

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT CARBON BUDGET ORDER 2016

*Monday 18 July 2016*

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**The Committee consisted of the following Members:**

*Chair:* Ms KAREN BUCK

- |   |  |
|---|--|
| † Afriyie, Adam ( <i>Windsor</i> ) (Con)                              | † Mak, Mr Alan ( <i>Havant</i> ) (Con)   |
| † Boswell, Philip ( <i>Coatbridge, Chryston and Bellshill</i> ) (SNP) | † Merriman, Huw ( <i>Bexhill and Battle</i> ) (Con)  |
| † Cleverly, James ( <i>Braintree</i> ) (Con)                          | † Murray, Mrs Sheryll ( <i>South East Cornwall</i> ) (Con)   |
| † Gardiner, Barry ( <i>Brent North</i> ) (Lab)                        | † Norman, Jesse ( <i>Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy</i> ) |
| † Hayes, Helen ( <i>Dulwich and West Norwood</i> ) (Lab)              | Perkins, Toby ( <i>Chesterfield</i> ) (Lab)  |
| Johnson, Diana ( <i>Kingston upon Hull North</i> ) (Lab)              | † Pincher, Christopher ( <i>Tamworth</i> ) (Con)   |
| † Jones, Susan Elan ( <i>Clwyd South</i> ) (Lab)                      | † Tolhurst, Kelly ( <i>Rochester and Strood</i> ) (Con)  |
| † Loughton, Tim ( <i>East Worthing and Shoreham</i> ) (Con)           | † Warman, Matt ( <i>Boston and Skegness</i> ) (Con)  |
| † Lynch, Holly ( <i>Halifax</i> ) (Lab)                               | Katya Cassidy, <i>Committee Clerk</i>  |
| † McCaig, Callum ( <i>Aberdeen South</i> ) (SNP)                      | † <b>attended the Committee</b>  |

## Third Delegated Legislation Committee

Monday 18 July 2016

[Ms KAREN BUCK *in the Chair*]

### Draft Carbon Budget Order 2016

4.30 pm

**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 Carbon Budget Order 2016.

It is a pleasure to serve under your chairmanship, Ms Buck, particularly in this new capacity. I would like to say a few words by way of background. Those present will be aware that not only am I not an expert on this topic, even by the formidably inexpert standards of the House of Commons, but I have been but a few hours in the job, so I certainly would not describe myself as being in a position to give absolute satisfaction on any questions that may be asked. There is no joy like the joy of watching a new Minister fall on his face and I will attempt not to give satisfaction in that regard.

Having said that, I am very pleased to open the debate on the draft Carbon Budget Order 2016. The order fulfils the requirement under the Climate Change Act 2008 for the Government to set five-year carbon budgets on the path to the 2050 target of an 80% reduction in emissions. It sets the level for the fifth carbon budget, covering the period 2028 to 2032.

Before discussing the order, I will reflect briefly on the Climate Change Act and what it means at the present time. Leaving the EU will bring challenges and opportunities to the United Kingdom. However, it does not change the fact that climate change remains one of the most serious long-term risks to our economic and national security. The Act was a groundbreaking piece of domestic legislation, passed with nearly unanimous cross-party support. Its success has inspired countries across the world including Denmark, Finland and France and, at its heart, the system of five-year cycles inspired a core part of the historic Paris climate agreement.

The certainty given by the Act underpins the remarkable investment, totalling about £40 billion, that we have seen in the low-carbon economy since 2010. The fifth carbon budget level set by this order continues the certainty into the 2030s. The order will set the fifth carbon budget at a 57% emission reduction on the levels of 1990, meaning that UK emissions will be capped at the equivalent of 1,725 million tonnes of carbon dioxide. That budget level is in line with the recommendations of our independent advisers, the Committee on Climate Change, as well as the views of the devolved Administrations.

As required by the Act, the Government considered a wide range of factors in proposing that level. Key to those considerations was proposing a carbon budget that balances how to keep on track to the 2050 goal

with how to cut emissions as cheaply as possible. The Committee on Climate Change and the Government agree that that budget level will put us on a cost-effective path to that legally binding 2050 target.

One should be perfectly clear that the Government do not expect the budget level to jeopardise their commitment to keeping our energy supplies secure and bills as low as possible. It is not simply Governments and experts who agree; it is clearly in line with the views of business. The Confederation of British Industry, EEF and others have all welcomed the certainty that the budget level gives in the country's journey to a low-carbon economy. I am also pleased to see that, in line with the Act, the budget level has been welcomed across the political spectrum. The shadow Secretary of State for Energy and Climate Change, the cross-party Select Committee on Energy and Climate Change and the Scottish National party have all expressed their support.

The Paris agreement sends a strong signal to business and investors that the world is committed to long-term decarbonisation. The proposed budget level will ensure that the UK economy is best placed to realise the opportunities that that transition presents. Of course, the target is of value only if we accept the challenge of meeting it. Our emission reductions to date put us in a good starting position to do that. The UK met the first carbon budget and is on track to meet the second and third budgets. Provisional figures show that UK emissions in 2015 could be 38% lower than in 1990, and more than 3% below those in 2014. The last two years have seen the greatest annual emission reductions, against a backdrop of a growing economy, but it is clear that we need to do more to address the gap of approximately 10% currently faced in the fourth carbon budget.

The Climate Change Act requires the Government to set out their policies and proposals

“As soon as is reasonably practicable”

after setting a budget level. It is too early to give specifics of what will be included, but the Government's new low-carbon infrastructure plan will provide policy direction and pathways for the transition over both the fourth and the fifth carbon budgets. It will set out what this Government are doing to build an energy infrastructure that is fit for the 21st century. The Government have already begun to talk positively with businesses, consumers and civil society on the development of our policies and proposals, and will continue to do so in the coming months.

In conclusion, the draft order sets the right budget level. It is in line with the views of the Government's independent advisers, continues the UK's leadership on climate change and has the support of politicians and businesses alike. It will provide the certainty needed for future investment in our continued transition to a stronger, low-carbon economy. I therefore commend the order to the Committee.

4.36 pm

**Barry Gardiner (Brent North) (Lab):** It is, as always, a great pleasure to serve under your chairmanship, Ms Buck. On this occasion, I am very pleased to welcome the Minister to his new post. It appears that the new Secretary of State has surrounded himself with a posse of very thoughtful Ministers in both the Commons and in the Lords, and I welcome that.

I want to pick up on a number of the points the Minister made. I appreciate what he said about this being his first day in the job and about having to deal with a statutory instrument of this nature, so if there are questions that he does not feel able to respond to immediately and he is prepared to write to me and perhaps also to the Committee, that would provide helpful clarification for everyone.

I think that the Minister must accept that it was a poor signal to remove the words “Climate Change” from the name of the Department. Many of the concerned parties were deeply antagonised by the fact that the Department of Energy and Climate Change had been taken away, lock, stock and barrel; then to drop the words “Climate Change” from the name was, I think, a tactical error. However, the Minister has reassured the Committee today that there is to be no slackening of effort, and that of course is to be welcomed.

The Minister talked of investor confidence, which is indeed critical. He will know that the analysis not only of the financial industries and the investment banks but of the Select Committee was clear that the Government had damaged investor confidence across the whole of the clean energy sector, putting energy security and the costs of decarbonising under great pressure. They in fact said that after reversing their own manifesto commitment to develop CCS, removing all support for the cheapest form of clean energy and failing to provide any visibility on clean energy investment beyond 2021, the UK is facing an investment hiatus. I hope that the Minister and his colleagues in the new Department will put a particular focus on that, because if we lose investor confidence, the £100 billion of investment that this country needs in its energy infrastructure before 2020 will be extremely difficult to deliver.

The Minister also mentioned the European Union, and I think he understands that that situation has exacerbated the uncertainty around investment in our energy future. The Government have insisted that they remain committed to delivering the secure, affordable, clean energy that families and business need. Of course, the Minister is right that I welcomed the proposal to set the fifth carbon budget at the level of an average 57% reduction in emissions. That is the most cost-effective pathway to our long-term 2050 goal, and for that reason we will not oppose the order; but he will appreciate that the Government are not judged on words alone. One thing that he and the new Department will have to explain is why the previous Ministers in the former Department failed to comply with their statutory obligation to set the fifth carbon budget by the deadline set out in section 4 of the Climate Change Act.

Under section 8 of the Act, tabling the draft order containing the intended budget does not suffice to set that budget. The Act required that the order be set by Parliament following the affirmative procedure by 30 June 2016. It is now 18 July, so the statutory duty rests on the Secretary of State to explain why the order was not set in conformity with the 2008 Act. More than that, we need an explanation of the legal implications of having failed to set the order by affirmative resolution by the date contained in the Act because it could mean that the order, even though we set it today, is open to legal challenge at a future date.

It would be helpful if the Minister—if not now, at least in writing—set out clearly what he understands the legal implications of that failure to be. Clearly, the

date was set in law for a purpose. If that purpose is not met, we need to know the effect if there were a legal challenge to the budget that we are setting. I would be grateful if the Minister made available the legal advice obtained by his Department, establishing its view of the possible ramifications and whether it believes that any such legal challenge would be successful.

The Government should also explain why they did not follow the Committee on Climate Change’s recommendations to include shipping emissions in the fifth carbon budget. In 2012, the Government deferred a decision to include international aviation and shipping emissions in the net carbon account, but said:

“we will revisit the issue... when we come to set the fifth carbon budget”.

That is what the Government said, on the record, but the fifth carbon budget contains no provision for shipping emissions. The talks at the International Maritime Organisation earlier this year were perhaps less than satisfactory, but the Minister must tackle the issue urgently. The UK and the EU should take a much stronger line in insisting that those emissions are accounted for.

Certainty over the UK’s continued participation in the EU emissions trading scheme would also be helpful. The EU ETS has sectoral caps that are far too lax, but the scheme itself is designed to ensure that emissions reductions occur at the least cost. The downside is that, even if the ETS had more stringent caps, it could give a falsely optimistic reading of the success of our actual emissions reductions. Clarity is paramount. Will the Minister take this opportunity to end the unnecessary inclusion of ETS credits in our net carbon account beyond 2027? That would give more confidence to the power sector and industry in the UK’s commitment to decarbonisation. I believe that that was a missed opportunity in the Energy Act 2016.

When asked whether climate change had been downgraded, the Prime Minister’s spokesperson said,

“The Government will be continuing to meet our international commitments.”

The Government must now press forward with the former Secretary of State’s promise to ratify the Paris agreement early, taking all necessary steps to do so this year.

We are of course focused on domestic commitments here. The Government have consistently acknowledged that they do not have the policies to meet the fourth carbon budget—as the Minister said, they are 10% off target at the moment. Not only do DECC projections show that the UK will miss that target, but the CCC reported in June that the gap grows, in the fifth carbon budget, to a staggering 47% shortfall in the effort required. The Minister says it is too early to produce the long-awaited carbon plan, which has been promised for the end of the year. That may be a fair assessment, and he quoted the Act that says the Secretary of State must produce a plan showing how he intends to achieve the fifth carbon budget

“as soon as is reasonably practicable”,

but the fourth carbon budget was set in 2011 and we have been waiting for more than five years. That does not seem to me to be as soon as is reasonably practicable. I believe that the Minister and the Department should now bring forward that carbon plan from the end of the

[Barry Gardiner]

year to as early a date as possible, precisely to encourage the investment in our energy infrastructure that the Minister spoke of.

4.47 pm

**Callum McCaig** (Aberdeen South) (SNP): It is a pleasure to serve under your chairmanship, Ms Buck. I too welcome the Minister to his position and offer my commiserations on so quickly having to speak on a hugely important and quite technical issue.

I associate myself with almost everything that the hon. Member for Brent North said and will not repeat much of it—

**Barry Gardiner:** Very wise!

**Callum McCaig:** Would that be the lack of repetition or the agreement, or a combination of the two? We welcome the Government's proposed 57% reduction. The clarity around how that is delivered cannot come soon enough. I understand that it requires detailed analysis, but it is clear what will and will not be required.

The Minister said that the draft order provides the certainty that is required. It does to a degree but far more certainty is required. Essential reading for the Minister, new in post, is the Energy and Climate Change Committee report on investor confidence. The sector, which is key to delivering what this legislation proposes to do today, has been damaged by the uncertainty. That requires amends across a number of different energy aspects; I cannot stress how important that is.

What is also fundamental is the potential. This is not just something that we have to do; it is a massive opportunity. The Minister's predecessors talked about the opportunities for offshore wind. The UK has done well and continues to do well in that and in other areas. There is tremendous economic opportunity in being at the cutting edge when it comes to tackling climate change.

I can understand why we might not get clarity today on the emissions trading scheme, but we need to know what is happening with it. We also need clarity on the EU's internal energy market and whether, as part of the negotiations for Brexit, it will be proposed that we maintain membership of that developing body. My view is that that would absolutely be the correct thing to do; I urge the Minister to pursue that course.

Finally, I reiterate the comments of the hon. Member for Brent North pressing for the ratification of the Paris agreement as soon as possible. That cannot come soon enough.

4.50 pm

**Jesse Norman:** I am grateful to the shadow Minister and to the hon. Member for Aberdeen South for their comments. I shall pick up on each of them in order but try to address them collectively.

The hon. Member for Brent North asked why "Climate Change" was removed from the name of the Department. There is a very positive way of seeing that, which is that it is recognised that tackling climate change is a vital part of government: it is understood that it is a central

challenge for the next 50, if not 100 or more years, and in a sense it has become part of the furniture of the discussion. The point of this consolidation of Ministries is in part to allow that understanding to spread across our whole industrial strategy. That seems to me a thoroughly important thing.

The seriousness of the Government's position can be easily gauged by the fact that we have not demurred from the testing targets set by the Committee on Climate Change. That is the overall framework that sets the context for investor decisions, so that is a clear indication of the deep seriousness with which the Government take this.

On investor confidence, that framework is important, but a couple of other things are worth mentioning. First, investor confidence does not appear to be that muted. Siemens has reiterated its investment in the blade plant in Hull, and there are many other indicators that investor confidence remains remarkably high, as the Department and the Government wish it to be: the UK has been the fourth-highest investor in clean energy globally for the last five years; more than half of the total investment in the EU last year occurred in this country; and we continue to increase investment at a rapid rate, especially by international standards. There is no reason why one should feel concerned about investor confidence.

**Barry Gardiner:** The Minister may be aware of the Ernst & Young report on the index of the best countries in the world for renewable energy investment. We never used to be out of the top 10, but in the past two years we have fallen from eighth to 11th to 13th, so there is an independent scale showing that we are going in the wrong direction. He may also be aware that Vattenfall said that in the light of Brexit it was reviewing all its renewable energy investments in the UK, including its £5.5 billion array off the east coast of England. I am not accusing the Minister of complacency, but he must take this seriously.

**Jesse Norman:** I was confining myself to issues specifically relating to climate change, but there are reasons to be confident about the overall position. We have seen enormous further investment in the Nissan Leaf plant in Sunderland and there are other examples of recognition of the progress that this country continues to make.

The question was raised of the impact of Brexit on the EU emissions trading system. Of course, it is far too early to say whether the UK will remain part of the ETS, but the Government take the matter extremely seriously. Even were we to end up leaving the institutions around the ETS, the effect of that would be our having increased flexibility to set our climate change targets as we saw fit. Those targets could be more testing, less testing or exactly at the level required by the ETS itself, so there need not necessarily be anything particularly problematic about it.

On why the submission for the fifth carbon budget was not on time, the truth is that it was important to get the decision right. It will be understood that by 30 June the Government had quite a lot on their plate for other reasons arising over the previous three or four months. I have inquired into whether there is a question about the legality of the budget as a result, and the legal advice

has been that it remains intact. There is no reason to think that the legal status of the budget has been affected by the delayed filing. It is also worth saying that we are talking about a period some distance in the future; therefore, we are not talking about something that begins tomorrow.

**Barry Gardiner:** I am grateful for that clarification. Will the Minister agree to provide a summary of the legal advice, or indeed the legal advice itself, so that we can see it and have the confidence he has that there could be no positive legal challenge?

**Jesse Norman:** Legal advice between an attorney and a client is privileged information, so it is not the Government's practice to publish legal advice that is given, or generally even to publish summaries of legal advice, but I am happy to take the point up and consider it, as the hon. Gentleman has raised it.

On shipping emissions, the International Maritime Organisation has talks under way at the moment. This is an international issue and not something where one can simply make decisions based on simplistic calculations of port of origin or arrival. It is entirely appropriate that the Government continue that process of participating in those negotiations with the IMO. The point is important: shipping emissions, like aviation emissions, should in the fullness of time, if proper methods of calculating an agreement can be reached, be included in the scheme because obviously there are economic impacts and, potentially, perverse incentives that occur from not doing so. The wider point is well taken.

The point about ETS credits reverts to that which I made earlier. In general there is some benefit to having credits because they confer additional flexibility on Government. It would not send a useful signal to investors to have to make changes in policy just because of marginal differences in performance, which credits could address. The position is sensible, but again the point is taken.

Finally, on the 10% gap, I would simply say that we are some way away from the policy development stage. One naturally expects—in particular in an area such as climate change and emissions control—there to be a dynamic response from the economy as these budget constraints start to get set and embed themselves. We are already seeing some of that economic behaviour and one might easily expect to see more of that to come.

**Philip Boswell** (Coatbridge, Chryston and Bellshill) (SNP): In respect of the gap that the Minister spoke of, will he perhaps look at making ground on the transport and the heating sectors, where much more can be done?

**Jesse Norman:** I have no doubt that the Government will continue to look, as part of the infrastructure planning process over the rest of this year, closely at that sector, as they will at other key contributors to carbon emissions.

*Question put and agreed to.*

4.58 pm

*Committee rose.*

