

PARLIAMENTARY DEBATES

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OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT RENEWABLE TRANSPORT FUELS AND GREENHOUSE GAS EMISSIONS REGULATIONS 2018

Monday 26 February 2018

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The Committee consisted of the following Members:

Chair: SIOBHAIN McDONAGH

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† Churchill, Jo (*Bury St Edmunds*) (Con)

† Fysh, Mr Marcus (*Yeovil*) (Con)

Gaffney, Hugh (*Coatbridge, Chryston and Bellshill*)
(Lab)

† Grant, Mrs Helen (*Maidstone and The Weald*)
(Con)

† Hayes, Mr John (*South Holland and The Deepings*)
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Kendall, Liz (*Leicester West*) (Lab)

† Mc Nally, John (*Falkirk*) (SNP)

Malhotra, Seema (*Feltham and Heston*) (Lab/Co-op)

† Norman, Jesse (*Parliamentary Under-Secretary of
State for Transport*)

† Peacock, Stephanie (*Barnsley East*) (Lab)

† Rowley, Lee (*North East Derbyshire*) (Con)

† Turner, Karl (*Kingston upon Hull East*) (Lab)

Western, Matt (*Warwick and Leamington*) (Lab)

† Williamson, Chris (*Derby North*) (Lab)

Peter Stam, *Committee Clerk*

† **attended the Committee**

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[SIOBHAIN McDONAGH *in the Chair*]

Draft Renewable Transport Fuels and Greenhouse Gas Emissions Regulations 2018

4.30 pm

The Parliamentary Under-Secretary of State for Transport (Jesse Norman): I beg to move,

That the Committee has considered the draft Renewable Transport Fuels and Greenhouse Gas Emissions Regulations 2018.

It is a delight to serve under your chairmanship, Ms McDonagh. The regulations contain important changes to two existing schemes that place requirements on suppliers of fuels. The schemes are provided for by the Renewable Transport Fuel Obligations Order 2007 and the Motor Fuel (Road Vehicle and Mobile Machinery) Greenhouse Gas Emissions Reporting Regulations 2012. Those require suppliers to reduce greenhouse gas emissions from fuels supplied in relation to transport, including through the supply of biofuels, and to report those reductions accurately.

The proposals before us today are the result of extensive consultation and input from industry, fuel experts and environmental organisations. In 2015 my Department and the low-carbon vehicle partnership's transport energy taskforce, comprising more than 50 organisations, reported on how the UK might meet its EU 2020 greenhouse gas emissions reduction and renewable transport fuel targets. The taskforce's report also considered how low-carbon fuels could help to reduce greenhouse gas emissions from UK transport in the period to 2030 and beyond. That work informed public consultations on the proposed amendments.

In September 2017 the Government set out a 15-year strategy for renewable transport fuels, including biofuels. I want to pay particular tribute to my colleague, my right hon. Friend the Member for South Holland and The Deepings, who I hope will make a barnstorming intervention from the Back Benches, for his contribution as the Minister responsible for that work. The strategy will support investment to develop sustainable advanced fuels for the automotive, aviation and road freight sectors. It also aligns with UK carbon budget commitments. The regulations are the product of that strategy and are crucial to its implementation, and would also align UK schemes with the requirement in EU legislation.

It may be helpful if I provide an overview of the regulatory framework that we propose to amend. Under the RTFO order, suppliers of fossil fuels have an obligation to ensure that a percentage of their fuel supply comes from renewable sources. The obligation is currently equivalent to 4.75% of the volume of fossil fuel that is supplied for use in road transport and non-road mobile machinery. There are built-in protections for smaller suppliers, in that the obligation applies only to volumes above a 450,000-litre threshold, and there is a deduction for the first 10 million litres of relevant fuel.

Suppliers of biofuel meeting the sustainability criteria are rewarded with certificates. Those renewable transport fuel certificates can be traded on the open market. Biofuels made from wastes and residues are awarded twice the number of RTFCs given to biofuels from crops. Under the RTFO scheme, motorists are protected from exceptional spikes in the cost of supplying biofuel through a mechanism that enables suppliers to pay a buy-out rather than having to acquire certificates. That effectively caps the cost of the obligation.

The greenhouse gas reporting regulations currently require designated fuel suppliers to report the amount and type of fuel that they supply, and its greenhouse gas intensity. The regulations operate in parallel with the RTFO scheme. As a consequence, information reported by suppliers under the RTFO order is for the most part sufficient to discharge a supplier's obligation to report.

Since the RTFO was introduced in 2008, the greenhouse gas emissions savings of the renewable fuels supplied have improved year on year. Last year the average greenhouse gas saving of a litre of renewable fuel was 71% compared with petrol and diesel. That is in no small part due to the approach that the Government have taken to encourage the supply of renewable fuels from wastes and residues. The most recent statistics show that 66% of biofuels supplied in the UK were made from a waste or residue, and so they did not compete for land with food crops.

The draft regulations before us would build on that success. They would amend the RTFO order to increase the targets for renewable fuels to 9.75% of fuel supplied in 2020, with further incremental increases to 12.4% by 2032, providing long-term policy stability to industry and investors. They would also set sub-targets, starting in 2019, for the supply of renewable fuels classified as "development fuels". That would increase incentives to supply new types of advanced fuels that are of strategic future importance to the UK. In line with that strategy, the draft regulations make certain renewable aviation fuels, renewable fuels from non-biological feedstocks, and renewable hydrogen eligible for reward under the RTFO order. They mitigate the risk that biofuels supplied will not deliver reductions in greenhouse gas emissions by placing a limit on the contribution that biofuels produced from food crops can make to meeting targets to supply renewable fuels. That limit is set at 4% in 2018, 3% in 2026, and 2% in 2032. Finally, they ensure that wastes that would be disposed of are eligible for greater incentives than those with other productive uses.

The draft regulations propose extensive changes to greenhouse gas reporting regulations in order to create a new GHG credit trading scheme. The new scheme will be familiar to suppliers as it copies many aspects of the RTFO scheme. The two schemes will be administered jointly, and the Department is aligning much of the reporting required so as to minimise burdens on suppliers.

The new GHG credit trading scheme will replicate the protections afforded under the RTFO scheme, both to smaller suppliers through equivalent deductions in obligation, and to motorists through a buy-out mechanism. Key features of the new GHG credit trader scheme include a greenhouse gas emissions reduction obligation on suppliers of fuel and energy for use in road transport and non-road mobile machinery, and suppliers will be required to reduce the overall greenhouse gas emissions of the fuel they supply, compared with 2010 levels.

They must achieve a 4% reduction in 2019, and a 6% reduction in 2020. The scheme also provides incentives to suppliers by rewarding GHG credits for the supply of renewable and fossil fuels that have lower greenhouse gas emissions than ordinary petrol and diesel, for electricity use and electric road vehicles, and for reductions in upstream emissions from the extraction of crude oils. The GHG trading scheme aligns with the strategic objectives of the RTFO by offering rewards for the supply of renewable fuels used in aviation.

The Department has taken on board consultation responses in modifying the targets proposed in the regulations, which have been extensively reviewed and discussed. In particular, it has addressed concerns that it should set longer-term, more ambitious targets by proposing that the RTFO will reach 12.4% in 2032. The Department has also adjusted proposals to limit the contribution that biofuels made from crops will make towards the targets. That limit is also referred to as the “crop cap”. Rather than set a 2% cap from the outset as per the consultation, the regulations propose to set that cap at 4% in 2018, and reduce it gradually from 2021 onwards to 3% in 2026, and 2% in 2032—I am beginning to get a sense of what the Chancellor has to put up with on Budget day, when he or she has to read out these numbers.

It is the Department’s intention that that will provide the sector with flexibility to meet the 2020 obligations, while providing a clear signal for future investments in the biofuel industry as we make the transition to more sustainable renewable fuels. The Secondary Legislation Scrutiny Committee has noted that Vivergo Fuels made a representation on these regulations. Vivergo supports the increase in the RTFO, but it is concerned that demand for its ethanol may be constrained by the crop cap, and that there may be further constraints if the Government do not mandate the move to E10 fuel.

Let me address those concerns. The crop cap is designed to mitigate the risk that biofuels that cause indirect land use change will be supplied in the UK. Due to those concerns, the Department is focusing further growth in that sector on the most sustainable fuels made from waste that do not compete with land use for fuel. We therefore propose a cap that balances the risk to land use with the needs of the ethanol industry. In the UK, the RTFO scheme has been successful in promoting waste-derived biofuels. We have therefore been able to propose a cap that is below the maximum 7% level, and below that in many states where higher proportions of crops are currently used. To put those numbers into perspective, total UK bioethanol production capacity is equal to a little over 1% of transport energy, and the current proportion of crops used in biofuels is less than 2% of UK fuel supply—significantly lower than the 4% cap proposed for 2020. The changes proposed in the regulations do not reduce the size of the market for bioethanol made from crops—indeed, they continue support for it.

Secondly, the draft regulations will increase the level of obligation under the RTFO order, which drives a market for all renewable fuels, including bioethanol. That will increase potential demand for E10 among obligated suppliers.

The draft regulations do not mandate E10, in the sense of requiring that 10% bioethanol must be blended in petrol. Instead, they allow fuel suppliers to determine

how best to meet their obligations. Moving to E10 fuel could make achieving our renewable energy targets easier and provide an economic boost to domestic producers of bioethanol and UK farmers in the supply chain. The Department therefore remains committed to working with industry to ensure that any future introduction of E10 is managed carefully, and that E5 remains available for vehicles that are not compatible with E10.

To round up, the draft regulations will begin the implementation of the ambitious strategy for renewable fuels that the Government set out last September. That strategy seeks to accelerate the delivery of sustainable alternative fuels for aviation and other sectors that are hard to decarbonise, thus enabling the UK to lead in developing and deploying those fuels. The draft regulations also take into account the wider economic importance of existing UK biofuel production and seek to maintain that market. I therefore commend them to the Committee.

4.41 pm

Karl Turner (Kingston upon Hull East) (Lab): It is a pleasure to serve under your chairship, Ms McDonagh. The Labour party is supportive of the draft regulations and very much welcomes them.

The Minister and I met briefly before the Christmas recess, I think it was, and I lobbied him very hard. I am grateful to him for doing what he said he would, which was to work hard to ensure that the draft regulations were brought forward swiftly. That is very much what has happened. The draft regulations are a step in the right direction for the UK to decarbonise transport. As hon. Members will know, transport is the single largest greenhouse-gas-emitting sector. This is a worrying issue, and we must deal with it as soon as we can.

However, this legislation has been delayed for several years—already at least three—which has caused real worry in our renewable fuel industry. In the UK, an estimated 50,000 premature deaths each year are linked to this issue, so it is crucial that the legislation is brought into effect by April.

The Opposition support the growth and development of our renewable industry, in order to support high-skill, high-wage jobs across the UK, particularly in the north, where there are already various renewable fuel producers, in areas such as Hedon, which is very close to my constituency, and in Teesside. Our renewable transport fuels industry is worth £1.5 billion to our economy each year, and the Government need to support it to turn the northern powerhouse into a reality. Actions speak louder than words.

The draft regulations set out to increase the target level for renewables to just under 10% in 2020 and well over 12% by 2032. That will satisfy existing renewable fuel providers. However, I think it is fair to say that the proposals lack ambition. Perhaps the Government can look at further increasing the targets in the very near future. They aim to incentivise the development and take-up of new types of green fuels, as well as revising a crop cap for these types of biofuels. We are aware that the Government have taken that decision because these fuels could eventually result in a net increase in greenhouse gas emissions. The Opposition would therefore like the Government to answer some brief questions and clarifications that I will place on the record. I do not expect the Minister to respond fully today; perhaps he could do so in writing.

[Karl Turner]

I will briefly mention why this has caused concern for our biofuel industry in the medium term and why it believes the Government should regularly review the cap. The industry has raised particular concerns about the steadily declining crop cap; the proposed cap would be the lowest in the EU. It may restrict UK industry and farmers when we should be supporting and encouraging domestic industry as much as possible. I am aware that the regulations provide for a review and further amendments could be proposed later down the line.

I would also like to hear from the Minister about what the Government are doing to support the introduction of E10. He mentioned it briefly in his opening speech, but what are they doing to support the introduction of E10 and when will it be moving forward? It is already used successfully in other countries. We should be at the forefront of adopting new, environmentally friendly fuels in order to tackle climate change, but the Government seem to be dragging their feet on that important issue. Currently, the option of adopting E10 is open to suppliers in meeting their targets under the obligations. Previous Governments have shown the way in mandating unleaded petrol and low-sulphur fuels. Perhaps the Government should look at that model.

To conclude, there are areas in which the regulations can be improved, but we are supportive on the basis that they are a step in the right direction. I hope that some of the brief concerns that I have raised are considered very carefully by the Minister further down the line after the instrument is implemented.

4.46 pm

Mr John Hayes (South Holland and The Deepings) (Con): It is a delight to serve on this Committee, Ms McDonagh, and to contribute briefly to the consideration of these regulations, which, as the Minister generously reminded the Committee, I was involved with as a Minister at the Department for Transport. The anxiety that he expressed to get this right, which was reflected by the shadow Minister's words, is why the Government consulted widely and considered this over a considerable time.

It is right that we address emissions from transport—as the shadow Minister said, they are significant—and the principal way of doing so is to move to low or zero-emission vehicles. However, there is a strong case for biofuels, and it is perfectly possible to continue with our ambition to encourage the purchase of low or zero-emission vehicles—electric vehicles being the obvious case in point—while taking a generous view about the contribution that biofuels can make. That is not only because the biofuels industry is, as has already been said, significant in particular places, but because it is increasingly well established and invested.

I want to add only three things, given the broad agreement about those principles. First, it is important that we make this case in a way that has the most powerful resonance. For me, that is about the welfare of people who have to deal with emissions as they go about their daily lives. I spend considerably more time thinking about the air that children breathe, particularly in congested parts of our country—cities and so on—than about the rather more ethereal, remote and distant matters that sometimes dominate in the debate about gases and

emissions. It is in those bread-and-butter terms, those fundamental terms—the quality of life that comes from the air that we breathe—that we should have this debate and conduct this argument. When we do so, suddenly people realise just why this matters so much and why the Government—alongside others; the Opposition have been just as forceful—are devoting so much time to these issues.

Secondly, thinking about the detail of the regulations, I was keen that there was a step change and that it took place over time. Indeed, the regulations now reflect just such an approach in respect of the production of biofuels from crops. That was because the industry is geared up to deliver biofuels by certain means and has invested accordingly, and it is important that we do not make a radical change that does irreparable harm to the biofuels industry. That step change will allow the industry to adjust in a practical way. However, it is really important that we look, with ever closer attention, at the production of biofuels from waste. The ability to turn waste into biofuels requires both technology and investment, but the industry is making that. I was able to visit some of the companies concerned and saw how they were taking waste and turning it into fuel. There is nothing more efficacious, because simultaneously the waste is dealt with and people benefit from that.

We need to do much more of that, but I have to say to the Minister that that will require a really close association between our waste policy and our energy policy. At the heart of that will be the work done by his Department, the Department for Business and Energy—I cannot quite remember what it is called; hon. Members know what I am getting at—and the Ministry of Housing, Communities and Local Government. I am not sure that, historically, that collaboration has been well enough co-ordinated or as effective as it might have been. Waste policy can drive the alternative means of producing biofuel: obtaining it through crops.

With all that in mind, it is important that the Government understand that they can make all this happen only by working in partnership with the people who will deliver it on the ground; working with the biofuels industry and the manufacturers so that we can achieve the objectives of the draft regulations through a close association between what they want to achieve, their commercial interests and the interests of the Government in protecting the welfare of the people. Disraeli said that the Government have no greater purpose than the welfare of the people, and the welfare of the people is at the heart of the draft regulations.

Government can be a force for good, but only really when it is bold enough to know what needs to be done and modest enough to know that it can achieve what can be done only if it works with others. I know that the Minister both embodies—indeed, epitomises—that boldness and personifies that modesty.

4.52 pm

Jesse Norman: I am grateful to the shadow Minister and my right hon. Friend the Member for South Holland and The Deepings for their useful, important and valuable contributions. I will respond to them in turn.

The shadow Minister raises the questions of whether we lack ambition, whether the target should be increased and whether there should be regular reviews of the cap

on crop usage and the like. Let me say a variety of things. There is always a balance involved in legislation of this type, as he will absolutely appreciate. There is a risk to land use and there is a desire to stimulate the use of biofuels from all possible sources. Of course, an attempt is made to take that balance in the right way.

As he will know, this has been the product of—and is reflected in the delay he describes—considerable months of consultation in reaching the draft regulations and the balance that they strike. As he will be aware, the draft regulations have changed, as regards the crop cap; it has gone from being 2% to, as my right hon. Friend said, a stepped process, from 4% to 3% to 2% over time. I have had assurances, as I think has the industry, that given the level of utilisation at the moment, the draft regulations will not act as any kind of constraint on the growth of biofuels well into the next decade. Of course, they are being regularly reviewed, and we can look at that in further detail if such a constraint applies.

On the introduction of E10, I absolutely understand that it is a live and important issue, and my officials continue to work closely with the industry, as the shadow Minister will know. The taskforce did not recommend a mandate. There are conflicting views on these issues, as he will appreciate. It is important that we do not fetter suppliers even further, having done so a little bit in order to support the industry as we have done through the fuel obligation. One lesson from looking at international experience is that it is not merely, in some cases, an argument that there may be value from a mandate, but that the clear projection of information is important. We continue to look closely at that. It would require legislation, which raises a further question about how that consultation would take place and when legislation could be introduced. For all those reasons, we are not minded at the moment to move further in the direction that the shadow Minister described, but it is a matter for continued consultation and discussion.

With regards to the comments of my beloved colleague, my right hon. Friend the Member for South Holland and The Deepings, he is absolutely right to focus on the people who work most closely with those fuels and who are most directly affected by them. He rightly mentioned the step change that he engineered in the crop cap and pointed to the need for continued co-ordination across Departments. I hope he agrees that that has significantly improved in recent years. Whether on air quality, clean growth, connected and autonomous vehicles or ultra low emission vehicles, we continue to work closely with the Department for Environment, Food and Rural Affairs,

the Department for Business, Energy and Industrial Strategy and the Ministry of Housing, Communities and Local Government.

Mr Hayes: I certainly acknowledge that—our work on air quality is evidence of it—but I am not yet convinced that we have waste right. I am not sure that across national and local government, in co-operation between local authorities or in collaborations between Departments, we are yet far enough advanced to ensure that waste policy ties to what the Minister has very sensibly set out today.

Jesse Norman: I take my right hon. Friend's point, which has landed well with my officials. It is a two-dimensional problem: there is the question of whether Departments are co-operating and the question of how they interact with local authorities. I thank him for that. My officials have taken it on board and we will actively pursue it.

These regulations begin the implementation of a 15-year strategy for renewable transport fuels, which is designed to support investment in sustainable advanced fuels for automotive, aviation, road freight and other sectors; to maximise the industrial opportunities to be gained for the UK; to maintain public confidence in the value of renewable fuels; to provide certainty to UK producers and to the farms that supply them that their existing installed plant capacity for biofuels from crops will be fully utilised; and to continue to support the transformation of wastes into fuel where that gives the greatest economic and environmental benefits. That is no small challenge.

So far, UK suppliers have responded to the challenge by supplying renewable fuels that have increasingly higher greenhouse gas reduction benefits and are sustainable. My Department is confident that suppliers will also respond to the opportunities presented by these regulations.

We recognise that policy in this area is not without controversy and that the gestation period for these regulations has been long, as the shadow Minister mentioned. The proposed changes are not a surprise to industry—how could they be after such a period of time?—and there is broad agreement about the direction that these regulations will set, which emerged from extensive consultation. The debate has been very useful and I thank hon. Members for their contributions.

Question put and agreed to.

4.59 pm

Committee rose.

