

April 2009

EEF submission to the Environmental Audit Committee

Inquiry into the UK's carbon budgets

About EEF

With over 6,000 business members from the manufacturing community (employing approximately 1 million employees) and more than 20,000 associate companies, EEF is dedicated to fostering enterprise and evolution across manufacturing to keep industry competitive, dynamic and future focused.

As the only membership organisation dedicated entirely to manufacturing, we are an established UK leader in the delivery of business services, government representation and industry intelligence.

Commercially driven and re-investing profits for the benefit of industry and members, EEF's trusted influence means that manufacturing companies are particularly receptive to the advice and service offerings of carefully-selected partners with whom we choose to work.

Our network of offices in England and Wales keeps us close to our members, allowing us to focus on local issues and thereby to function as a unique community. Our London office provides a focal point for development of our broad portfolio of business services designed to deliver maximum value. From London, EEF provides first-class representation with government and regulatory bodies and supports our local offices in their programmes to influence regional policy. Our structure places us at the heart of the UK business community.

EEF's broad service portfolio is delivered by an unparalleled team of experts including 30 economists and policy specialists, 90 HR and legal advisers, 150 health, safety and environment advisors, 20 occupational health specialists and around 200 trainers, based in our regional offices and in centres of excellence nationwide.

Overview

Whether the UK's statutory targets for greenhouse gas reductions are consistent with the Government's objective of limiting global warming to no more than 2°C and whether they are enforceable;

1. As carbon dioxide (CO₂) is a global gas and climate change is a global problem, it is certain that any possible solution must also require global action. The new American administration has increased optimism that an international agreement at the UN meeting of ministers in Copenhagen can be achieved. A truly global agreement will enable GHG emissions reductions to be made at least cost, by countries undertaking action at home but also by offsetting their impact through investment in low carbon projects in other parts of the World.
2. EEF believe that the most effective, transparent and long term solution to limiting global warming to no more than 2°C is a global cap on emissions, delivered through a cap and trade scheme, which would aim to place all participants on an equal footing. This does not advocate setting the same target across all countries, but seeks to deliver a 'level playing field' that fully addresses the critical issue of 'carbon leakage'. We also believe that carbon tax systems could be an equally effective method of reducing global emissions and should not be discounted from future discussions.
3. Only through swift and concerted international agreement and action can global warming be limited to no more than 2°C. Despite setting itself the highest carbon reduction target for 2020, than for any other developed country, there is no reward for the UK acting on its own. It must ensure any action is measured and inline with other developed countries. However the steps that it has taken to date to show its commitment to the challenges of dangerous climate change that we all face is applauded.

The extent to which the Committee on Climate Change's recommended budgets to 2020 are consistent with the UK's target for 2050;

4. EEF agree that early and significant action is necessary if the dangerous and irreversible effects of climate change are to be averted at least cost. We, therefore, consider that the Committee on Climate Change's recommended budgets to 2020 – which were recently adopted by the Government - are consistent with the UK's target for 2050. However, we have strong reservations whether this ambition can, in reality, be delivered through current action and commitment.
5. That so much of our ability to meet the 2020 target relies on efforts to decarbonise the UK economy through the introduction of electric vehicles, installation of carbon capture and storage (CCS), facilitating new nuclear build and renewable technology is concerning. These technologies, which will substantially help to deliver our objectives, have yet to be developed or scaled-up to an adequate level of commercial activity and it is highly questionable whether the carbon emissions can be realised from these technologies before 2020.
6. The Chancellor's recent Budget announcement, which adopted the Committee on Climate Change's recommended budgets to 2020, also provided £405 million to support low-carbon industries and advanced green manufacturing. Whilst a welcome investment, other funding announcements, it appears, were brought forward from existing projects and is not, in the main, additional funding which was requested and is required to set the UK on a course towards its 2020 target. EEF criticised the level of funding, initial calculations indicate that the new funds only constitute to about a quarter of one per cent of government spending.
7. The recent report on green stimulus by Lord Stern and others suggests that the World should spend around 0.8% of global GDP in the next year on green stimulus measures,

for the UK this would translate to around £11 Billion. Clearly the UK is a long way off achieving this goal. Disappointed that the Chancellor had not gone far enough to meet this ambition, EEF has called for the government to ensure that further funding commitments designed to achieve its carbon reduction goals, and realise opportunities for business, must: be bolder; be new; and be for the long term.

The suitability of the climate models and the validity of the assumptions used by the Committee on Climate Change in setting carbon budgets;

8. EEF is not best placed to provide detailed analysis on the suitability of the climate models and the validity of the assumptions used by the Committee on Climate Change (CCC) in setting carbon budgets. However, we understand that the models and processes used by the CCC have drawn broadly consistent conclusions with other investigations into the emissions reduction required to limit the risk of exceeding 2°C.

The basis on which the Committee on Climate Change arrived at the UK's share of the global effort to cut emissions;

9. EEF is not best placed to provide detailed analysis the basis on which the CCC arrived at the UK's share of the global effort to cut emissions. However, we are receptive to the 'equal per capita emissions' approach outlined in the CCC report. This assumes that in the long-term every person on the planet is entitled to an equal share of GHG emissions, which would imply a per capita allowance of between 2.1 to 2.6 tonnes CO₂-equivalent (assuming a global population in 2050 of about 9.2 billion). A global deal on this basis would require that the UK reduces emissions to between 78% and 82% by 2050 versus the 1990 baseline - this includes bunker fuels used for international aviation and shipping and emissions relating to land-use. This is both a fair and equitable approach to tackling a global problem.

The frequency with which targets and budgets should be reviewed and updated to take account of new scientific evidence;

10. Given the inherent uncertainty of climate science, and the variability of modelling techniques and data which may be used to predict behaviour, it is important that a sound body of reputable evidence is used to substantiate claims for change (e.g. Inter Governmental Panel on Climate Change). New single sources of evidence should not determine budgetary changes.
11. Business needs certainty and time to react to possible new investment cycles. Any efforts to review and update the greenhouse gas targets and carbon budgets must take into account actions and impacts to the UK economy. We would strongly recommend that any review was supported by a formal consultative process for relevant stakeholders.
12. Similarly, any review should consider the role that carbon offsetting can play in helping the UK to meet its targets. If efforts to decarbonise the UK economy by 2020 through the introduction of nuclear, CCS, and renewable technology falters, as looks the case, then there is a real likelihood that offsetting provides the only equivalent opportunity for the UK to meet its targets. The government's 34% target for 2020 currently relies on action being met through UK action alone; action which we question may not be practically possible or can be cost effectively achieved.
13. Where it is possible that new abatement technologies are developed faster than originally perceived, could be implemented cost effectively, and deployed nationally, then clearly there is an overwhelming argument to bring the targets forward.

The compatibility of current Government policies with achievement of the overall budget, how individual government departments can ensure policies are consistent with overall carbon budgets, and the potential role of departmental tradable carbon allowances; and

-
14. As already expressed within this response, EEF is concerned that current government policies and incentives do not go far enough to decarbonise the UK economy and meet its 2020 target. It is essential that development in nuclear and renewable technology is accelerated and that CCS is scaled up for industrial use as soon as technologically and economically possible. EEF welcomed the Chancellor's recent announcement of additional support for carbon capture and storage (CCS) but warned that it must form part of a broader strategy to develop an industrial base and generate employment around this extremely promising technology.
 15. The Government's low carbon industrial strategy was received cautiously by EEF. We believe the commitment to place the UK at the forefront of the low carbon industrial revolution is, without question, a national priority. And that the economic opportunities, especially in manufacturing, are potentially significant. However, were disappointed that the strategy lacked a clear framework to translate vision it into reality and ensure that the UK is the number one destination for low carbon businesses. The government must recognise that these are extremely competitive markets and governments around the world are making equally ambitious plans.
 16. Government can also follow through on its low-carbon industrial strategy by leveraging the power of public procurement to help accelerate the deployment and development of alternative energy technologies. Amongst other things, this will require creative thinking from public procurers and a procurement process which is better tailored to innovative businesses. Such action will go some way to ensure that government departmental policies are consistent with overall carbon budgets.
 17. Government is also in a strong position to exert influence through the nationalised banks to lead on a programme of green procurement and responsible lending which would have significant influence on broader UK commercial and industrial activity.

The issues around using emissions trading (both credits from the EU Emissions Trading Scheme, and carbon offset credits) to meet UK carbon budgets, including the standards that should apply to such credits.

18. EEF believes that the option of meeting domestic targets through carbon credits derived from emission trading schemes is essential. Emissions should be reduced where it is most cost-effective to do so. Therefore, there should be as few restrictions as possible over the quantity and sources of credits which can be used to meet the UK's targets.
19. The success and support for offsetting can only be achieved if credits represent actual emissions reductions. Credits should not be counted unless assurances exist that emission reductions associated with such credits are genuine, sustainable and fully verifiable to a standard comparable to that agreed by the Clean Development Mechanism (CDM) Executive Board.
20. If this mechanism is adhered to then linking these schemes to domestic, or international trading schemes should only add to their ability to deliver reduction targets and achieve the aim of limiting the change in our climate.
21. However, it is critical that any approved carbon credits (e.g. CDM) must be assessed to be additional i.e. that the planned emission reductions would not occur without the additional incentive provided by carbon credits. Therefore, we would urge the government to note that 'additionality' is key to the integrity of carbon markets and should be a prerequisite for carbon reduction incentives and regulations in future public policy including the formulation of the UK carbon account. EEF believes that if the UK government is aiming to structure a carbon account that reflects meaningful incremental emissions reductions, additionality is required and needs to be assured. there should be as few restrictions as possible over the quantity and sources of credits which can be used to meet EU targets.

-
22. Furthermore, for the carbon markets to remain credible enough to be used for compliance against future carbon mandates, the UK needs to protect the credibility of existing carbon markets. Government should encourage carbon offset markets that can help reduce greenhouse gas emissions. This requires that both government and non-governmental organisations find ways to select and target emissions reductions that are additional and measurable.
 23. EEF advocates that government need to work closely with EU and international partners to improve the rules of the CDM, but strongly urge that businesses be given adequate information and consulted on the process at an early stage. Standards for additionality need to be clear, stringent and measurable in order to avoid injecting uncertainty into the carbon market.

Prepared by:
Kevin Considine
Senior Climate & Environment Policy Adviser
EEF