

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT CLIMATE CHANGE ACT 2008 (CREDIT
LIMIT) ORDER 2021

Monday 14 June 2021

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Friday 18 June 2021

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The Committee consisted of the following Members:

Chair: DAVID MUNDELL

Abbott, Ms Diane (*Hackney North and Stoke Newington*) (Lab)

Butler, Dawn (*Brent Central*) (Lab)

Caulfield, Maria (*Lewes*) (Con)

Coyle, Neil (*Bermondsey and Old Southwark*) (Lab)

† Fletcher, Mark (*Bolsover*) (Con)

Harris, Rebecca (*Castle Point*) (Con)

Hillier, Meg (*Hackney South and Shoreditch*) (Lab/Co-op)

Jones, Mr Marcus (*Nuneaton*) (Con)

† Mann, Scott (*North Cornwall*) (Con)

Morris, James (*Halesowen and Rowley Regis*) (Con)

† Pennycook, Matthew (*Greenwich and Woolwich*) (Lab)

Pursglove, Tom (*Corby*) (Con)

† Rimmer, Ms Marie (*St Helens South and Whiston*) (Lab)

Russell-Moyle, Lloyd (*Brighton, Kemptown*) (Lab/Co-op)

† Solloway, Amanda (*Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy*)

Thomson, Richard (*Gordon*) (SNP)

† Tomlinson, Michael (*Lord Commissioner of Her Majesty's Treasury*)

Nicholas Taylor, *Committee Clerk*

† **attended the Committee**

First Delegated Legislation Committee

Monday 14 June 2021

[DAVID MUNDELL *in the Chair*]

Draft Climate Change Act 2008 (Credit Limit) Order 2021

4.30 pm

The Chair: Before we begin, I would like to remind Members about the social distancing regulations. Seats available to Members are clearly marked. I also remind Members that Mr Speaker has stated that masks should be worn in Committee when not speaking. *Hansard* colleagues will be grateful if you send any speaking notes to hansardnotes@parliament.uk.

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

That the Committee has considered the draft Climate Change Act 2008 (Credit Limit) Order 2021.

It is a pleasure to be here today, Mr Mundell. The draft order was laid before the House on 13 May. This Government are committed to being a world leader in climate action and to decarbonising the UK economy while driving economic growth, meeting our ambitious targets for net zero emissions by 2050.

While the current pandemic is rightly at the forefront of our work as we rebuild, we must build back better, greener and faster. That means supporting green jobs, levelling up, accelerating our path to meeting net zero, and creating a long-term advantage for the UK in low-carbon sectors. We have shown that rapid progress on decarbonisation is possible alongside a thriving economy. Our emissions have gone down almost 44% over the last 30 years, and our economy has grown by 78% in the same period. We are also in the process of reaching a significant milestone in approving legislation to enshrine in law the UK's sixth carbon budget, proposing a target that will reduce greenhouse gas emissions by 78% by 2035, compared with 1990 levels. That is a huge commitment and the Government are working flat out to achieve it.

As part of the Climate Change Act 2008, the Government must set a limit on the number of international carbon credits that can be credited to the UK carbon account for each budgetary period. These carbon credits represent the reduction or removal of greenhouse gas emissions overseas. The draft order sets a limit on the net number of international carbon credits that may be used to meet the fourth carbon budget, which runs from 2023 to 2027.

The Climate Change Act, which was passed with near unanimous support, allows for the flexibility of using carbon credits to meet a carbon budget if necessary. Our intention is to meet our nationally determined contribution and net zero commitment through domestic action, but having that flexibility helps to ensure that even if unforeseen circumstances affect how we might

most effectively deliver against our carbon budgets for the taxpayer, the UK is better able to meet our legally binding emissions target under the Act.

The draft order will set the credit limit of the fourth carbon budget at 55 million tonnes of CO₂ equivalent, which is only 2.8% of the total carbon budget. That 55 million tonnes of CO₂ equivalent is the same amount of flexibility as the House agreed for the credit limit orders for the second and third carbon budgets. I must also highlight that this draft order does not commit the UK Government to buying international credits. As we have witnessed with previous carbon budgets, this Government have an impressive track record of delivering clean growth and have not used any allowances set for the previous carbon budgets. This Government will continue to put forward ambitious plans to meet carbon budgets through domestic action and are committed to meeting our world-leading target.

It is at this point that I should reassure colleagues that the limit set by the draft order excludes any net use of credits that result from the operation of the European Union emissions trading system. The exclusion is required because, while the UK emissions trading scheme replaced UK participation in the EU ETS on 1 January 2021, Northern Ireland electricity generators continue participate in the EU ETS, and so will receive EU ETS allowances within the fourth budgetary period.

In determining the appropriate fourth carbon budget credit limit, subject to the present discussion, the Government have considered the advice of the Climate Change Committee and the views of the devolved Administrations, as well as the range of factors required by the Act, including the economic, fiscal, social, scientific and international circumstances. All the parties agree that the purchase of international credits should not replace domestic action on emissions when delivering our net zero target. Although the Climate Change Committee and the devolved Administrations recommended a zero credit limit, the Government have concluded that it is best to maintain a small amount of flexibility during the fourth carbon budget period. That builds resilience into our projections and allows us flexibility to respond to future uncertainties—a consideration that any responsible Government should factor in.

We are extremely grateful to the Climate Change Committee for its expert analysis and advice, and look forward to working closely with it on the fundamental decisions we will need to take over the coming years to drive forward our progress. As hon. Members know, we accepted its advice and aligned our positions on the sixth carbon budget targets and nationally determined contribution. However, we have not always agreed on points of detail—for example, the balance of emissions reductions between sectors, or exact policy interventions—and we undertake our own robust analysis alongside it.

This ambitious Government are taking decisive action to ensure that we deliver the fourth carbon budget domestically, but it is prudent to allow ourselves flexibility in the future to manage the uncertainty of emissions projections. We are dedicated to tackling climate change throughout our commitments and action. On 21 May, through our G7 presidency, we reaffirmed our strong and steadfast commitment to strengthening implementation of the Paris agreement and to unleashing its full potential. Building on that, we fully intend to use our vital role

hosting the COP26 negotiations in November to catalyse ambitious global action to cut emissions. Ahead of COP26, we will set out our ambitious plans across key sectors of the economy to meet our climate commitments. That will include a comprehensive net zero strategy, which will set out a vision for transitioning to a net zero economy and raise ambition as we outline our path to meet net zero by 2050.

4.37 pm

Matthew Pennycook (Greenwich and Woolwich) (Lab): It is a pleasure to serve under you in the Chair, Mr Mundell. In her opening remarks, the Minister presented the draft statutory instrument as almost a purely technical matter, and the Government's decision to set a positive limit on the quantity of international carbon credits that can be used to meet the fourth carbon budget as a simple precautionary measure against future uncertainty in relation to accounting for that budget. To the extent that the Government have been clear, and the Minister has been clear again today, that it is not their intention ever to use the international credits for which this order provides, that may well be true, but the Opposition believe that the order is nevertheless problematic.

As the Minister said in her remarks, when placing a limit on the quantity of international credits that can be used to meet any given carbon budget, the Government, under section 9 of the 2008 Act, must take into account advice from the Climate Change Committee and must also consult the devolved Administrations. The CCC's advice on this matter could not have been clearer. It recommended that international emissions credits should not be allowed to contribute to meeting the fourth carbon budget—that is, that a limit of zero should be set instead of the 55 megatonnes of carbon dioxide equivalent provided for by this instrument. In their response to the consultation, the Scottish Government made it clear that they would support the adoption of a zero limit. Similarly, the Welsh Government stated that they would support a zero limit in principle. The UK Government have determined that they will ignore those views and dismiss the very clear recommendation of the CCC. In doing so, the Government essentially make two arguments in support of setting a positive limit.

The primary argument is that the headroom provided by up to 55 megatonnes-worth of international credits is required to provide—I quote from the impact assessment—

“sufficient flexibility to manage uncertainty in emissions projections”.

The secondary argument is that the purchase of international credits could also enable the UK to support climate mitigation action in developing countries via the carbon budgets framework, and contribute to the development of a global carbon market, thereby reducing the cost of global climate action over the long term.

The second argument can be dealt with very quickly. At any point in the future, should they wish to do so, the Government can purchase international emissions credits to augment the delivery of their own carbon budgets through domestic action. There would be nothing to prevent the Government from bolstering global climate action efforts by means of the purchase of international credits if the limit on use of those credits to meet the fourth carbon budget were set at zero today.

The first argument is, on the face of it, the stronger one. After all, it is surely only sensible, as the Minister has said, for any Government to plan for contingencies and to build in some flexibility to mitigate unforeseen circumstances. The problem with that argument is that the benefit of building in wiggle room of a mere 2.8% to account for potential changes in the methodology underpinning the emissions inventory, or the risk of high emissions relative to current projections, is, we believe, outweighed by the damage that it causes. I do not dismiss it entirely, but I am not primarily referring here to the negative impact of setting a positive limit on investor confidence, which I believe the Government are right to argue is likely to be relatively small. I am thinking more of the harm that setting a positive limit is likely to cause in terms of the signal it sends about the Government's perception of the degree of flexibility involved in the carbon budget framework, their commitment to achieve the net zero target through domestic action and—as a country that, as the Minister rightly said, has a relatively strong record of domestic emissions reductions—the example it conveys to other countries about the approach they can follow when it comes to their own pathways.

The Minister knows full well that the 2030 NDC that the UK formally submitted at the UNFCCC in December last year under the Paris agreement, and the sixth carbon budget announced in April, will require a far more ambitious pace and scale of emissions reductions over the coming years. If, as a country, we finally begin to do what is necessary to put ourselves decisively on track to achieve net zero, there should be no question that the fourth carbon budget, which—according to the CCC—remains at the right level even accounting for inventory changes, will be met without the use of international credits. Taken together with the fact that the Government's central projections make it clear that they are unlikely to use the credits provided for by this order, and the likelihood that the cost of those credits will rise significantly in the years ahead, the Opposition believe that the case made by the Government for a positive limit does not outweigh the damage it might cause and is not strong enough to justify ignoring the CCC's advice.

The Government should have the confidence to set a zero limit and thereby clearly indicate that they will do whatever it takes to comfortably meet, and hopefully outperform—given the more stringent targets that are coming forward—the fourth carbon budget through domestic action alone. For that reason, we intend to divide the Committee this afternoon. While I can see from the numbers here that the order will be approved, I hope the Minister will take on board our very real concerns about the detrimental impacts of legislating for the use of international credits and recommit the Government to doing whatever is necessary to achieve net zero over the coming years through planned government policy.

4.42 pm

Amanda Solloway: I thank the hon. Member for Greenwich and Woolwich (Matthew Pennycook) for his contribution to the debate.

It is because of the Government's ambitious proposal and actions that the UK finds itself at the forefront of climate action and a world leader in reducing emissions,

[Amanda Solloway]

as highlighted through our presidency of this year's COP26 summit. As I said, the UK has seen the sharpest reduction in emissions of any G7 country since 1990. We also have the highest emissions reduction target for 2030 of any G7 country. As the hon. Gentleman mentioned, we have been in consultation with the devolved Administrations and did recommend a zero credit limit. However, the Government have concluded that it is best to maintain a small amount of flexibility over the fourth carbon budget period, as it builds resilience into our projections and allows us the flexibility to respond to future uncertainties, which are a consideration that any Government should factor in.

The Government intend to continue with our ambitious proposals and our position remains that we intend to meet all our targets through domestic abatement, as we have in the past. Nonetheless, international credits could offer a contingency for delivering our legally binding targets, and so the elimination of their potential use, as allowed under the Climate Change Act 2008, would not be prudent in our view. It is also important to reiterate that this legislation does not commit the UK to buying international credits and, as we have witnessed from previous carbon budgets, the Government have not used

any international credits to date, even with a 55 million tonnes of carbon dioxide equivalent limit. I can confirm that the current legislation is only concerned with the fourth carbon budget. We will consider the limit for the fifth and sixth carbon budgets at the appropriate time.

As I mentioned in my opening speech, despite the considerable challenges we are facing on the other side of the pandemic, we can leverage our strength to deliver a better and greener economy and go further and faster to accelerate the transition to net zero carbon emissions by 2050. I commend the draft regulation to the Committee.

Question put.

The Committee divided: Ayes 4, Noes 2.

Division No. 1]

AYES

Fletcher, Mark
Mann, Scott

Solloway, Amanda
Tomlinson, Michael

NOES

Pennycook, Matthew

Rimmer, Ms Marie

Question accordingly agreed to.

4.45 pm

Committee rose.

