

Carbon budget reforms in the Energy Bill

Briefing for UK Members of Parliament

January 2016



The Government wouldn't announce half a budget...

...so why propose half a carbon budget?

We write to urge Members of Parliament to promote strong and transparent rules for the 5th carbon budget by defending clause 80 in the 2015-16 Energy Bill.

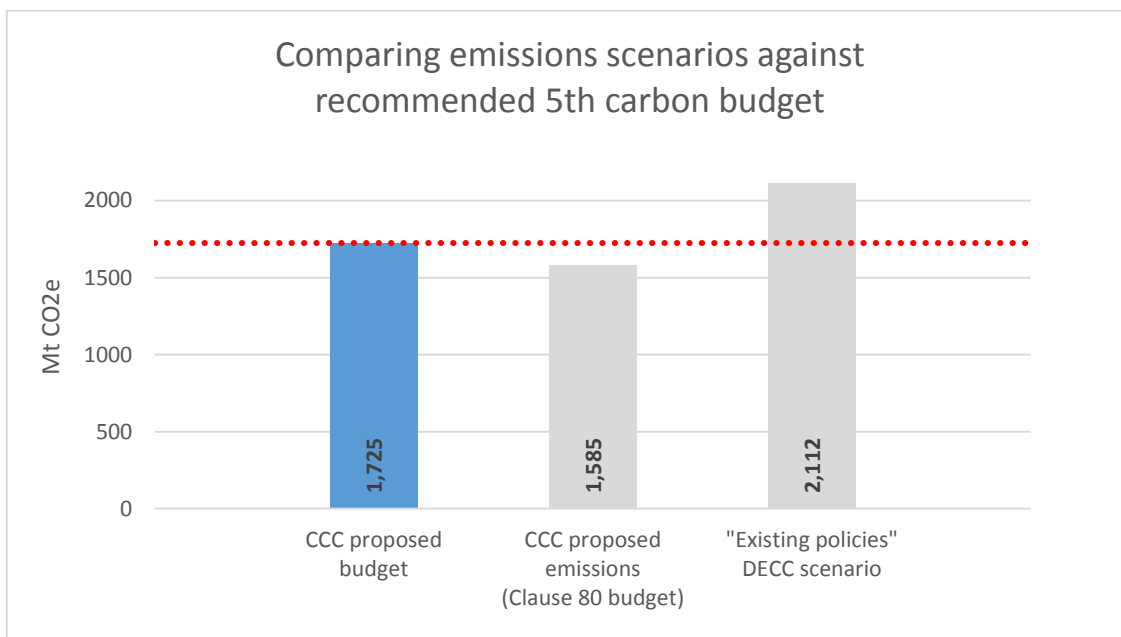
Clause 80 seeks to make the government accountable for ensuring all of the UK's greenhouse gas emissions stay within any new carbon budgets adopted. The government has moved to strike this Lords amendment from the Bill as it passes through the House of Commons.

Currently, the government is only responsible for meeting half of the UK carbon budgets. It is only accountable for reducing emissions from sectors like buildings, transport and agriculture. Meeting the other half of the carbon budget is completely outsourced to companies in the EU Emissions Trading scheme (ETS), and is treated as being met automatically, irrespective of whether actual emissions from these sectors are higher or lower than the UK's ETS budget.

The UK carbon budgets currently place no obligation on the government to reduce emissions from the electricity and manufacturing sectors. Even if emissions were to grow in these parts of the UK economy, the government would still legally meet its carbon budgets. The current accounting allows the government to indefinitely ignore the Climate Change Committee's advice regarding the level of power sector decarbonisation required to meet our long term goals. The carbon budgets do nothing to prevent government from embarking on an all-out dash-for-gas or

pursuing other high carbon strategies in the power and manufacturing sectors. By extension the carbon budgets provide no investor confidence for the UK electricity sector.

This issue was highlighted in a recent briefing from the Parliamentary Office for Science and Technology.¹ The briefing notes that Clause 80 would effectively require the government to introduce new policies to keep domestic greenhouse gas emissions below 1,585 million tonnes (Mt) over 2028-32, in line with the Climate Change Committee’s cost-effective emissions pathway.² DECC’s latest greenhouse gas projections estimate however that emissions over the 5th carbon budget could reach 2,112Mt if no new policies are implemented, a third higher than the carbon budget if clause 80 were adopted.³ This underlines the fact that Clause 80 is an important driver of change, ensuring that the Government continues to support decarbonisation policies beyond 2020. Such policies should include implementing the announced coal power phase out by 2025, investing in CCS on gas and continuing to support the most cost-competitive renewables, nuclear and demand management policies.



Clause 80 is key to ensuring the government adopts a strong 5th carbon budget and implements policies in line with the Climate Change Committee’s advice. It is also pivotal for providing investor confidence in the UK electricity sector. We therefore encourage MPs to defend and support this amendment in the House of Commons.

¹ See http://researchbriefings.parliament.uk/ResearchBriefing/Summary/POST-PB-0017?utm_source=newsletter&utm_medium=email&utm_campaign=PB17#fullreport

² This also highlights the awkward disconnect between the Committee’s advised emissions level (1,585 Mt) and its advised budget (1,725 Mt) under current accounting rules. See chart.

³ See “Existing Policies” scenario in Annex A: Greenhouse Gas Emissions by Source <https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2015> DECC does not show the ETS vs non-ETS emissions in this forecast. Clause 80 would provide an additional constraint only on the ETS emissions.

Frequently Asked Questions

What is the specific wording of the House of Lords amendment?

Section 6, clause 80 states:

In section 27 (net UK carbon account) of the Climate Change Act 2008, after subsection (2) insert—
“(2A) No carbon units deriving from the operation of the EU Emissions Trading System may be credited to or debited from the net United Kingdom carbon account for any period commencing after 31 December 2027.”

Does clause 80 mean opting out of the EU ETS?

No. The UK would not withdraw from the EU ETS and UK facilities would still be fully subject to it. UK installations would still need to purchase and surrender carbon allowances to comply with the scheme, and the EU carbon price would be an important tool to incentivise decarbonisation of UK electricity generators and manufacturing installations. Clause 80 simply places a framework obligation on government to ensure that all UK emissions – in both the ETS and non-ETS sectors – keep within the carbon budgets, and that appropriate policies are put in place to deliver this.

Will clause 80 put additional competitive pressure on UK manufacturing sectors?

No. It need not lead to any additional costs or regulation on UK manufacturing sectors. The clause simply obliges the government to ensure appropriate policies are in place to keep total UK emissions within the carbon budgets agreed. If additional measures are required to keep within the budget the government can choose to introduce additional policies in the non-traded sector, or in the electricity sector (which is not competitively exposed). There is no requirement to introduce additional punitive climate regulations on the industrial sector. On the contrary, clause 80 might encourage the government to direct additional public funding towards supporting breakthrough technologies in industrial sectors.

The 5th carbon budget does not start until 2028. Can't this wait until later?

No. Accounting reforms should take place before the 5th carbon budget is set in June 2016. The Climate Change Committee's advice on the level of the 5th carbon budget is affected by the accounting method used. The Committee indicates that the budget would need to be set roughly 61% below 1990 levels if the accounting was changed, in contrast to 57% below 1990 as advised under current accounting rules. If the accounting rules are changed after the 5th budget is set by government, the budget is unlikely to remain in line with the cost-effective pathway to the cut emissions by 80% in 2050.

About this briefing

Briefing Author: Damien Morris, Head of Policy.

For more information email damien@sandbag.org.uk or call (+44) 020 7148 6377

About Sandbag

Sandbag is a UK-based not-for-profit think tank conducting research and campaigning for environmentally effective climate policies.

Our research focus includes the phase-out of old coal in Europe; deep decarbonisation of industry through technologies including Carbon Capture Utilisation & Storage; reform of the EU Emissions Trading Scheme; and increasing ambition in the EU 2020 and 2030 climate & energy packages.

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