

EEF Response to the Committee on Climate Change Review of the Fourth Carbon Budget - Call for Evidence

About EEF

EEF, the manufacturers' organisation is the representative voice of UK manufacturing, with offices in London, Brussels, every English region and Wales. We are a not for profit organisation with a growing membership of almost 6,000 companies of all sizes, employing some 900,000 people from every sector of the engineering, manufacturing and technology based industries. UK Steel, a division of EEF, is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processors.

Response

EEF has not been able to respond here in full, as like many other stakeholders, EEF will be carrying out its own research and evidence gathering during early autumn, with a view to finalise our position in October. We would be happy to share this with you then. But for now, please find attached our broad concise views which directly related to your questions.

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Review of the Fourth Carbon Budget - Call for Evidence

www.theccc.org.uk/call-for-evidence

Question and Response form

When responding please provide answers that are as specific and evidence-based as possible, providing data and references to the extent possible. Please limit your response to a maximum of 400 words per question.

Questions for consideration:

A. Climate Science and International Circumstances

The Committee's advice assumes a climate objective to limit central estimates of temperature rise to as close to 2°C as possible, with a very low chance of exceeding 4°C by 2100 (henceforth referred to as "the climate objective"). This is broadly similar to the UNFCCC climate objective, and that of the EU.

In order to achieve this objective, global emissions would have to peak in the next few years, before decreasing to roughly half of recent levels by 2050 and falling further thereafter.

The UNFCCC is working toward a global deal consistent with such reductions, to be agreed by 2015. Earlier attempts (e.g. at Copenhagen in 2009, before the fourth budget was recommended or legislated) have failed to achieve a comprehensive global deal to limit emissions.

It is difficult to imagine a global deal which allows developed countries to have emissions per capita in 2050 which are significantly above a sustainable global average, implying the need for emissions reductions in the UK of at least 80% from 1990 levels by 2050.

The EU has not yet agreed a package beyond 2020, but the European Commission is consulting on a range of issues relating to development of climate and energy targets for 2030. In its 2011 Roadmap for moving to a competitive low-carbon economy, the Commission suggested a reduction in emissions of 40% on 1990 levels by 2030, as being on the cost-effective path to an 80-95% reduction by 2050. The UK Government has signalled its support for a 40% reduction by 2030, and for an increase to 50% in the context of a global deal.

China has made ambitious commitments to 2020 which would, if delivered, cut carbon-intensity relative to GDP by around 45%.

The United States could achieve its Copenhagen Accord commitment to reduce emissions by 17% on 2005 levels without the need for further federal legislation.

Question 1: Does the scientific evidence justifying the climate objective remain the same as in 2010? In particular, is there new evidence on climate change impacts?

ANSWER: EEF does not have the expertise to answer whether the scientific evidence has changed significantly. However, in setting the UK Carbon Budgets, the government must take into account the climate objectives that we can agree and achieve. Globally, with comparable action being taken by other significant emitters of greenhouse gases. UK objectives and action must contribute to a reduction in global emissions, rather than isolated action.

Question 2 Have the emissions pathways consistent with achieving this objective changed? In particular, is there new evidence on climate sensitivity to emissions?

ANSWER: Emissions pathways to achieve these objectives may not have changed, but the unilateral cost of doing so has. Our commitment and ambition must be made with a full understanding and acceptance of the cost and its impact on competitiveness and growth. Without cost effective action, global reductions will not take place, only a shifting of emissions to regions that currently are not subject to a comparable GHG reduction regime.

Evidence published by the UK government has shown that the UK's energy intensive sectors pay considerably more in energy tax and for climate change policy than many competitors. In addition the research indicates that, unabated, the situation will become particularly bad by 2020. The study showed that even in Europe there are differences despite being subject to the same emissions reduction targets. The report provides evidence that energy taxes for energy intensive industries (EIs) in the EU Member States considered in the study are generally lower due to their governments providing significant reimbursements. Reimbursements to EIs appear most significant for Germany, Denmark and Italy, and are also relatively high for France. However, the report highlights that this is an area where further investigations by Government are needed.

EEF is therefore becoming increasingly concerned about the impact CPS will have on wider manufacturing, not just Energy Intensive Industries. Its introduction in April will put UK manufacturers significantly out of step with our European competitors. Our particular concern is with the trajectory that CPS has plotted and the growing disparity between the CPS, the price of EU ETS allowances (EUA) and its impact on competitiveness. EEF's analysis shows that by 2015 this additional cost, not borne by competitors in the EU, will increase electricity prices for medium energy buyers by 10% alone.

Question 3 *Does the climate objective remain in play given international developments? Has the likelihood of getting global agreement changed significantly since the budget was set, and if so why?*

ANSWER: There is little evidence that a 'like for like' global agreement is forthcoming and therefore it is too early to answer this question. Although there is increasing evidence that other countries or regions are adopting or piloting emission trading schemes of their own, it is too early to assess whether they will have the rigor and stringency of the EU ETS. For example, EEF has not been able to ascertain how many of the schemes intend to deal with energy intensive industries.

Question 4 *How have the prospects for a new EU package for 2030 changed since the Committee's advice and the setting of the budget? What implications do the latest expectations have for the fourth carbon budget?*

ANSWER: Again, it is far too early to know what the agreed 2030 EU package will look like and therefore, until this is agreed then using that as evidence to decide whether the 4CB should stay at 1950mt is not acceptable. If the 2030 Package is not fully finalised before government must make a decision, then the Ripcord must be pulled and the 1950mt budget must be increased to reflect the EU aspiration.

Question 5 *What flexibilities are appropriate to reflect possible future changes in EU and international circumstances?*

ANSWER: Only if a truly global international agreement is reached, or if the EU significantly increases ambition, should there be consideration of sticking to 1950mt. In relation to an international agreement, the timetable for agreeing it takes place sometime after a decision on 4CB needs to be made. This cannot be used as evidence and must be discounted and supports a decision to pull the Ripcord.

B. Technology and economics

In recommending the level of the fourth carbon budget, the Committee developed scenarios which embodied cost-effective emissions reductions to meet the 2050 target.

These scenarios, set out in detail in the Committee's report *The Fourth Carbon Budget – Reducing emissions through the 2020s*, include substantial investment in low-carbon power generation, roll-out of low-carbon heat (heat pumps and district heating), development of the markets for ultra-low emissions vehicles and a combination of energy efficiency measures and fuel switching in industrial sectors.

They were based on official emissions projections together with an assessment of the cost and feasibility of abatement options. Since 2010, official emissions projections have been significantly reduced in the industry and waste sectors, meaning that meeting the legislated 4th carbon budget would require less effort than originally envisaged.

Question 6 *Is there any new evidence to suggest that the type of scenarios upon which the budget was based are no longer feasible or cost effective?*

ANSWER: EEF believe that the 1950mt Budget was based on an assumption that the EU (and corresponding international action) would go further than it has, in terms of ambition. This has not happened and therefore the scenarios upon which the budget was based are no longer correct or competitively robust. It should also be noted that the anticipated progress of the deployment of low carbon generation and abatement technologies has been slower than expected. For example, CCS and new nuclear. Similar we have not seen the anticipated reduction in the cost of offshore wind. And with the recently announced Contracts for Difference strike prices to 2018 and 2020 for offshore wind of £135/MWh, significant reductions in cost are looking seriously difficult to achieve by the end of this decade. This will have a significant knock on effect on power generation decarbonisation and the shift to electrification. This also has a negative impact of the affordability of sticking to the tighter 1950mt target. So rather than the direction of travel moving towards keeping the 1950mt target, EEF believe that the shift has actually moved the other way, making the 1950mt target untenable.

Question 7 *In particular, does the possibility of shale gas in the UK change the economics of the fourth carbon budget?*

ANSWER: The production of shale gas in many regions of the World has had a

significant impact on prices and future supply of natural gas. So cheaper and greater availability of gas, for decades to come, will inevitably lead to the delay in the electrification of the UK economy. Much of the CCC calculations of Budgets in the 2020s are based on a move to electrification, most notably in transport and heating, therefore it is fair to say that these assumptions should now be revised, as the cost estimates will now be out of date.

Question 8 *Should the budget be tightened to reflect headroom due to significantly lower emissions projections (e.g. due to slower than expected economic growth) since 2010?*

ANSWER: Slower economic growth should not be used to tighten the budget to reduce emissions. For a start, any decision on whether to adjust the budget should be based on an analysis of economic output has been permanently lost or whether it is likely to be counterbalanced by faster growth in subsequent years. Similarly, given the importance of competitiveness highlighted in this submission, the CCC should assess whether other EU countries have made similar changes to their emission budgets to reflect slower economic growth across the EU. Any assessment of a change to the budget should take account into the fact that the recession has in some ways increased the cost of reducing emissions. In particular, the availability and the cost of finance has deteriorated, making it more expensive for business to make the necessary investments.

C. Other issues

As required by the Climate Change Act, in designing the fourth carbon budget we considered impacts on competitiveness, fiscal circumstances, fuel poverty and security of energy supply, as well as differences in circumstances between UK nations. Previous high-level conclusions on these were:

- **Competitiveness** risks for energy-intensive industries over the period to 2020 can be addressed under policies already announced by the Government. Incremental impacts of the fourth carbon budget are limited and manageable.
- **Fiscal impacts.** The order of magnitude of any fiscal impacts through the 2020s is likely to be small, and with adjusted VED banding and full auctioning of EU ETS allowances could be neutral or broadly positive.
- **Fuel poverty.** Energy policies are likely to have broadly neutral impacts on fuel poverty to 2020, with the impact of increases in electricity prices due to

investment in low-carbon generation being offset by energy efficiency improvement delivered under the Energy Company Obligation. Incremental impacts through the 2020s are likely to be limited and manageable through a combination of further energy efficiency improvement, and possible income transfers or social tariffs.

- **Security of supply** risks due to increasing levels of intermittent power generation through the 2020s can be managed through a range of flexibility options including demand-side response, increased interconnection and flexible generation. Decarbonisation of the economy will reduce the reliance on fossil fuels through the 2020s and thus help mitigate any geopolitical risks of fuel supply interruption and price volatility.
- **Devolved administrations.** Significant abatement opportunities exist at the national level across all of the key options (i.e. renewable electricity, energy efficiency, low carbon heat, more carbon-efficient vehicles, agriculture and land use).

Question 9 *Is there any new evidence to suggest that (incremental) impacts of the fourth carbon budget on competitiveness, the fiscal balance, fuel poverty and security of supply have become unmanageable?*

ANSWER: the question should be phrased differently, by replacing the word “have” with “will”.

The CCC should also shed more light on what is meant by ‘unmanageable’. EEF would consider that if a 1950mt 4CB results in less investment in the UK manufacturing sector, then the impacts have become unmanageable.

When assessing the success of measures to address indirect impacts on EILs, it should be noted that the current compensation package, only covers 2/3 of the increased costs. This leaves the remaining 1/3 to contribute to the cumulative burden of unilateral costs on UK EIL sectors.

Calculations in comparing climate change policy cost impacts on EILs globally must be robust, as it should be noted that relying on uncorroborated data, will paint an incomplete picture. Equally, not included all key steel making regions, for example, will mask the true impacts of policy costs on profits from UK EILs.

Question 10 *Is there any new evidence on differences in circumstances between England, Wales, Scotland and Northern Ireland that suggest the need*

to change the budget?

ANSWER: No views on this issue.

Question 11 *Is there anything else not covered in your answers to previous questions that you would like to add?*

ANSWER: