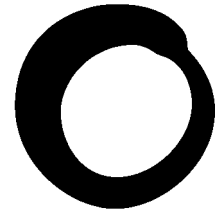


May 2009



**Friends of  
the Earth**

# Briefing

## Analysis of the First Carbon Budgets

Friends of the Earth welcomed the announcement of the first ever carbon budgets, as part of the Budget speech on 22 April.

These are ground-breaking legal caps on greenhouse gas emissions required under the Climate Change Act that resulted from Friends of the Earth's Big Ask campaign.

However, there are concerns about the level of the budgets, carbon offsetting loopholes and carbon accounting rules.

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## First ever carbon budgets welcome

The announcement of the first ever carbon budgets is a ground-breaking step in setting legal caps on greenhouse gas emissions required under the Climate Change Act.

For the first time, Government, business and civil society will have a framework for deciding the changes needed for the UK to do its part in averting dangerous climate change.

However, there are concerns about the level of the budgets, carbon offsetting loopholes and carbon accounting rules.

## Government rejects Committee on Climate Change's 'intended' target

The Government announced a 2020 target of 34%<sup>1</sup>. This is a big step forward, but leading scientists say a target of 42% GHG cut by 2020 on 1990 levels is the *absolute minimum* needed for the UK to play our part in avoiding catastrophic climate change<sup>2</sup>.

The 34% target was recommended by the Committee on Climate Change as an interim measure before a global deal is agreed at Copenhagen at the end of this year, after which the Government should adopt the Committee's 'intended' 2020 target of 42%<sup>3</sup>.

The Government has ignored this crucial advice from the Committee on Climate Change to set an 'intended' target of a 42% cut by 2020. Instead, it has asked the Committee on Climate Change to *'review its recommended intended budgets following a global deal and once proposals on sharing out of the EU targets are agreed'*<sup>4</sup>.

The Government is meant to set targets based on advice from the Committee on Climate Change. However, it has now made clear it will cede decision making on future carbon budgets to the EU saying: *'As the UK negotiates internationally on climate change as part of the EU, the Government expects to agree the UK's emissions reduction target under any future international agreement at European level'*<sup>5</sup>.

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<sup>1</sup> Budget speech, 22 April 2009

<sup>2</sup> Making a Climate Commitment: Analysis of the first Report (2008) of the UK Committee on Climate Change, The Tyndall Centre, University of Manchester, March 2009

[http://www.foe.co.uk/resource/reports/tyndall\\_climatereport\\_ccc2008.pdf](http://www.foe.co.uk/resource/reports/tyndall_climatereport_ccc2008.pdf)

<sup>3</sup> Page 463 (Synthesis and Recommendations), Building a low-carbon economy – the UK's contribution to tackling climate change, The First Report of the Committee on Climate Change, December 2008.

<http://www.theccc.org.uk/pdf/TSO-ClimateChange.pdf>

<sup>4</sup> Page 6, Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2009.

[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

<sup>5</sup> Page 19, Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2009.

We should aspire to be a leader in Europe on climate, but this policy risks following the EU average which will inevitably be influenced by fierce lobbying by countries that oppose serious action on climate change.

It also raises questions about the role of the Committee on Climate Change in providing independent advice on the levels of UK carbon budgets and emissions reduction targets if these are always to be changed to reflect political agreements.

### **Buying international credits means the UK will make no further domestic effort beyond its current plans and targets**

The Government says it will aim to ensure *'that that all effort in the non-traded sector is achieved through domestic emissions reductions, without the purchase of offset credits'* during the first budget period (2008-2012)<sup>6</sup>. This principle is welcome because only radical action at home can create a low-carbon economy and secure UK job opportunities through green investment. However, in practice the principle is undermined in four ways.

First, the Committee on Climate Change advised the Government to exclude the use of international offsets for all three Interim budget periods<sup>7</sup>, not just for another two and half years as announced by the Government<sup>8</sup>. The Committee is very clear about the reasons for excluding international offsets from all the Interim budgets: first, meeting the stop-gap Interim budgets through domestic action alone is the minimum required to achieve the actual Intended budgets; and second, *'a lower level of domestic effort would not be consistent with being on an appropriate path to meeting the 2050 target'*<sup>9</sup>. The failure of the Government to limit offsets for all three budget periods weakens the signal to make low carbon investments in the UK economy.

Second, we also disagree with the Government's decision to reserve the option to purchase international offset credits as an *'insurance option in the event that emissions are higher than anticipated'*<sup>10</sup>. This is a catch-all option that would allow the Government to carry on with polluting policies, such as Heathrow expansion, and to still meet the carbon budgets by

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[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

<sup>6</sup> Page 23, Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2009.

[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

<sup>7</sup> Page 464, Building a low-carbon economy – the UK's contribution to tackling climate change, The First Report of the Committee on Climate Change, December 2008.

<sup>8</sup> Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2009.

[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

<sup>9</sup> Page 128, Building a low-carbon economy – the UK's contribution to tackling climate change, The First Report of the Committee on Climate Change, December 2008.

<sup>10</sup> Page 13, Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2009.

[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

buying in credit from abroad. The response to higher than anticipated emissions should be stronger policies not bigger loopholes.

It also appears that the Government will still be able to purchase credits from the EU Emissions Trading Scheme to meet its non-traded sector budgets<sup>11</sup>. As the EU ETS allows for companies within it to buy a percentage of international credits, the UK Government would still in effect be making use of offset credits to meet its non-traded sector budget if it were to use this option.

Third, the Government plans to buy international credits for the non-traded sector under the Intended budgets to be adopted following a global deal. In fact the Government is planning to import international credits to account for *all extra* emissions reduction required by moving from the Interim to Intended budget<sup>12</sup>. Buying international credits in the non-traded sector will account for a 32% of the effort in reaching the sector's Intended target by 2020.

Yet the CCC has explicitly noted that the Government can take an alternative approach of introducing new policies to cut UK emissions to meet the Intended budgets rather than importing credits<sup>13</sup>. The Government's chosen strategy of buying in international credits will reduce the incentives to invest and innovate in low-carbon technology in the UK and increase the risk of infrastructure investments, locking the UK economy into a high-carbon pathway that will be difficult and expensive to get off.

Fourth, the traded sector which accounts for the majority of emissions will continue to buy international credits through the EU ETS under both the Interim and Intended budgets.

### **The new carbon budgets offer no incentive to cut emissions from the traded sector increasing the risk of carbon lock-in**

In the traded sector, it is not clear whether the accounting arrangements for the new carbon budgets are such that the UK only needs to record the UK's *allocated* emissions under EU ETS, rather than *actual* emissions<sup>14</sup>. This creates the crazy situation where the Climate Change Act creates no incentive whatsoever for any policies in the traded sector, beyond the EU ETS which remains seriously weak due to a loose cap on emissions. In effect

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<sup>11</sup> Page 14, Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2008.

[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

<sup>12</sup> Building a low-carbon economy: implementing the Climate Change Act 2008. HM Treasury, April 2008.

[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_carbon\\_budgets\\_736.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_carbon_budgets_736.pdf)

<sup>13</sup> Building a low-carbon economy - the UK's contribution to tackling climate change, Committee on Climate Change, 1 December 2008, pp160

<http://hmccc.s3.amazonaws.com/pdf/TSO-ClimateChange.pdf>

<sup>14</sup> Guidance on Carbon accounting and the net UK carbon account. Department of Energy and Climate Change, April 2008. [www.decc.gov.uk](http://www.decc.gov.uk)

new policies aimed at controlling emissions from the traded sector would have no effect on the emissions recorded in the UK's traded sector budget (which would simply be the allocated emissions).

Recording *actual* emissions in no way compromises UK firms' participation in the EUETS. Having actual emissions recorded creates an incentive in the Act for stronger climate policies in the traded sector, making it more likely that the most cost-effective measures are found in the UK rather than elsewhere. Distribution of permits in the EUETS would then reflect that.

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