on fuel economy. (My Department already makes official measurements of the fuel efficiency of new cars.) This change would not affect the RPI;

(ii) reinforcing the change to Special Car Tax with similar changes to the company car tax regime. MISC 141 has already agreed that more fuel efficient company cars must be encouraged.

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These changes would emphasise the need for fuel efficient vehicles and would send a strong message to fleet purchasers whose decisions ultimately have a major impact on the whole vehicle population. I believe that such a move would be seen as a major contribution to tackling the CO2 problem without the political drawback of raising petrol prices.

Regulation

3. MISC 141 indicated a preference for market-based instruments over regulation. But some regulation may be inevitable. The EC Commission already have a remit from the Environment Council to make proposals for controlling CO2 output from road vehicles and those proposals will almost certainly include regulation. The Commission have not moved very fast on this so far, but there is a risk that they will come up with proposals which may put UK industry at a disadvantage compared with their competitors. To forestall that, I propose that we should take the initiative and suggest ideas for regulation to the Commission which protect our industry as much as possible.

Speed Limits

4. Encouraging lower speeds on fast roads would have both environmental and road safety advantages. Some 60% of motorists now exceed the motorway speed limit (70mph) and 15% exceed 85mph. There are three options for tackling this problem:

- (i) better enforcement of the existing speed limits. We are already planning to improve observance of the existing limit on motorways by introducing cameras at selected points, to act as a deterrent rather than for blanket detection of all speeding offences;



(ii) imposing wide use of speed limiters on vehicles. These are already mandatory for coaches and some road hauliers fit them to lorries voluntarily. I think the time is now right to consider the case for making them compulsory for lorries. That will require EC agreement. It would be possible to make them compulsory for cars as well, but I doubt whether that would be publically acceptable at the present time. This would require a significant change in the way people view their cars and in their attitude towards speed. This is already the subject of some public debate and I would welcome the views of colleagues on whether it would be appropriate to open up the subject in the White Paper;

(iii) introducing lower speed limits generally. We could, for example, lower the motorway speed limit to 60mph. As well as their environmental and safety benefits, lower speed limits could help relieve congestion on some roads by smoothing out the flow of traffic. However, we have major problems enforcing a 70mph limit and a lower limit would certainly have implications for police resources. I see little merit in a change which would be difficult to enforce and might therefore bring the speed limit system into disrepute. But I would welcome my colleagues views.

Civilising Urban Car Traffic

5. Urban traffic congestion is bad for the economy as well as the environment. The scope for road building is very limited in urban areas and we have decided against road pricing. But there are other options which we can pursue within the framework of existing policies and which need not involve significant additional public expenditure. For example, I am pursuing traffic management schemes which make better use of the existing

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road space and which give buses more priority to make them a more attractive option for commuters who now travel by car. I also want to work closely with the Secretary of State for the Environment and local authorities to ensure that planning and parking policies take full account of the traffic implications.

Conclusions

6. To sum up, I invite colleagues to agree that I should:

(a) discuss with the Chancellor the scope for fiscal incentives to encourage more efficient motoring (paragraph 2 above);

(b) work up (consulting colleagues as necessary) a European initiative on regulation to try and forestall unacceptable proposals by the EC Commission (paragraph 3);

(c) consider the compulsory use of speed limiters on lorries (paragraph 4);

(d) not pursue compulsory speed limiters on cars or lower speed limits at this stage (paragraph 4).

/ I am sending copies of this minute to the Home Secretary, members of MISC 141 and to Sir Robin Butler.

C. P.

CECIL PARKINSON

18 June 1990

CONFIDENTIAL

ENV Affairs: Car Exhaust.

Emissions
April 89





NBPM CAS

cc: PM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

6 June 1990

Dear Cecil

CHECKS ON VEHICLE EMISSIONS

You copied to MISC 141 colleagues your minute of 17 May to the Prime Minister, proposing the inclusion of a simple emissions check in the MOT. *clear*

Although this could entail a loss of revenue it seems to me to be a modest and sensible proposal. I am content with it.

I am copying this letter to the Prime Minister, to other members of MISC 141 and to Sir Robin Butler.

Yours truly

Malcolm

THE EARL OF CAITHNESS

ENV AFFAIRS : Car Exhaust
pri



file HN
CP4

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 May 1990

Dear Tricia,

CHECKS ON VEHICLE EMISSIONS

The Prime Minister was grateful for your Secretary of State's minute of 17 May in which he proposes a new emissions check in the MOT test, with the possibility of adding checks on cars with catalysts and other vehicles not covered by the MOT test in due course. She is content that he should proceed with consultations within the next month so that the Government could be in a position to announce a firm decision in the autumn White Paper.

I am sending copies of this letter to the Private Secretaries to members of MISC 141 and to Sonia Phippard (Cabinet Office).

Yours sincerely,

Caroline Slocock

(CAROLINE SLOCOCK)

Ms. Tricia Rennie,
Department of Transport.

500
Pamie Mander ①

Content to endorse
Mr Parkinson's proposal?

MIS SLOCOCK

22 May 1990

AP
25/5

Yes

CHECKS ON VEHICLE EMISSIONS

Cecil Parkinson proposes that we should include an emissions check in the MOT test, if possible from next year. This would help to reduce emissions of CO₂ as well as other gases which contribute to urban pollution.


The proposal would

- add about £2 to the MOT fee;
- involve retuning for cars which failed the test - this costs £30 + VAT on average. Other work might cost more;
- but produce savings, on retuned cars, of about £20 a year on reduced fuel bills.

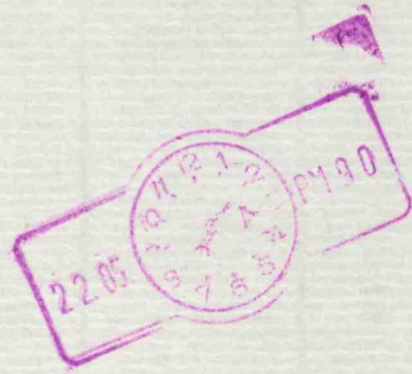
The saving of CO₂ would be modest - perhaps 1/3 million tonnes of carbon pa. This needs to be set against the reduction of 15.8 million tonnes of carbon which will need to come from the transport sector if we are to stabilize CO₂ emissions at present levels by 2005.

Conclusion

Cecil Parkinson's proposal is sensible and should be agreed. But we should not claim too much for it.



CAROLYN SINCLAIR



COMMUNICATIONS

UNIT



BK 21/5

celo

Prime Minister

CHECKS ON VEHICLE EMISSIONS

Handwritten note: ~~checked~~

1. At MISC 141 on 6 March I was asked to look at the possibility of strengthening the MOT test to cover engine tuning and fuel efficiency.

2. Having done so, I have concluded that there is a good case for making a start with a simple emissions check in the MOT test, and that we should aim to introduce it at the earliest opportunity, if possible from next year. This could be done through regulations.

3. The approach would be to require vehicles in use to be kept within the emissions standards prescribed before they were allowed on the road in the first place. This will automatically increase their fuel efficiency.

4. The test I propose is that vehicles already in the MOT scheme (ie cars and light vans over three years old) should be required not to exceed a stated percentage of CO in their exhausts when idling. To achieve this, vehicles will need to be correctly tuned, and this in turn will result in generally lower emissions of CO, HC (both significant contributors to London photofog) and of carbon dioxide. Burning fuel more efficiently increases the Nox element, though not above the regulatory levels.

5. In due course, we shall want to add to this checks on cars with catalysts and other categories of vehicles not covered by the MOT test, once we have devised suitable testing arrangements - this is being looked at jointly with others in the European Community. Meanwhile we also plan some increase in roadside spot checking of vehicles for emissions levels, as resources



allow. The North Bill will give us the necessary powers.

6. A scheme on these lines has the advantage of relatively simply getting the emissions of 16 million cars and light vans back within their originally prescribed levels. It should improve fuel consumption, and hence CO₂ emissions, by about 4 per cent averaged over vehicles in the MOT scheme, with substantially larger benefits to CO and HC emissions.

7. As regards cost, the equipment for retuning is already widely available in garages. The emissions check is likely to add only some £2 to the MOT fee. Motorists will, however, need to bear the cost of any retuning and work needed in order for the vehicle to pass the test in the same way as they have to pay to bring safety items up to scratch. The cost of retuning currently is about £30 plus VAT for an average family car. I would hope that the increased demand for retuning will lead to growth in specialist retuning centres which could reduce costs. Set against this, the average individual motorist should save something like £20 a year through reduced fuel bills. So his net extra cost would be around 50p a week. Like everyone else, he or she will also enjoy the non-financial benefits from lower levels of pollution.

8. The indications are that the main motoring organisations would go along with an MOT requirement of this sort. The motor manufacturers and most garages will positively welcome it as it means more business for them. The environmentalists will, no doubt, want to go further but should welcome the immediate contribution to reducing CO₂ and city pollution. The Chancellor will lose some tax on the lower usage, but this will be partly offset by extra VAT on the MOT and associated work. Only the £2 MOT would be an addition to the RPI - a de minimis: 0.013%.



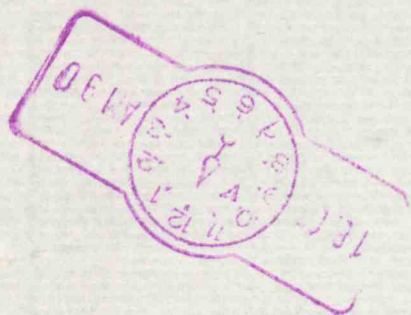
9. I believe that a scheme on these lines is the most speedy and straightforward way of tackling emissions of cars in use. I would welcome early comments from colleagues. Subject to these, I would like to launch consultations on my proposal and its technical details within the next month so that we could be in a position to announce a firm decision in the autumn White Paper and take credit for the pollution reductions that we should then be in a position to achieve quite quickly.

/ 10. I am sending copies of this minute to members of MISC 141 and to Sir Robin Butler.

C.P.

CECIL PARKINSON

17 May 1990





10 DOWNING STREET

file O/S

bc: PC

From the Private Secretary

7 November 1989

Dear Roger,

CARBON DIOXIDE EMISSIONS

I should record that General Scowcroft telephoned me yesterday afternoon about the conference in The Hague where levels of carbon dioxide emissions were being discussed. General Scowcroft said that the American delegation were reporting that the British delegation had defected from the common position which we had hitherto shared with the United States, Soviet Union and Japan on a major item of the conference agenda. He was not at all sure what this was but understood it was something to do with agreeing that the industrialised world would have to meet the environmental costs incurred by the developing countries. I said this sounded most improbable but would check. After speaking to you and Kate Bush, I telephoned General Scowcroft back and said the only point of disagreement I could discern was over the precise wording of a rather general undertaking to try to stabilise levels of carbon dioxide emissions. We were certainly not prepared to accept binding targets with figures attached to them until there was proper scientific evidence. But we were prepared to accept a general declaration of intent to try to stabilise levels by the year 2000 at a figure to be determined. The Americans were looking for an even vaguer formulation. There did not seem to me a great deal of difference between us on substance, but we had the additional factor that the other European Community countries were prepared to accept the general declaration of intent. We did not particularly want to be isolated. General Scowcroft said that this did not seem to amount to much and dropped the matter.

General Scowcroft telephoned me once more this afternoon in a considerable state. The American delegation in The Hague were now saying that we had sold them down the river on a major issue of policy. Governor Sununu was hopping mad and about to go and give a press conference at which he would probably denounce our action. I said this was perfectly absurd. As I had very carefully explained to him yesterday, we would not accept any specific targets without scientific evidence but were prepared to subscribe to a general declaration of intent. This was not binding and did not commit anyone. General Scowcroft

D/S

said that the American delegation to the conference was very highly qualified and took the view that the statement to which we had subscribed set goals which could not possibly be achieved except by limiting economic growth. I said that I did not see how this could be established until we knew what targets were being set. I really thought the American reaction was bordering on hysterical. I urged him to obtain a copy of the final text, read it and show it to Governor Sununu before reaching any conclusions. General Scowcroft was not much mollified but said that he wanted us to be aware of the very strong feelings that had been aroused in Washington on this subject which was politically embarrassing for the President. I commented that we also had an interest, given that the Prime Minister would be addressing the United Nations on environmental issues tomorrow.

You will want to consider with the Foreign Office what further action may be necessary in Washington to mollify the Americans.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office) and Neil Thornton (Department of Trade and Industry).

*Yours sincerely,
C. D. Powell*

C. D. POWELL

Roger Bright, Esq.
Department of the Environment

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FRAME SOCIAL/INDUSTRIAL

FROM UKREP BRUSSELS

ENVIRONMENT COUNCIL : LUXEMBOURG : 8-9 JUNE 1989
VEHICLE EMISSIONS - SMALL CARS

SUMMARY

1. SOME EIGHTEEN HOURS OF NEGOTIATION LED TO AN AGREED SINGLE STAGE PACKAGE ON SMALL CAR EMISSIONS MEETING UK OBJECTIVES, BUT INVOLVING ONE CONCESSION. FACED BY FIRM BLOCK LED BY GERMANY IN FAVOUR OF ADVANCING THE DATES FOR NEW MODELS AND NEW REGISTRATIONS BY TWO YEARS, UK JOINED CONSENSUS, BRINGING FORWARD DATE BY SIX MONTHS ON NEW MODELS AND 9 MONTHS ON REGISTRATIONS IN RETURN FOR SOME CONTROLS ON FISCAL INCENTIVES, INCLUDING PRIOR NOTIFICATION TO THE COMMISSION AND A LIMIT 'SUBSTANTIALLY BELOW' TOTAL COSTS OF CLEANER TECHNOLOGY. IN ADDITION, UK SECURED AGREEMENT THAT THE COMMISSION WOULD COME FORWARD WITH MEASURES TO LIMIT CO2 EMISSIONS AND STEP UP RESEARCH ON CLEAN TECHNOLOGY, BOTH OF WHICH SHOULD HELP LEAN-BURN ENGINES. RISK OF FRAGMENTATION OF MARKET NOW DIMINISHED, ESPECIALLY WITH COMMITMENT TO FIVE YEAR PERIOD OF STABILITY. ITALIAN ATTEMPT TO SECURE DEROGATION FOR FIAT SEEN OFF AND FRENCH REQUIREMENT ON SPEED LIMITS SIDE-LINED TO COMMISSION STATEMENT.

DETAIL

2. IN DISCUSSION WITH MINISTERS AT LUNCH, SAENZ (PRESIDENCY) PROPOSED THREE ELEMENTS FOR A COMPROMISE: MANDATORY STANDARDS OF 20 G PER TEST CO AND 5 G PER TEST HYDROCARBONS AND NOX IN 1993, AGREEMENT NOT TO INTRODUCE NATIONAL LEGISLATION PROVIDING FOR STRICTER STANDARDS, AND A GUARANTEE THAT STANDARDS AGREED WOULD BE MAINTAINED FOR A REASONABLE PERIOD.

3. NIJPELS (NETHERLANDS) WANTED FLEXIBILITY ON THE INTRODUCTION OF MEASURES PRIOR TO 1993. THE LEGALITY OF FISCAL INCENTIVES WAS

FOR THE COURTS TO DECIDE. TOEPFER (GERMANY) THOUGHT THAT, ON THE PRECEDENT OF LARGE COMBUSTION PLANTS, THERE SHOULD BE A REALISTIC TIMESCALE FOR ALL TO ACHIEVE MANDATORY STANDARDS, BUT PROVISION TO ALLOW THOSE WHO COULD BRING THEM IN MORE RAPIDLY TO DO SO.

4. SAENZ APPEALED TO COLLEAGUES TO RECOGNISE THAT SEVERAL MINISTERS HAD ALREADY SHOWN A HIGH DEGREE OF FLEXIBILITY IN SUPPORTING THE STANDARDS NOW PROPOSED FOR 1993. RIPA (COMMISSION) SAID THAT THE ISSUE OF FISCAL INCENTIVES COULD NOT BE PREJUDGED. HOWEVER, THE COMMISSION COULD NOT AGREE TO ANY MEASURE WHICH WOULD ACTUALLY CLOSE THE MARKET.

5. DYBKJAER (DENMARK) COULD NOT ACCEPT STANDARDS IN 1993. THEY SHOULD BE ADOPTED IN 1990. THE THREAT TO THE ENVIRONMENT WAS ALL IMPORTANT. LORD CAITHNESS (UK) SUPPORTED THE PRESIDENCY COMPROMISE, BUT STRESSED HIS OPPOSITION TO FISCAL INCENTIVES AND OTHER NATIONAL MEASURES. THE PROBLEM OF CO2 EMISSIONS FROM CARS SHOULD ALSO BE ADDRESSED IN DUE COURSE. LALONDE (FRANCE) SUPPORTED THE UK POSITION. SMET (BELGIUM) STRESSED THE IMPORTANCE OF GIVING INDUSTRY A CLEAR FRAMEWORK WITHIN WHICH TO WORK. RUFFOLO (ITALY) COULD ACCEPT THE COMPROMISE, BUT THOUGHT THAT TAX INCENTIVES AND EMISSIONS FROM EXISTING VEHICLES SHOULD ALSO BE ADDRESSED. O'LEARY (IRELAND) ECHOED UK CONCERNS ABOUT CO2.

6. SAENZ SUBSEQUENTLY PURSUED DISCUSSION IN SEPARATE BILATERALS WITH EACH MINISTER TO EXPLORE THE PROSPECTS FOR COMPROMISE ON THE KEY ISSUES OF DATES FOR ENTRY INTO FORCE AND FISCAL AND OTHER INCENTIVES. THESE BILATERALS CONTINUED, WITH SOME BREAKS, UNTIL 3 AM, WITH THE PRESIDENCY SHIFTING TOWARDS A NEW COMPROMISE PROVIDING FOR THE STRICTER STANDARDS IN 1992 OR EVEN EARLIER. OF THE CAR PRODUCERS, ONLY THE UK AND FRANCE STRONGLY RESISTED COMMISSION/PRESIDENCY EFFORTS TO MOVE DATES FORWARD AND WATER DOWN PROVISIONS ORIGINALLY DRAFTED BY UK LIMITING FISCAL INCENTIVES. ITALY AND SPAIN HAD FLEXIBILITY TO AGREE EARLIER DATES. INFORMAL DISCUSSION CONTINUED ON THE MORNING OF THE SECOND DAY, WITH UK/FRANCE MAKING SOME HEADWAY, BUT INCREASING CLARITY THAT THERE WAS NO BLOCKING MINORITY TO RESIST EARLIER IMPLEMENTATION DATES.

7. SAENZ EVENTUALLY INTRODUCED A JOINT PRESIDENCY/COMMISSION COMPROMISE TO COUNCIL OMITTING THE INTERMEDIATE STAGE ORIGINALLY PROPOSED FOR 1991 AND PROVIDING FOR THE NEW STANDARDS FOR NEW MODELS FROM 1/7/92 AND NEW CARS FROM 31/12/92. FISCAL INCENTIVES WOULD BE PERMITTED, BUT ONLY AT LEVELS SUBSTANTIALLY BELOW THE COST OF THE NEW EQUIPMENT REQUIRED. HE STRESSED, SUPPORTED BY RIPA, THAT AFTER

EXTENSIVE BILATERAL CONSULTATION HE WAS SATISFIED ONLY THIS PROPOSAL COULD COMMAND AN ADEQUATE MAJORITY. HE COULD ENVISAGE AMENDMENT ON MINOR POINTS, BUT WAS ASKING THE COUNCIL TO ACCEPT THE MAIN POINTS OF SUBSTANCE AS THEY STOOD.

8. NIJPELS CONGRATULATED THE PRESIDENCY. HE COULD ACCEPT THE DATES BUT WAS CONCERNED THAT THE LANGUAGE ON FISCAL INCENTIVES WOULD PRECLUDE EXISTING DUTCH PROVISIONS AT 1700 GULDERS PER CAR. RIPA REASSURED HIM THAT THEY WOULD NOT. GREECE SOUGHT AGREEMENT THAT 4000 DEUTSCHMARKS (SIC) PER CAR MET THE CRITERIA. TOEPFER COULD ACCEPT LANGUAGE ON SUBSIDIES BUT WANTED AN EARLIER IMPLEMENTATION DATE FOR NEW CARS OF OCTOBER 1992, ARGUING THAT IN PRACTICE THIS FITTED THE ANNUAL PRODUCTION CYCLE. SAENZ SAID HE WAS DETERMINED TO PRESS THE COMPROMISE AS IT STOOD.

9. PIETROMARCHI AND LALONDE ACCEPTED THE PRESIDENCY COMPROMISE AS IT STOOD, THE LATTER NOTING THAT THERE WOULD BE PRACTICAL PROBLEMS. LUXEMBOURG, PORTUGAL, IRELAND, SPAIN AND BELGIUM ADDED THEIR SUPPORT WITH MINIMAL COMMENT. LORD CAITHNESS RECALLED THE BRITISH POSITION, BUT ACKNOWLEDGED THE PRESIDENCY'S EFFORTS TO REACH A CONCLUSION ACCEPTABLE TO ALL. HE WAS CONCERNED THAT THE LEVEL OF FISCAL INCENTIVES IMPLEMENTED SHOULD ACCURATELY REFLECT THE LANGUAGE AGREED. IT WOULD BE PREFERABLE TO SET A FIGURE. NO OTHER FORM OF INCENTIVES WERE PERMISSIBLE. FISCAL INCENTIVES SHOULD BE NOTIFIED TO THE COMMISSION.

10. SAENZ RESISTED SETTING A SPECIFIC FIGURE, ARGUING THAT ONLY THE CONCEPT PROPOSED COULD ENJOY MAJORITY SUPPORT. HE ACCEPTED THE BRITISH PROPOSAL ON NOTIFICATION AND AMENDED THE COMPROMISE ACCORDINGLY. UNDER FURTHER PRESSURE FROM LORD CAITHNESS, RIPA SAID THAT BY 'SUBSTANTIALLY LESS' THAN THE COST OF FITTING THE REQUIRED TECHNOLOGY THE COMMISSION HAD IN MIND 15-20 PER CENT LESS. HE ALSO EXPLAINED THAT SPECIAL PROVISION WOULD HAVE TO BE MADE FOR TESTING VEHICLES WITH THE SMALLEST ENGINES INCAPABLE OF IMPLEMENTING THE AGREED TEST CYCLE. LORD CAITHNESS NOTED THAT THE COMMISSION WAS THEREBY UNDERTAKING TO PURSUE LEGAL PROCEEDINGS VIGOROUSLY AGAINST AT LEAST ONE MEMBER STATE WHICH WOULD BE IN BREACH OF THE FISCAL INCENTIVE LIMITS.

11. GREECE PLEADED UNSUCCESSFULLY THAT IT WAS A SPECIAL CASE, THE COMMISSION CONFIRMING THAT GREEK FISCAL INCENTIVES AT 4,000 DEUTSCHMARKS WOULD BE IN BREACH OF THE NEW DIRECTIVE. GREECE NOTED THAT IT WOULD ACCORDINGLY VOTE AGAINST THE COMPROMISE. DYBKJAER, RECALLING THE ACUTE POLLUTION PROBLEMS IN DENMARK, LARGELY CAUSED BY

VEHICLES, SAID DENMARK WOULD JOIN GREECE IN OPPOSING THE COMPROMISE. TOEPFER SAID THAT IN VIEW OF THE BROAD SUPPORT FOR THE PRESIDENCY COMPROMISE, HE WOULD NOT PRESS HIS REQUEST FOR AN EARLIER IMPLEMENTATION DATE FOR NEW CARS.

12. SAENZ CONCLUDED THAT THE COUNCIL HAD AN AMPLE QUALIFIED MAJORITY TO ADOPT THE PROPOSAL, AGAINST THE OPPOSITION OF DENMARK AND GREECE. IT WAS ACCORDINGLY ADOPTED AS AMENDED. RIPA ENTERED TWO MINUTES STATEMENTS ON CLEAN LORRIES AND CO2 AND, SUBSEQUENTLY, REFUSED THE BRINGING FORWARD PROPOSALS ON SPEED LIMITS. GREECE AND DENMARK ENTERED STATEMENTS RECORDING THEIR RESPECTIVE NATIONAL POSITIONS.

CAMPBELL

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NNNN

PRIME MINISTER

VEHICLE EXHAUST EMISSIONS

I gather that the final outcome in Luxembourg was to win us an additional six months grace for new models. New models will have to meet the requirements from 1 July 1992 and all new cars from 1 January 1993. Not marvellous, but a bit better than what was on offer this morning.

CDP

Very good - never
give in to the
not

CHARLES POWELL

9 June 1989

dti

the department for Enterprise

CCP

nbym

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Lord Caithness
Department of the Environment
2 Marsham Street
LONDON
SW1

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref MMLAGU
Your ref
Date 25 April 1989

John Salomon

CAR EXHAUST EMISSION STANDARDS

file with dm

Thank you for copying to me your letter of 21 April to Geoffrey Howe.

As you say, the movement towards tougher standards is regrettable. But I am sure it is right to take the opportunity briefly available to us to try to influence the detail of the Commission's proposal in ways which limit the damage as far as possible; and the points which you suggest should be put to the Commission are a good reflection of the UK industry's concerns. The top priority must clearly be to avoid an intermediate standard in 1991. This would face the manufacturers with an intolerable choice; either they would have to waste development effort in engineering models to a standard due to last for only two years, or they would need to move straight to the tighter standard by 1991 - an unreasonably short lead time.

You go on to propose that we should indicate a readiness to accept US-equivalent standards, on condition that our points of detail are met. There is no denying that this is a bitter pill to swallow. However, it seems clear that at the end of the day the only realistic alternative to agreement on US-equivalent standards is no agreement at all, and that is a still less attractive prospect. The industry would be left with no clear framework within which to plan their model development; and a number of Member States would almost



the department for Enterprise

certainly implement US standards unilaterally, so that the industry would not in any case be spared the need to meet the higher standards. In line with the Prime Minister's summing up on the point of the Global Climate meeting on 19 April, we shall want to start by continuing to back the retention of the lean burn alternative for smaller cars. It will be nice a judgement when we might have to move from that position. I am content to rely on your view of the best timing, and on this basis I am ready to proceed as you propose.

I also agree that we should flag up to the Commission our concerns about fuel economy and CO2 emissions, in the way you suggest. Meanwhile, we will need to think carefully what options we could accept in this area. I suspect it will not be easy to find proposals which are effective without being excessively burdensome.

... I am copying this letter to the recipients of yours.

*Yours,
David*

Enu

Affa.ri:

Ar. V Rao

P. 9

25 IN

25 IN



Minister for Housing
Environment and Countryside

Department of the Environment
2 Marsham Street
London SW1P 3EB
Telephone 01-276 3450

CCFV

2

20

Rice Minister

You will want to 21 April 1989

keep abreast of

this. I think the

facts are right - its

conced to get a tolerable
proposal from the Commission. We
cannot rely on blocking an
unsuccessful proposal
in the Council

Dear Geoffrey

CAR EXHAUST EMISSION STANDARDS

The European Parliament has decided on far-reaching amendments to the common position on car exhaust emission standards. The European Commission have indicated that they intend to incorporate them into a revised proposal for the June Environment Council. These decisions are regrettable in that they run ahead of what we know about the science involved. This was discussed at OD(E) on 20 April.

The standards embodied in the common position agreed by the Council last November required 3-way catalysts on cars over 2 litres, but they could be met by lean-burn engines with simple oxidation catalysts on cars of less than 2 litres. The amendments effectively demand 3-way catalysts on all cars. If they become the basis for a new agreement, it would mean the end of the lean-burn engine approach. The cost-effective emission reductions and fuel economy advantages offered by lean-burn were not seriously weighed in the debate. No attempt was made to evaluate the contribution lean-burn engines might make to mitigate the Greenhouse Effect, though we have pressed these issues strongly with European colleagues. Nevertheless we now need to consider our position on the various possible revisions that may be included in the Commission's new proposal.

The Commission has to produce its revised proposal within a month of the European Parliament's decision. The Council would be able to adopt this proposal by qualified majority, but could only amend it unanimously. Amending a proposal, once tabled, would be very difficult. We must in any case prepare for the possibility that a qualified majority could be put together without the UK. Our efforts should now be directed towards ensuring the most sensible Commission proposal by influencing it at the drafting stage. The timetable for this is tight; in practical terms, we need to start pressing our views as early as possible next week.

I propose that the following elements be put forward by UKREP in an early approach to the Commission:-

- First, notwithstanding the emission levels proposed in the revision, we would prefer to see an approach along

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the lines of the European Parliament amendment, that is, introduction dates for medium cars of 1993/94 and without an intermediate standard in 1991. Small cars should be similarly treated. The arguments for this are that it fixes the dates for the transition to stricter limits, giving industry time to develop a full range of cars to the standard, avoids the severe difficulties of national type approval authorities processing approvals in a very short timescale, and reduces confusion for the consumer and unfairness in the market place during the transition period. The Commission's proposal that the regulations should be mandatory would be particularly unacceptable if the intermediate standard remained in the proposal.

- the new proposal is for the strictest emission standards; fiscal incentives or national regulations such as smog alert restrictions should be explicitly ruled out.
- the Directive currently permits the use of using US test procedures for large cars. This should be extended to all cars if the Commission is to propose effectively US standards across the board. It would allow manufacturers an important freedom to rationalise their testing procedures.
- the existing arrangements for a derogation for direct injection diesels until 1994/96 should stand. This very new British technology is already in production and there is no environmental value in taking away the chance for development to the full emission standard as originally agreed.

These points are broadly in order or priority. Officials could make these points while still not moving from the original common position, and with at this stage no commitment to accepting the Commission's proposal even if our points were met. It is, however, inevitable that the Commission will now propose effectively US level emission standards. At best we could only seek to assemble a blocking minority to such a proposal. If we succeeded in this, which seems increasingly unlikely, the outcome would almost certainly be a free-for-all and political bidding-up among Member States in setting standards, and hence fragmentation of the market - the worst possible outcome for our industry with little practical benefit the environment.

If colleagues accept this analysis, I suggest that our bargaining position with the Commission would be immeasurably strengthened if we approached them quickly with the message that we might be willing to support their proposal provided our essential requirements, listed above, were met. We are probably much better able to succeed with such tactics than is France, with whom the Commission might alternatively try to set up a deal. This is because we can tolerate the proposed change to mandatory standards which seems likely to be much harder for France but is dear to the Commission and the European Parliament.

If we do give such a signal, I suggest we also say that a crucial part of the price for our agreement would be that the Commission should come forward quickly with radical proposals to tackle the fuel economy and CO2 emission issues. After all, if we are going for US standards, part of that regime is universal low speed limits.

It is difficult to cost our options. The tighter standards which we have already accepted (Luxembourg Stage I and the Stage II for small cars in the common position) would add about £800m per annum compared with current standards. US standards across the board would add a further £600m. There would be significant environmental benefits, although they would be less cost-effective than the reductions already agreed. Manufacturers are already designing their vehicles to be acceptable in the widest possible market, so there is no question of avoiding the £600m altogether. Vauxhall, for example, have already announced that all their cars will be equipped with three-way catalysts.

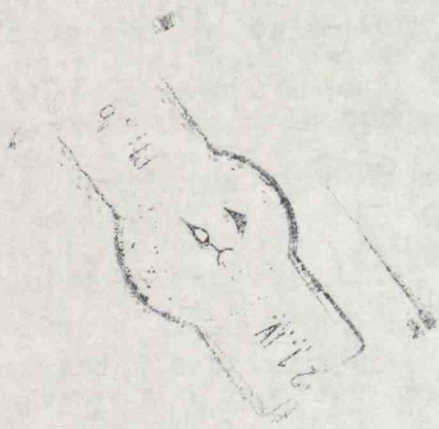
I would be grateful for confirmation from colleagues that the package of important elements I have listed should be put to the Commission, and I invite agreement to the further proposal that we should signal a probable acceptance of US standards if the elements in our package are met.

I am copying this letter to the Prime Minister, other members of OD(E), Cecil Parkinson, Lord Young, Paul Channon and to Sir Robin Butler.

Yours truly
Malcolm

THE EARL OF CAITHNESS

The Rt Hon Sir Geoffrey Howe QC



Grey Scale #13



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