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Open letter to the Climate Change Committee responding to 'The Scientific and International Context for the 5th Carbon Budget'.

Dear Lord Deben,

We are writing to the Climate Change Committee (CCC) to respond to some of the findings in its recent report *The Scientific and International Context for the 5th Carbon Budget.*[1]

We are eager to see a strong 5th carbon budget put in place that ensures the UK can fully meet its international obligations and cost-effectively meet its 2050 target. This will require building in appropriate margins of error when estimating our future EU commitments at such an advanced stage; it will require building in flexibility to accommodate any increase in Europe's commitments over time; it will require that the abatement effort to meet the 2050 goal is not unrealistically deferred; and finally, it will require clear accounting and strong governance to ensure appropriate measures are put in place to get us there.

We provide some specific recommendations on these themes below that we hope might inform the Committee's formal advice on the 5th carbon budget.

1. Reasons for setting the 5th budget lower than the UK's estimated share of EU budgets

As the Committee prepares to advise on the size of the 5th carbon budget, we stress that there are several reasons why the UK budget needs to be set at a more ambitious level than the UK's estimated share of EU budgets implies:

- **In order to ensure that the UK complies with its EU commitments, the 5th carbon budget should be set below the estimated EU budget including any margin of error.** Considerable uncertainty remains about the ambition of different elements of the 2030 package and the UK's share of that ambition.[2] This uncertainty increases further for the budget years beyond 2030 where we can almost certainly expect a step up in European ambition that does not appear to be explicitly factored into the Committee's estimates. Failure to build in sufficient margin could see the UK fail to adopt adequate domestic policies to meet its EU commitments in the non-traded sector. We note that international offsets cannot be used to meet the UK's commitments in the new EU Effort Sharing Decision.

- **The Committee has previously noted that a 2030 target of 60% below 1990 levels is the minimum level to cost-effectively reach our long term goal of cutting emissions**

[1] https://www.theccc.org.uk/publication/the-scientific-and-international-context-for-the-fifth-carbon-budget/

[2] The new legislation for the ETS and the ESD is not expected to be signed off until 2017 and might emerge quite differently to what was provisionally agreed in the October 2014 Council Conclusions or from the original legislative proposals from the European Commission. The national distribution of free ETS allowances to manufacturing facilities is particularly difficult to estimate.

by 80% in 2050.[3] A weaker target back-ends effort in a costly and environmentally dangerous manner. The Committee's context report notes that it stretches plausibility that the carbon budget only drop by 2% between the 4th carbon budget (52%) and the 5th (54%) when that would imply a 6.6% drop in each budget thereafter to meet the 2050 target, dangerously back-ending effort and raising costs. Moreover, even this 6.6% figure seems to neglect the additional land-based emissions reductions that would be needed to take place following the 5th carbon budget to account for aviation emissions and therefore underplays the extent to which effort would be dangerously deferred.[4]

- **The 5th carbon budget should take account for international aviation and shipping emissions in the 2050 goal, and seek to include aviation in the 2028-2032 UK budget period.** The EU 2030 target encompasses international aviation emissions, as does Europe's 2050 goal of cutting emissions by 80-95%. The UK carbon budgets currently do not, leaving the UK out of step with our EU partners. Failure to take account of aviation in the budget risks leaving the UK with inadequate policies in place to tackle both its aviation and land-based emissions in a timely and cost-effective manner.

- **Provisions should be put in place to increase the ambition of the 5th carbon budget over time if corresponding European and international commitments increase.** Europe's current target is to cut emissions by "at least" 40%, and provisions to review and ratchet up ambition between now and 2030 are being discussed in the international negotiations. In addition to the previous considerations for setting the <u>initial</u> volume for the 5th carbon budget, some flexibility should be retained to tighten the 5th carbon budget as new international circumstances dictate.

2. Additional recommendations on accounting for the ETS in the UK budgets

In terms of the manner the UK carbon budgets are accounted we make two final recommendations.

- **From the start of the 5th Budget we recommend that UK emissions be accounted for on a gross basis, rather than netting off traded sector emissions against the UK's "notional" share of the ETS budget.** This would make the accounting of the UK budgets far more transparent and intuitive to policymakers and stakeholders. It would also place an obligation on the UK government to ensure that emissions in the traded sector continued to fall in a trajectory in keeping with the long term climate goal rather than trusting the ETS alone to deliver this. This would be an important backstop if a power sector decarbonisation target is not introduced. An amendment to the Energy Bill to this effect was voted through in the Lords on Wednesday 21st October.

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[3] See for example https://www.theccc.org.uk/2010/12/07/uk-should-commit-to-a-60-cut-in-emissions-by-2030-as-a-contribution-to-global-efforts-to-combat-climate-change-7-december-2010/ and the Fourth Carbon Budget report where the 60% 2030 target was specified.

[4] The 6.6% figure cited by the Committee seems to refer to 1990 levels using the same emissions scope as used in the 4th carbon budget. If this is the case, it would imply cuts of 80.4% from 1990 levels excluding international aviation and shipping.

- **We endorse the Committee's decision to treat the Market Stability Reserve as neutral when estimating the UK notional share of the EU budgets and recommend that this principle be formally recognised in the accounting of the UK budgets.** The budgets are already difficult to calculate in advance of EU legislation being finalised but the operation of the Market Stability Reserve is extremely difficult to predict even after these budgets are fixed. This requires highly speculative forecasts about the demand for EU allowances (i.e. emissions) many years in advance. Unexpected movement in the traded budget caused by the Market Stability Reserve jeopardises the UK's ability to predict the policy gap needed to meet the non-traded parts of the budget, leading to needlessly expensive over-delivery or, as is more likely, failure to meet the budget.

We kindly request the Committee consider these recommendations when finalising its advice for the 5th carbon budget.

Yours sincerely,

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