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PAYMASTER GENERAL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State
Department of Energy
1 Palace Street
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31 October 1989

Dear John

GOVERNMENT RESPONSE TO THE ENERGY SELECT COMMITTEE ON THE POLICY IMPLICATIONS OF THE GREENHOUSE EFFECT

I have seen Chris Patten's letter of 20 October commenting on the draft reply which you are proposing to send to the Energy Select Committee on the policy implications of the greenhouse effect.

On two of the points which he raises, I would prefer that it stays as originally drafted or follows the wording of the UN General Assembly speech on which we have written separately to No 10. There is little doubt that targets for CO2 emissions could have a role to play in tackling undesirable climatic change, but there are problems. Firstly, different countries start from different positions and so the ease of reduction is likely to vary substantially between them. They also have very different levels in diversity of energy reserves which makes reductions in carbon emissions easier to achieve for some than others. For these reasons, equal targets are likely to be economically inefficiency in a global sense. The most cost-effective options for reduction should be taken first which would imply different targets for different countries. Furthermore, there will be considerable difficulties in negotiating such targets which may not be deliverable. There is also the risk that we detract from the possible contribution that other measures, such as tradeable emissions permits, might make.

Secondly, Chris Patten suggests that the draft reply adds "The Government will continue to press for the pricing of fuels to reflect their full economic and environmental costs". Whatever view one takes of this issue, I do not think it is appropriate to

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make a public commitment on this now, when we have not discussed among ourselves the policy implications. It is not clear that we could implement such a policy in the near future, so including it in the reply would mean over-committing the Government. As far as the phasing out of CFCs is concerned presumably this refers only to those covered by the Montreal protocol? If so we should make that clear.

Copies of this letter go to members of Cabinet and Sir Robin Butler.

Yours ever
Malcolm

THE EARL OF CAITHNESS