

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Eighth Delegated Legislation Committee

DRAFT RENEWABLE TRANSPORT FUEL
OBLIGATIONS (AMENDMENT) ORDER 2020

Tuesday 8 December 2020

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The Committee consisted of the following Members:

Chair: MR LAURENCE ROBERTSON

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|---|---|
| † Anderson, Fleur (<i>Putney</i>) (Lab) | † Maclean, Rachel (<i>Parliamentary Under-Secretary of State for Transport</i>) |
| † Atherton, Sarah (<i>Wrexham</i>) (Con) | † Mohindra, Mr Gagan (<i>South West Hertfordshire</i>) (Con) |
| Butler, Dawn (<i>Brent Central</i>) (Lab) | † Robinson, Mary (<i>Cheadle</i>) (Con) |
| Byrne, Liam (<i>Birmingham, Hodge Hill</i>) (Lab) | † Saxby, Selaine (<i>North Devon</i>) (Con) |
| † Goodwill, Mr Robert (<i>Scarborough and Whitby</i>) (Con) | † Throup, Maggie (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| Grady, Patrick (<i>Glasgow North</i>) (SNP) | † Twist, Liz (<i>Blaydon</i>) (Lab) |
| † Hart, Sally-Ann (<i>Hastings and Rye</i>) (Con) | † Webb, Suzanne (<i>Stourbridge</i>) (Con) |
| † Holmes, Paul (<i>Eastleigh</i>) (Con) | Stuart Ramsay, <i>Committee Clerk</i> |
| † McCarthy, Kerry (<i>Bristol East</i>) (Lab) | † attended the Committee |
| McKinnell, Catherine (<i>Newcastle upon Tyne North</i>) (Lab) | |

Eighth Delegated Legislation Committee

Tuesday 8 December 2020

[MR LAURENCE ROBERTSON *in the Chair*]

Draft Renewable Transport Fuel Obligations (Amendment) Order 2020

2.30 pm

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

That the Committee has considered the draft Renewable Transport Fuel Obligations (Amendment) Order 2020.

The draft order will amend the Renewable Transport Fuel Obligations Order 2007, which provides for a certificate scheme commonly known as the RTFO. The draft order will increase the support available to the supply of biofuels by increasing the buy-out price from 30p per litre to 50p pence per litre. That figure is used to calculate any buy-out payment due under the RTFO certificate trading scheme. The change is crucial so that we have a strong UK market for renewable fuels and reduce transport carbon emissions.

The RTFO establishes targets to drive the supply of renewable fuels by placing obligations on larger suppliers of fuel to ensure that supply. The amount of renewable fuel that must be supplied is calculated as a percentage of the volume of relevant fossil fuel supplied in a calendar year. This obligational level—or target—has increased over time; it is currently 9.75%. The target gradually increases until 2032, at which point, without further legislation, the yearly target would be 12.4% in each subsequent year.

The 2007 order also provides for a certificate trading scheme that supports a market for renewable fuels. Under the scheme, obligated fuel suppliers must acquire sufficient renewable transport fuels certificates to meet their obligation, either by supplying renewable fuels or by purchasing certificates on the open market. Alternatively, they can make a buy-out payment. It is the buy-out option, and increasing its price, that the draft order deals with.

The ability of suppliers to pay a buy-out price acts as a safety valve. It protects consumers of fuel from exceptional spikes in the price of renewable fuels. However, in normal market conditions, the continuing success of the RTFO scheme depends upon renewable fuel being supplied. Biofuels remain the main type of renewable fuel supplied under the RTFO. Recent increases in the cost of biofuels relative to petrol and diesel mean that there is a potential sustained commercial incentive for suppliers to buy out. Any reduction in biofuel supply will affect greenhouse gas emission savings from transport fuels, which poses the risk that there will be a gap in UK carbon budgets. It also risks damaging our biofuels industry and the future investments that are needed to keep us on the path to net zero.

The RTFO applies UK-wide and has been highly successful for the past 12 years. In 2019, renewable fuel supplied under the scheme saved almost 5.5 million tonnes

of carbon dioxide emissions, which is the equivalent of taking 2.5 million combustion engine-powered cars off the road. Indeed, renewable fuel supplied under the RTFO currently contributes around a third of the savings required for the UK's transport carbon budget. Clearly we need to ensure that the RTFO continues to provide effective market support.

The amendment made by the draft statutory instrument follows consultation in the summer, which proposed an increase in the buy-out price from 30p per litre to either 40p or 50p per litre. The vast majority of respondents agreed that there was an urgent need to increase the buy-out price. Some 45 respondents out of a total of 61 agreed with our preferred option to increase the buy-out price from 30p per litre to 50p per litre.

In proposing the change, we have carefully considered the balance of interests across the fuels industry, environmental organisations and consumers, recognising that the potential additional costs of meeting the RTFO would ultimately fall to the consumer, as well as the need to maintain a competitive biofuels market that is capable of driving reductions in carbon emissions. The increase in the buy-out price to 50p per litre strikes the right balance, so I commend the draft order to the Committee.

2.34 pm

Kerry McCarthy (Bristol East) (Lab): We can all support the transition to renewable fuels across the transportation sector. As the Minister will be well aware, transport is the largest contributing sector to UK emissions, and progress in trying to decarbonise the sector has been very slow in recent years. To achieve that, we need to make the types of vehicle that we use, and the fuel they consume, more sustainable. It was disappointing to hear this week that the transport decarbonisation plan will not be published until spring 2021; we really do need an overarching strategy and coherence in policy making, as well as a greater sense of urgency.

The renewable transport fuel obligation was a key achievement of the last Labour Government. It has been a central part of encouraging the adoption of renewable fuels in transport, particularly fuels sustainably sourced from waste. I am pleased that the RTFO continues to be considered a success across the transport sector, but we must recognise that, as the climate emergency becomes more pressing and transport emissions continue to stagnate rather than reduce, it now needs reform.

Mr Robert Goodwill (Scarborough and Whitby) (Con): The hon. Lady gives credit to the previous Labour Government, but was it not agreement at a European level that actually forced all EU Governments to move towards more renewable road transport fuels?

Kerry McCarthy: That is a very good argument for European co-operation, so it is sad that the right hon. Gentleman is such a fan of going it alone.

The statutory instrument goes some way towards meeting the need for reform. As the Minister has explained, from 1 January, it will mean that the buy-back price multiplier will increase from 30p to 50p, strengthening the RTFO by providing more incentive for people to meet our renewable fuel requirements, rather than buying themselves out of their obligations. The Government

estimate that, without acting to raise the buy-back price, we risk losing annual greenhouse gas savings of up to 6.5 million tonnes of CO₂.

As the Minister said, the SI is the result of consultation. I am pleased that, as a result of that consultation, there was agreement to go for a 50p multiplier rather than 40p, which would have been considerably less ambitious. I am also pleased that implementation will begin swiftly on 1 January.

We will support the SI on the grounds that it strengthens the mandate to supply renewable fuels. Moving forward, however, I hope to see action from the Government to support renewable fuels in other ways. A consultation on introducing E10 petrol was launched earlier this year, but we are still waiting for the Government response, with a final decision on how it will be introduced and, hopefully, how we can ensure that an increased demand for biofuels does not lead to an increase in deforestation due to changes in land use.

Many stakeholders are proposing further reforms to the RTFO, such as a floor price mechanism to help to ensure stability for investment in the sector. I would be interested to hear from the Minister whether the Government are considering that reform to further strengthen the RTFO, because it has come up in many of my conversations with people in the sector.

I hope to see more support from the Government for emerging sources of renewable fuels, especially in hard-to-decarbonise sectors such as aviation, shipping and HGVs, which at present cannot easily be electrified. Proper investment in genuinely sustainable fuels for those modes of transport may prove vital in meeting net zero targets and putting us back on track. I know that we are expecting more details of the sixth carbon budget soon, and I will be watching closely for future announcements.

2.38 pm

Mr Goodwill: I will be brief, and I first draw the Committee's attention to my entry in the Register of Members' Financial Interests as a wheat producer who is likely to benefit from an increased use of renewable fuel.

When we talk about new technologies to green our economy, and certainly to green our transport network, they often involve innovative solutions, but in the case of biofuels, not only is the technology mature, but the plants are already there. Investment has already been made on Teesside, in Hull and by British Sugar at Wisington. The problem is that those companies that have invested billions in this new technology have, in effect, been slapped in the face, because it was cheaper for fuel suppliers to buy out their obligations rather than sourcing the fuels. The order will address that particular problem.

The situation faced by the plant in Hull has been particularly disappointing, not only because it was designed to produce bioethanol to incorporate in fuel, but because the residue would have been a great animal feed for ruminants. Unfortunately, as such plants have completely stopped, or certainly operated at a much lower capacity, we have not seen the market for such by-products developing.

Does the Minister have ambitions to move to E10—10% ethanol fuel? Under the EN 228 fuel categorisation, fuel can be either E5 or E10. Many other countries around

Europe have already moved to E10, which will increase demand for that fuel. When the Minister responds to the debate, including the points made by the hon. Member for Bristol East, will she comment on whether that change might result in more UK-produced biofuel, because one of the biggest concerns for many of us who were in the European Parliament when these things were decided—I will not take the credit for it, but I was there at the time—was indirect land use change, as some of those biofuels could have been sourced from the developing world, which may have had an effect on the rain forests? We often heard about so-called deforestation diesel, and countries such as Brazil are clearing rain forests to produce more ethanol. Indeed, vehicles there are running on E100—100% ethanol.

I welcome the order, but I would like reassurance from the Minister that the measure will herald the introduction of 10% ethanol fuel, and that we will do everything that we can to ensure that biofuels are sourced from the United Kingdom, rather than imported from countries that do not have the exacting environmental standards that we do.

2.41 pm

Rachel Maclean: This has been an incredibly useful discussion. I am grateful to the hon. Member for Bristol East and my right hon. Friend the Member for Scarborough and Whitby for their contributions. With his considerable expertise, my right hon. Friend identified the importance of the industry and the potential that the Government have to support our home-grown British industry, which is exactly what we want to do.

My right hon. Friend and the hon. Lady asked about E10, and we are working hard to publish our response to the consultation on its introduction as soon as possible. I am aware of the industry's keen interest in the matter. We anticipate that any requirement to introduce E10 would come into force in 2021. There would need to be a period of at least six months in advance of that introduction so that fuel suppliers and consumers could prepare for the change in grade. The experience of other countries suggests that a comprehensive communications campaign is crucial to any successful roll-out to ensure that motorists are well informed ahead of the change in grade. Should E10 be rolled out in the UK, I reassure those who are interested that we will remain committed to ensuring the retention of an E5 grade for those vehicles or equipment that cannot use petrol with high levels of ethanol.

I am delighted by the hon. Lady's support for the statutory instrument, for which I thank her. She rightly referred to the transport decarbonisation plan that she and I have discussed on many occasions. It remains at the forefront of the Government's efforts to decarbonise the entire sector. Regrettably, in the light of the covid pandemic, we have had to deal with very pressing public health issues, but that has not detracted from our intense work on the plan, which we will publish in spring next year.

Kerry McCarthy: Following my conversations with people in the sector, I am concerned that some companies, particularly those operating fleet vehicles or bus companies—I know that the right hon. Member for Scarborough and Whitby has a company in his constituency that is

[Kerry McCarthy]

keen to manufacture cleaner buses—have been so financially hit by covid that they have put their plans on hold, because it is not an ideal time for a company to upgrade its vehicles if it has not made a profit in the previous year. Will that affect what is in the decarbonisation plan?

Rachel Maclean: I do not want to stray too far from the statutory instrument, but the hon. Lady rightly raises very important questions. I will be happy to discuss that further with her, but I want to reassure her that our commitment remains. We work very closely with the sector, as she does, and we understand those natural concerns. Of course, the Government have supported the entire economy to the tune of at least £330 billion, which has gone to transport operators and many others. We recognise the challenges that operators face, but we nevertheless remain determined to decarbonise the transport sector.

The order makes a small but important amendment to ensure that the RTFO continues to support the renewable fuels industry as intended. We need the industry to drive down emissions in sectors that are harder to decarbonise, such as heavy goods vehicles and aviation,

and to deliver the cleaner fuels that will play an even greater role in achieving our aim of a greener and more prosperous economy. I reassure members of the Committee that we have the most ambitious crop cap in Europe for fuel sources, which is 4% and will be decreasing to 2%. We have therefore taken note of the concerns that hon. Members have raised.

It is true that as we transition to zero emissions vehicles, we cannot ignore measures to reduce emissions from the conventional road vehicles in use today, particularly given the contribution of renewable fuels to meeting UK carbon budgets. We will be setting out in our transport decarbonisation plan more detail about the future of low-carbon fuels across transport modes, and that will be published in spring 2021.

The statutory instrument will change the RTFO buy-out price for the start of the next obligation year—1 January 2021. That timing is important so that we can provide certainty for fuel suppliers and minimise administrative costs. I hope that the Committee will join me in supporting the statutory instrument.

Question put and agreed to.

2.45 pm

Committee rose.