PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT CLIMATE CHANGE ACT 2008 (CREDIT LIMIT) ORDER 2016

Monday 18 July 2016

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Friday 22 July 2016

The Committee consisted of the following Members:

Chair: Sir Roger Gale

Boswell, Philip *(Coatbridge, Chryston and Bellshill)* (SNP)
† Carmichael, Neil *(Stroud)* (Con)
† Costa, Alberto *(South Leicestershire)* (Con)
† Frazer, Lucy *(South East Cambridgeshire)* (Con)
† Gardiner, Barry *(Brent North)* (Lab)
Gwynne, Andrew *(Denton and Reddish)* (Lab)
† Harris, Rebecca *(Castle Point)* (Con)
† Hoare, Simon *(North Dorset)* (Con)
Keeley, Barbara *(Worsley and Eccles South)* (Lab)
† Lynch, Holly *(Halifax)* (Lab)
† McCaig, Callum *(Aberdeen South)* (SNP)
† Murray, Mrs Sheryll *(South East Cornwall)* (Con)
† Norman, Jesse *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Pincher, Christopher *(Tamworth)* (Con)
† Sandbach, Antoinette *(Eddisbury)* (Con)
† Sturdy, Julian *(York Outer)* (Con)
Thomas-Symonds, Nick *(Torfaen)* (Lab)
Woodcock, John *(Barrow and Furness)* (Lab/Co-op)

Fergus Reid, *Committee Clerk*

† attended the Committee

Fourth Delegated Legislation Committee

Monday 18 July 2016

[Sir Roger Gale *in the Chair*]

Draft Climate Change Act 2008 (Credit Limit) Order 2016

6 pm

The Chair: Hon. Members may remove their jackets if they wish to do so.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Jesse Norman): I beg to move,

That the Committee has considered the draft Climate Change Act 2008 (Credit Limit) Order 2016.

It is a great pleasure to serve under your chairmanship, Sir Roger. This order—I speak as someone who has gone from being a complete innocent on these topics to being a raddled veteran in the course of three hours—fulfils the requirement under the UK's Climate Change Act 2008 to set a limit on the number of international carbon credits that the Government could count towards the third carbon budget, which runs from 2018 to 2022. The Act, which was passed with near-unanimous support, allows for the flexibility of using carbon credits to meet a carbon budget. That ensures that even if unforeseen circumstances cause our planned emission reduction measures to come off track, the UK can continue to ensure that we meet our emissions targets under the Act.

The order will set the credit limit for the third carbon budget at 55 million tonnes of carbon dioxide equivalent, which is only about 2% of the total carbon budget. That is the same amount of flexibility as the House agreed for the second carbon budget credit limit. In determining the appropriate third carbon budget credit limit—the subject of the present discussion—the Government have taken into account the advice of the independent advisers, the Committee on Climate Change, as well as the views of the devolved Administrations. We have also considered the range of factors required by the Act, including the economic, fiscal, social, scientific and international circumstances. Although the Committee on Climate Change recommended a zero credit limit, the Government have concluded that it is best to maintain a small amount of flexibility over the third carbon budget period. Although the Government's policies are ensuring that we are on track for the third carbon budget, it is still prudent to allow ourselves flexibility in the future to manage the uncertainty in emissions projections. I therefore commend the order to the Committee.

6.2 pm

Barry Gardiner (Brent North) (Lab): It is, once again, a pleasure to serve with you in the Chair, Sir Roger. Just for the sake of good order, I again welcome the Minister, given that this is his first day in the job. I do so just in case anyone reading *Hansard* would think that I was rude not to, even though an hour ago we spent the same time in another statutory instrument Committee congratulating each other.

The order does indeed do what the Minister said. These offsets are separate from all the traded credits that we might accrue through the EU emissions trading scheme, and the order allows 55 million international carbon units to be used as offsets against domestic action. That amounts to 2% of flexibility on domestic carbon reductions for the third carbon budget.

There is really only one question that the Minister must answer, and he attempted to do so in his remarks. Why is this Committee being asked by the Government to go against the independent advice of the Committee on Climate Change on this matter? The Minister stated—I do not know whether this was justification or explanation—that the Government were following the precedent from last time. Indeed they were, but again on that occasion the Committee on Climate Change had recommended that they should not use the flexibility of these credits, and the committee was proven right because the credits were not needed—as indeed on this occasion the Minister believes, I think, and I believe that they will not be. They should not be required. We are already below the level that has been set, and unless the Minister knows of any reason why our energy policy should start to increase emissions dramatically, it is almost inconceivable that we will need the flexibility that the order allows.

The chief executive of the Committee on Climate Change said to the Environmental Audit Committee earlier this month:

"The committee has always been very clear that, unless there are exceptional and unpredicted circumstances, international offsets should not be used as a reason not to act domestically."

The Minister needs to challenge his officials a little bit more strongly on the issue of domestic action. According to the Committee on Climate Change's 2016 progress report to Parliament, our average annual emissions are already below the level needed to meet the second and third carbon budgets up to 2022. The Department of Energy and Climate Change's impact assessment of this legislation notes that using credits

"could lead investors to expect that policy would target a slower rate of domestic emissions reduction in the near-term. This could affect investment decisions in low-carbon infrastructure and supply chains, although this impact is likely to be minimal."

That is the Government's own impact assessment.

At a time of increased uncertainty since Brexit, we need every assurance that the Government's actions will not undermine ambition or the energy investment that the Minister and I were saying was so required in the earlier Committee that considered the carbon budget. The Government should surely now be building certainty about upholding their commitments and delivering on their domestic targets.

The legislation allows us to use the ETS allowances for the traded sector in place of actual emissions, in accounting for our net carbon budget, so flexibility is already built into the system. There is serious uncertainty, which I have already flagged up to the Minister, about the UK's future participation in the ETS. I trust that he will try to resolve that uncertainty as quickly as possible.

The Opposition would prefer to go with the recommendation of the Committee on Climate Change. We will therefore oppose the order.

6.7 pm

Jesse Norman: I am very grateful to the shadow Minister for his comments. He and I are rapidly turning into the Mutt and Jeff of the climate change world, but it is a pleasure to address the concerns he raises.

Let me remind the Committee that this is not a matter of buying credits; it is a matter of setting a credit limit. The Government have never bought credits and do not contemplate doing so as part of either the second or third carbon budgets. It is also true to say that the Government have not ignored the Committee on Climate Change. On the contrary, we have engaged closely with it and adopted its main recommendations consistently. Here, however, there is some licence to deviate. The Government have done so in this case for the reasons I set out in my opening remarks. The first is following the precedent set by the previous budget. The Government understood that that was potentially problematic from the Committee on Climate Change's standpoint, but we did that because we sought a degree of flexibility, and that degree of flexibility is again sought today.

That is not a way of getting ourselves off the hook. The progress made under both the second and third budgets is already manifest. In fact, that progress is sufficiently clear that it should not bring into question whether the Government are committed, because we clearly are making very good progress.

Barry Gardiner: The Minister and I are agreed that there is little likelihood of the credits being required. The key thing here is whether one follows the advice and whether one sets a precedent. He knows that the really difficult budget is the fourth carbon budget, not this one. Therefore, he has beseeched precedent by referring back to the previous carbon budget, saying, "Well, we allowed it there, so we should allow it here." That is exactly the precedent that needs to be nipped in the bud because we need to send a strong signal to investors that the fourth carbon budget, which will be difficult to achieve, must be achieved through domestic action.

Jesse Norman: I think it is a point well made. I would go further and say that the Government do not disagree that the use of credit limits of this kind are not a way of getting off the domestic carbon policy reduction agenda. That remains central to the focus of the Government and the Department. It is, however, important to recognise that aspects of carbon reduction plans could be set back. For instance, although we have had some rather warm winters recently, it is not impossible that we could have a series of winters of unusual severity. It is not likely to happen and the Government do not believe that that will happen, but it is a possibility.

It is wise to have flexibility in general, provided that it is not open to abuse. Setting the limit at 2% over a five-year period—0.4% for each year—is not a total that can be regarded as abuse. The question is how one balances the direction and principle with an element of pragmatism that allows the Government a degree—but not too great a degree—of freedom of manoeuvre, and that is what the order provides.

I thank the hon. Gentleman for his contribution and reiterate that the Government remain committed to combating climate change. Climate change has not been downgraded as a threat, and is widely recognised across Government as one of the most serious long-term risks to our economic and national security. At the heart of the Government's commitment is the Climate Change Act 2008 and its target to reduce emissions by 80% by 2050, as against 1990 levels. The interim carbon budgets have been set against that framework, and under the Act, we need to set a limit on the number of international carbon credits that the Government can count towards that budget.

Although we remain on track, it is prudent to recognise and accommodate a degree of potential uncertainty. That is why we have proposed a credit limit of 55 million tonnes of carbon dioxide equivalent—just 2% of the total third carbon budget. That represents an appropriate level of insurance, in case emissions turn out to be higher than projected. I therefore commend the order to the Committee.

Question put and agreed to.

The Committee divided: Ayes 10, Noes 3.

Division No. 1]

AYES

Carmichael, Neil
Costa, Alberto
Frazer, Lucy
Harris, Rebecca
Hoare, Simon
Murray, Mrs Sheryll
Norman, Jesse
Pincher, Christopher
Sandbach, Antoinette
Sturdy, Julian

NOES

Gardiner, Barry
Lynch, Holly
McCaig, Callum

Question accordingly agreed to.

Resolved,

That the Committee has considered the draft Climate Change Act 2008 (Credit Limit) Order 2016.

6.14 pm

Committee rose.