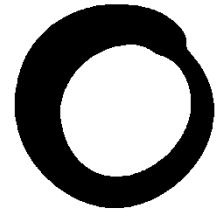


July 2009

Briefing



**Friends of
the Earth**

Ensuring the Climate Change Act delivers

The Climate Change Act 2008 is a ground-breaking advance in averting dangerous climate change and Friends of the Earth congratulates the Government and MPs from all parties for their leadership in passing this crucial legislation.

The *way in which the Climate Change Act is implemented* will determine the extent to which the UK will deliver the greenhouse gas emissions needed to avert dangerous climate change.

In April 2009 the Government set the world's first legally binding carbon budgets, the 2020 emissions target and the proportion of carbon offsetting that can be used in meeting the targets. In July the Government must announce policies to ensure the targets are met, and further decisions on how the Climate Change Act is implemented are dependent on a series of events over the next nine months.

There are **five critical issues that must still be addressed** to ensure the Climate Change Act delivers the scale and speed of emissions cuts needed in the UK, and to ensure we benefit from the advantages of moving swiftly to a low carbon economy. This briefing outlines the issues and explains what MPs can do to resolve them.

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Introduction

The Climate Change Act is now being implemented, and in July the Government will publish a strategy setting out how it will meet its first set of carbon budgets. But there remain **five critical issues which require attention from MPs** if the Act is to deliver on its primary purpose: to help prevent dangerous climate change.

If these issues are tackled, the Climate Change Act will ensure that the UK genuinely leads the world in both delivering a thriving low-carbon economy and limiting the risk of catastrophic climate change. If not, the UK's strategy will be far weaker than envisaged, and the threats from climate change will increase. The stakes could not be higher.

This briefing sets out what the five issues are, and what MPs should do to resolve them.

Timeline of decisions on implementing the Climate Change Act

Decisions on how the Climate Change Act is implemented are dependent on a series of events over the next nine months, set out below.

The first big set of decisions will be on fossil fuels, renewables and other major infrastructure – via National Policy Statements (NPS). We ask MPs to urge Ministers now to ensure these NPS strategies are compatible with the carbon budgets, and to engage with the detail of the NPS in parliamentary Select Committee in the Autumn.

The second set of decisions is the UK Government's lobbying position going into Copenhagen – we ask MPs to urge the Government now and in the early autumn to commit to meeting its international obligations without recourse to offsetting.

The third set of decisions will be taken in early 2010, when the Committee on Climate Change (CCC) advises the Government to amend their carbon budgets, dependent on what action was agreed at Copenhagen. This is the big opportunity to close weak loopholes on international aviation and shipping, offsetting and on how carbon is counted, and to strengthen the overall targets and budgets. Friends of the Earth will send a briefing to MPs outlining the state of play on these issues in early 2010.

Date	Decision on implementing the Climate Change Act
July 2009	Government publishes strategy for meeting first three budgets
Summer 2009	Government starts to publish draft NPS
12 Oct 2009	CCC publishes its first annual Progress Report
Autumn 2009	MPs debate NPS in Select Committee
8 Dec 2009	CCC publishes report on international aviation
7-18 Dec 2009	Copenhagen International Climate Change meeting
Jan/Feb 2010	CCC advises Government on implications of Copenhagen for budgets: <ul style="list-style-type: none"> • Level of target and carbon budgets can be changed • Decisions on offsetting can be changed • Decisions on counting allocated or actual emissions can be changed Decisions on international aviation should be made.
Spring 2010	Government should amend carbon budgets/rules to reflect CCC advice

Section A: Summary of the five critical changes needed

1. Reduce the size of the UK carbon budgets

The level of the 2020 target and associated carbon budgets is critically important. First, because what happens in the first three budgets determines the UK's trajectory to the 2050 target and therefore the overall ambition of total emissions cuts. Second, because decisions on major infrastructure taken over the next ten years will affect carbon emissions for decades.

The Committee on Climate Change recommended an 'interim' set of three carbon budgets up to 2022, delivering a 34 per cent cut in emissions by 2020, to be replaced by an 'intended' budget delivering a 42 per cent cut by 2020, after a global deal at Copenhagen in December 2009.

The 42 per cent is based on the Committee's assessment of what is needed from the UK to do its share in preventing dangerous climate change. A 42 per cent 2020 target is needed to establish the UK as a low carbon economy and to enable us to meet the 80 per cent 2050 target.

The Government accepted the interim budgets. These are set out below.

Greenhouse gases	Budget 1 (2008-2012)	Budget 2 (2013-2017)	Budget 3 (2018-2022)
MtCO ₂ e permitted emissions	3018	2782	2544
Average per cent cut on 1990 levels	22	28	34
Average per cent cut on 2007 levels	5.5	13	20
Traded sector MtCO ₂ e	1233	1078	985
Non-traded sector MtCO ₂ e	1785	1704	1559

Despite the Committee’s advice, the Government did not commit to implementing the 42% 2020 target and associated budgets following a global deal, but instead has asked the Committee to revisit the budgets after Copenhagen. This raises concerns that the UK Government will reject the 42 per cent target. This strategy of deliberately agreeing to do far less than they know is required is not compatible with the UK Government’s repeatedly stated intention to show leadership on climate change.

The strategy is even more dangerous because the Committee’s 42 per cent target is *itself* based on an assessment which allows far too great a risk of catastrophic climate changes. The Committee’s report outlined that a 42 per cent 2020 target is associated with a 56-63 per cent chance of a more than 2 degrees rise¹: even though **preventing** 2 degrees is the UK and EU’s stated climate change objective.

Strong support in Parliament for carbon budgets in line with the science was expressed through 186 MPs from all parties signing EDM 868 ‘*Targets for 2020 in the Climate Change Act 2008*’ which called on the Government to adopt immediately the intended budgets to cut emissions by 42 per cent by 2020. Friends of the Earth believes this leadership by MPs is vital and must continue as the Act is implemented. An immediate move to 42 per cent has also recently been adopted by the Scottish Parliament, and strongly supported by the CCC, who said:

“The commitment to tackling climate change within the Scottish Parliament across all parties is impressive. This Bill is the most ambitious in the world. We will be working closely with the executive in Scotland to advise them on how they can meet these targets through reducing emissions in the power sector, in transport, buildings and homes and in agriculture in Scotland”².

¹ CCC, 2008. P21. Op cit.

² <http://www.theccc.org.uk/news/ccc-newsletter/335-scottish-parliament-commits-to-cut-emissions-by-42-by-2020s>

Friends of the Earth is calling on MPs to:

- **Urge the Government to follow the leadership of the Scottish Parliament and move to a new ‘intended’ 2020 target and carbon budgets based on what is scientifically and ethically required: delivering at least a 42 per cent cut by 2020, with policies in place to meet this target and to deliver the far greater cuts that will be required beyond 2020.**
- **Urge the Government to make a swift move to the strengthened ‘intended’ carbon budgets - before April 2010, rather than waiting for the EU to move to its intended target.**

2. Invest more in the UK rather than rely on offsetting

The UK carbon budgets do far too little to drive investment in the UK because they rely too heavily on buying in carbon cuts from abroad through offsetting loopholes, rather than making emissions cuts at home.

In their Building a Low Carbon Economy report, the Committee on Climate Change warned of the dangers of relying on offsetting – not least that it will lock the UK economy into highly-expensive and ultimately redundant high-carbon infrastructure. It said:

“The UK 2020 emission target...should reflect the importance of ensuring that investment over the next 12 years does not lock us into high-carbon capital assets which make achieving the 2050 target more difficult”³ and also state that “in the long term the vast majority of abatement will have to be achieved via domestic action. The model suggests that for an 80% domestic CO2 emissions reduction, 73% is likely to be most cost-effectively achieved domestically.”⁴

The Committee also highlighted the huge economic benefits of investing in cutting carbon emissions in the UK through greater efficiency, boosting innovation and investment, and improving energy security and balance of payments.

There is a growing consensus that a key element of Government response to the recession should be policies that deliver investment in energy efficiency and low-carbon technologies *in the UK*.⁵

³ Committee on Climate Change, 2008, <http://www.theccc.org.uk/pdf/TSO-ClimateChange.pdf> , p106

⁴ Committee on Climate Change, 2008, <http://www.theccc.org.uk/pdf/TSO-ClimateChange.pdf> , p 85

⁵ See Joseph Stiglitz and Nicholas Stern, Financial Times 2nd March 2009, Obama’s chance to lead green recovery; Sir John Rose (CEO of Rolls Royce), Financial Times 23rd April 2008, Britain needs an industrial route map; UK Climate Leaders Group, 15 January 2009, Business leaders and Prime Minister meet to discuss how action on climate change will help economy; Green New Deal Group 200 8,

There are also major problems with the environmental integrity of the entire process of offsetting. These are set out in a new report by Friends of the Earth, *A dangerous distraction Why offsetting is failing the climate and people: the evidence*⁶.

The central problem is that offsetting is intended as a **swap** of an emissions cut in a developed country for a cut in a developing country when, as the International Panel on Climate Change has stated, action in **both** developed and developing countries are required, not one instead of the other⁷.

However, the carbon budgets currently rely heavily on buying cuts from abroad at the expense of investment at home. Despite the Government saying that “*we want the maximum amount of effort domestically*”⁸ it has only committed to using no offsetting in the first budget period, in the ‘non-traded’ section of the economy (those sectors not covered by the EU Emissions Trading Scheme). The CCC recommended no offsetting in *all three* carbon budgets in the non-traded sector. It is imperative that the Government accepts the Committee’s advice and announce that they will not use offsetting in any budget period. In addition, to secure the transformation that we need to a low-carbon economy, there should be no offsetting in the traded sector.

Friends of the Earth is calling on MPs to:

- **In the run up to Copenhagen, support calls on the Government to commit the UK to meeting our international climate change obligations through domestic cuts without recourse to offsetting.**
- **Urge the Government to commit to meeting all of its UK carbon budgets through domestic action, in all budget periods, without recourse to offsetting, immediately after Copenhagen.**

3. Close the accounting loophole - in which actual emissions are not counted

There is currently an accounting loophole in how emissions are counted that means there is no incentive for strong policies in sectors responsible for 40 per cent of emissions.

http://www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=258; Sustainable Development Commission, A Sustainable New Deal http://www.sd-commission.org.uk/publications/downloads/SND_booklet_w.pdf

⁶ http://www.foe.co.uk/resource/briefing_notes/dangerous_distraction.pdf

⁷ See section 2.4 for further detail

⁸ Mike O’Brien, evidence to Environmental Audit Committee, 2nd June 2009.

In the 'traded' sector (those sectors covered by the EU Emissions Trading Scheme – around 40 per cent of emissions) the progress on meeting the UK carbon budget is judged solely by the UK's *allocation* of permits in the EUETS, regardless of *actual* UK emissions by those sectors. This bizarre anomaly means the Climate Change Act creates absolutely no incentive for any policies (positive or negative) in those sectors, as they would have no impact whatsoever on whether the budgets are met.

The Government accepts that it is 'highly likely' these accounting rules will have to be changed anyway at the end of Phase 2 of the EUETS (in 2012), as in Phase 3 there will no longer be any 'national allocation' to record.

The Climate Change Act – designed to be the overriding framework for all UK climate policy – must have an accounting system which creates an *incentive* to deliver policies which will meet its carbon budgets.

Friends of the Earth asks MPs to:

- **Urge the Government to move immediately to an accounting system where *actual* rather than *allocated* emissions are what determine progress towards meeting the budgets in the traded sectors.**

4. Integrate other Government policy with the Climate Change Act

Some processes are not yet in place to ensure that all Government policies are compatible with meeting the carbon budgets under the Climate Change Act.

A core purpose of the Climate Change Act is that it sets an overarching framework for *all policies* which affect greenhouse gas emissions. This requires integration of the Act's carbon budgeting process with major decisions which cause greenhouse gas emissions.

Two critical tests as to whether this has been put in place will be the announcements this summer on National Policy Statements (NPS) and on reforms to carbon pricing in policy and project appraisal.

NPS are important because they will set out a framework for major decisions on infrastructure with big impacts on climate change – such as fossil fuels, transport and renewables infrastructure.

Friends of the Earth asks MPs to:

- **Urge the Government now to require DCLG to ensure that the National Policy Statements show how they are compatible with the carbon budgets;**

And, if the NPS when published are not compatible with carbon budgets:

- **Seek amendments to ensure NPS are compatible with carbon budgets when NPS are debated in Parliament this autumn.**

Carbon pricing in appraisal is important because currently, policy appraisal can result in the go-ahead for extremely carbon-intensive infrastructure projects without corresponding cuts in emissions elsewhere – as happened with the recent Heathrow third runway decision. In addition, this appraisal is currently biased against low-carbon decisions because of the use of a very low “cost of carbon” when judging the negative climate impacts of any proposal.

Friends of the Earth asks MPs to:

- **Urge the Government to commit that any reform of carbon pricing introduces new mechanisms to require that projects or policies (given the go-ahead through appraisal) which increase greenhouse emissions automatically lead to the strengthening of policies elsewhere to deliver an equivalent level of emissions cuts - so that carbon budgets are not breached.**

5. Ensure international aviation and shipping are included in the carbon budgets

MPs have rightly pressed the Government to include the UK’s share of the rapidly-growing international aviation and shipping emissions in the carbon budgets. These sectors, according to Lord Turner, Chair of the Committee on Climate Change, would - under business as usual scenarios - account for 50 per cent of acceptable global CO₂ emissions by 2050⁹. They are far too large to ignore.

The Climate Change Act says the Government must regulate to include these emissions in UK budgets by the 31st of December 2012 or explain why this isn’t possible. The Act also instructs the Secretary of State to take account of these emissions when UK budgets are set. However, in practice **the recently published carbon budgets do not account for these emissions adequately.**

⁹ <http://www.theccc.org.uk/news/speeches/94-building-a-low-carbon-economy>

International Aviation is assumed to be included in the EU's budgets (and therefore counted in the UK budget) when aviation becomes part of the EU Emissions Trading Scheme (EUETS). But this won't happen until 2012. In the meantime, some 4 years of aviation emissions are ignored (likely to be in excess of 150MtCO₂e). This affects the budgets for other sectors in those years: the Government has said that the sum of the emissions in all sectors, including international aviation and shipping, need to stay within an overall carbon budget. This means that inclusion of international aviation and shipping requires fewer emissions from other sectors¹⁰.

International Shipping is more complex because there are serious methodological issues over how to assign emissions to countries. The complexity should not prevent international shipping emissions being measured and cut. The Government should set a final date of 2012, after which it would use the most accurate method available to assess the UK's international shipping emissions, and amend carbon budgets appropriately.

Friends of the Earth asks MPs to:

- **Urge the Government to adjust the first carbon budget (2008-2012) to take account of estimates of emissions from international aviation and shipping from UK bunker fuel sales.**
- **Urge the Government to urgently research and consult on more accurate methodologies for estimating the UK's share of international shipping emissions, and set a date of 2012 for amending carbon budgets to account for these emissions.**

The rest of this briefing sets out more detail on each of these five issues.

¹⁰ For example see answer from Joan Ruddock in parliamentary debate 28th October 2008.
<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm081028/debtext/81028-0005.htm>

Section B: In-depth explanation of the five critical changes needed

1. Reduce the size of the UK carbon budgets

The level of the 2020 target and budgets is critically important because what happens in the first three budgets has a major bearing on what is achievable in later periods. In the next ten years, major investment decisions are due on power grids, power stations, airports, buildings and other major infrastructure, which will be operational for decades. The Committee on Climate Change (CCC) state that:

“The UK 2020 emission target...should reflect the importance of ensuring that investment over the next 12 years does not lock us into high-carbon capital assets which make achieving the 2050 target more difficult’ and also that ‘any path to an 80 per cent reduction by 2050 requires that electricity generation is almost entirely decarbonised by 2030’.

This will not be possible if the first three budgets are so weak that they cannot drive through the necessary policy change and institutional support for low-carbon investment.

The CCC say that an appropriate UK contribution to the 2050 global target for the first three budget periods is between 35 per cent and 45 per cent cut in greenhouse gases by 2020 and that “equal annual percentage reductions point to a cut of 43 per cent”¹¹. They say that the EU’s planned 30 per cent commitment in the event of a global deal (going beyond the current 20 per cent target) equates to a 42 per cent cut for the UK, and that therefore 42 per should be the UK’s intended target.

The UK Government’s current plan is to adopt the CCC’s interim budget of only 34 per cent (until a global deal is reached) which is way under the scale of what is needed. It did not accept the CCC’s 42 per cent intended target, but asked them to review the situation if a global deal is reached. This raises concerns that the UK Government will reject the 42 per cent target. This would mean the UK would not be taking a leadership role on climate change, it would heavily delay essential investment in low-carbon technologies and practices, and would make it much harder and more expensive for the UK to meet its long-term targets.

Moving straight to 42 per cent is the approach recently adopted by the Scottish Parliament, and strongly supported by the CCC, who said:

“The commitment to tackling climate change within the Scottish Parliament across all parties is impressive. This Bill is the most ambitious in the world. We will be working closely with the executive in Scotland to advise them on how they can meet these

¹¹ Committee on Climate Change, 2008, <http://www.theccc.org.uk/pdf/TSO-ClimateChange.pdf>, p109

targets through reducing emissions in the power sector, in transport, buildings and homes and in agriculture in Scotland”¹².

It is imperative that the interim 2020 target of 34 per cent is dropped **as soon as possible** after Copenhagen. Whether or not a global deal is reached at Copenhagen, the reality is that to prevent dangerous climate change, at least 42 per cent cuts in the UK will be needed.

The CCC have already said that 42 per cent is the appropriate target – Friends of the Earth believe that even this higher target exposes the UK and the world to unacceptable risks, for reasons set out in the section below, and that this makes the continued use of the interim 34 per cent target even more dangerous. A 42 per cent target should be seen as the **absolute minimum** required.

Going beyond 42 per cent - what is an “acceptable” risk?

The CCC recommends that the UK’s 2050 target should be an 80 per cent cut in greenhouse gas emissions. It sees this recommendation as being a pragmatic, political and ethical decision, informed by climate science¹³.

The 42 per cent by the 2020 intended target is the first staging post toward this 80 per cent target, which is itself based on an ‘appropriate contribution’ from the UK to a global pathway which sees emissions peaking in 2016, and falling at 3-4 per cent a year from then. The CCC cites modelling showing that this is predicted to see atmospheric concentrations go no higher than 500ppmv CO₂e, which is associated with a 56-63 per cent chance of global temperatures exceeding 2 degrees centigrade, a 10 per cent chance of exceeding 3 degrees, and a 1 per cent chance of exceeding 4 degrees.

The Committee is making a number of pragmatic judgements here:

- A greater than 50 per cent chance of 2 degrees is acceptable;
- The likelihood of ‘catastrophic’ climate change should be reduced to ‘very low’ levels;
- ‘Catastrophic’ is temperature rises greater than 4 degrees; and
- A ‘very low’ risk is 1 per cent.

Lord Turner, Chair of the CCC, said:

“We have described a path which we think is technically doable, at a cost to the world economy and to the UK economy which is relatively slight, which will mean that the temperature increase is almost certainly limited to a level that is not catastrophic; which is still likely to be significant – say 2 degrees to 2.5 degrees... it would always be possible

¹² <http://www.theccc.org.uk/news/ccc-newsletter/335-scottish-parliament-commits-to-cut-emissions-by-42-by-2020s>

¹³ Lord Turner, evidence to Environmental Audit Committee, 4th February 2009.

as a Committee to say ‘we’re absolutely committed to keeping the chances of going above 2 degrees to less than 20 per cent’. That would have been much tighter targets and I think that there would be two problems with them. First of all, you would have lots of people who said, ‘but that may not be optimal. It may be more sensible for the world to accept a slightly greater degree of warming and adapt to it’¹⁴.

The CCC is saying that the cost of their proposal is ‘relatively slight’. In our view if that means a high (greater than 50 per cent) chance of 2 degrees or more, then it is worth incurring extra cost, beyond ‘relatively slight’, to reduce that risk. The Government estimates that there are net benefits of £641 billion from meeting the 80 per cent target – costs of £379 billion being outweighed by benefits of £1020 billion¹⁵.

Friends of the Earth supports the work of the CCC as an independent advisory body. The CCC has set out the risks, but we believe that, based on the CCC’s expert scientific and economic evidence, **some critical ethical and political judgements are properly the responsibility of democratically elected MPs to make. We believe that deciding what constitutes ‘acceptable risk’ is a legitimate function of Parliament.**

It is our view that the CCC’s assessment of the action required in reaction to the risks they have set out involves an acceptance of too high a level of risk, for three reasons:

- A greater than 50 per cent chance of 2 degrees is a very high likelihood for something that should be avoided.
- Although 4 degrees would certainly be a catastrophic rise, in our view a 3 degree rise would also be catastrophic. 3 degrees is associated with hundreds of millions more people suffering from water shortages, and at risk from flooding, malaria, hunger and droughts, as well as major increases in the chances of catastrophic events and irreversible tipping points being passed. The 80 per cent target is linked to a 10 per cent chance of 3 degrees – a huge and completely unacceptable risk.
- A 1 per cent chance of avoiding 4 degrees may appear low, but it is not. People routinely insure themselves against far smaller risks for things which are far less catastrophic. There’s a 1 per cent chance of your house getting burgled in a year – almost everyone insures against that. There’s a 0.25 per cent chance of there being a fire (of any severity) in your house – almost everyone insures against that. The Government rightly would not accept a 1 per cent chance of a major terrorist attack; neither should it accept the same risk of catastrophes affecting all of humanity.

¹⁴ Lord Turner evidence to Environmental Audit Committee, 4th February 2009, Q6.

¹⁵ Climate Change Act 2008 Impact Assessment, page 37.

<http://www.defra.gov.uk/environment/climatechange/uk/legislation/docs.htm>

For these reasons, even the 42 per cent “intended” target is likely to involve an unacceptably high level of risk of catastrophic climate change, and 42 per cent should be seen as an absolute minimum target¹⁶.

Friends of the Earth asks MPs to:

- **Urge the Government to follow the leadership of the Scottish Parliament and move to a new ‘intended’ 2020 target and carbon budgets based on what is scientifically and ethically required: delivering at least a 42 per cent cut by 2020, with policies in place to meet this target and to deliver the far greater cuts that will be required beyond 2020.**
- **Urge the Government to make a a swift move to the strengthened ‘intended’ carbon budgets - before April 2010, rather than waiting for the EU to move to its intended target.**

2. Invest more in the UK rather than rely on offsetting

The carbon budgets are not merely too weak because they are based on a 34 per cent cut when they should be based on a greater than 42 per cent cut. They are also further weakened because of the use of offsetting loopholes – the buying-in of carbon credits from greenhouse gas-cutting projects in developing countries rather than taking action at home.

The UK’s carbon budgets allow offsetting to varying degrees (see section 2.3 below). But offsetting is a deeply flawed strategy. First, it delays urgently required emissions cuts in developed countries, increasing the likelihood of lock-in to high-carbon infrastructure. Second, it leads to lower cuts in global greenhouse gases and reduces the chances of preventing catastrophic climate change.

This section sets out:

- the case for investing in a low-carbon future in the UK rather than buying offsets;
- the policies that can achieve the 42% cut in actual UK emissions by 2020;
- the degree to which the UK carbon budgets currently allow offsetting; and
- the arguments why offsetting is flawed.

¹⁶ Professor Anderson from the Tyndall Centre set out further reasons why the current budgets are likely to be underestimated in his oral evidence to the Environmental Audit Committee, Tuesday 23rd June 2009.

2.1 Investing in UK emission cuts: good for the economy, good for the climate.

The Committee on Climate Change highlights the huge economic benefits of investing in cutting carbon emissions in the UK. There is also growing consensus that a key element of Government response to the recession should be policies that deliver investment in energy efficiency and low-carbon technologies in the UK.¹⁷ There are eight core reasons why early action on climate change makes sense, irrespective of the economic gains from reduced climate change and all the devastation which would occur. Action on climate change:

- Raises productivity

Increasing the energy efficiency across the economy saves money and so increases productivity. Productivity gains can be almost immediate - British businesses could save themselves £2.5 billion over the next 12 months if they implemented energy savings measures, according to research by the Carbon Trust¹⁸.

- Boosts investment

Sources of investment are tight during this credit-crunch recession but investment in renewable energy and low-carbon technology remains attractive. In 2006, 15 per cent of all global project finance was directed at renewables and clean technology¹⁹. In October 2008, Deutsche Bank concluded that, following the financial turmoil, the regulated markets for these technologies *“hold the promise of enormous secular[sic] growth ... and are well-suited for public equity markets and particular private markets such as venture capital”*²⁰.

- Stimulates innovation

Carbon budgets that drive domestic action to cut emissions will boost innovation both in firms selling solutions and those having to comply. Such innovation brings dramatic reductions in cost and is a major reason why so many predictions of compliance costs for new environmental regulation turn out to be overestimates²¹. The UK is well placed to benefit from this innovation boost with a good science base and British companies leading in many of the high-technology engineering sectors that have important roles to play in a low-carbon future - such as offshore engineering, fuel cells and electronics.

¹⁷ See reference 5

¹⁸ Carbon Trust, 2008. Credit crunch fails to derail green agenda – UK business puts energy efficiency at top of cost-cutting priorities. 22nd July.

¹⁹ Thomson Financial, Global Project Finance Review, 4th Quarter 2006.

²⁰ DB Advisors October 2008. Investing in Climate Change 2009: necessity and opportunity in turbulent times. Deutsche Bank Group.

²¹ The Stern Review on the Economics of Climate Change, 2006. Chapter 10.3

- Increases competitiveness in new and growing markets

The UK Low Carbon and Environmental Goods and Services Sector already has a market value of £106.5 billion²². For the sector to expand, and to expand its share of the global market beyond its current 3.5 per cent, it has to develop a strong domestic market through carbon budgets that drive cuts actual national emissions. Countries that are doing very well in these international markets, such as Germany, Denmark and Spain, base their success on strong domestic markets.

- Creates jobs

Investment in energy efficiency, renewables and other low-carbon technologies is comparatively job-rich and will create employment across the whole country, a range of sectors and covering a range of skills. In 2006, the global market for renewable energy generation products alone was estimated to sustain 1.7 million jobs²³. The UK Government estimates that there are currently 881,000 jobs in the Low Carbon and Environmental Goods and Services Sector²⁴. EU papers on its 2020 programme estimated that a 20 per cent cut in energy consumption by 2020 would bring Euro 60 billion per year in savings and create 1 million jobs in the EU²⁵.

- Reduces the balance of payments deficit

Increasing energy efficiency and the amount of renewable electricity and heat in the UK means spending less on importing fossil fuels and avoiding the price spikes and uncertainties associated with them. Delta reports that the UK's plans to meet its 2020 renewables and energy efficiency targets could save the UK up to £12 billion a year on its balance of payments, through less imported oil, coal and gas²⁶.

- Increases energy security

As oil and gas become more scarce and sourced from less-stable states around the globe, the economic risks to the UK will increase, with problems around security of supply, increasing cost and volatile, unpredictable and more frequent price spikes. Using energy more efficiently and boosting the use of renewable heat and electricity helps reduce our imports of fossil fuels and reduces our exposure to these increasing economic risks.

²² BERR, 2009. Low Carbon and Environmental Goods and Services: an industry analysis.

²³ Renewables Global Status Report 2006 Update. Worldwatch Institute, Washington DC

²⁴ BERR, 2009. Low Carbon and Environmental Goods and Services: an industry analysis.

²⁵ The Climate Group, 2007. In the Black: The Growth of the Low Carbon Economy. P24.

²⁶ Delta Energy and Environment, April 2009, A high-level assessment of the impact of renewable energy and energy efficiency development on the UK fossil fuel trade balance.

- Avoids locking the UK economy into high-carbon infrastructure

Rather than investing in the transition to a UK low-carbon future many sectors are buying in offset credits and investing in business as usual: foregoing investments in energy efficiency and building runways and coal fired power stations. This will have an increasingly high cost as carbon budgets bite, leading to increasingly stranded assets.

Investing in efficiency and renewables avoids costly new high-carbon infrastructure. For example, according to the Climate Group, in the UK, residential energy efficiency since the 1970s has saved consumers £10 billion and has prevented the generation of 28 million tonnes of CO₂ per year- as much as the combined emissions of all UK coal-fired power stations²⁷.

2.2 Stronger emissions reduction policies are possible and a good thing

The Committee on Climate Change recognised the clear option of using new policies to deliver emissions reduction in the UK, rather than importing offset credits. The Executive Summary of their first report notes that new feasible policies *'could be pursued as an alternative to the purchase of offset credits'*²⁸. However, given the time pressure the Committee were under to produce the first report they only considered a few of the wide range of policy options available in their "Stretch Ambition" scenario. This scenario is largely the same as the CCC's "Extended Ambition" which is *"broadly in line with policies to which the Government is committed in principle, but where precise definition and implementation of policy is still required"*²⁹.

The "Stretch Ambition" scenario's only additions are more progress on solid wall insulation in homes, and a variety of additional transport policies – on hybrid and electric vans, speed limits and eco-driving. Yet even these modest additions would see the non-traded sector almost reach its contribution to the intended carbon budgets that would cut emissions by 42% by 2020, without the use of offset credits³⁰ - falling just 2 MtCO₂ short.

The Committee on Climate Change recognises that there are a range of other policies that are either worthy of consideration or have a significant role to play they have not yet studied in detail. Below are example from three areas, buildings in the non-traded sector (which includes carbon saving estimates and costings from CCC), transport and the traded sector. Combined, these show that it will be entirely possible to go beyond the 34 per cent target, to 42 per cent and more.

²⁷ The Climate Group, 2007. Op Cit.

²⁸ CCC, 2008. <http://www.theccc.org.uk/pdf/7993-Climate%20Change-ExecSumm-WEB-BMK.pdf> Executive Summary p15

²⁹ CCC, 2008. Op cit. page xxvii

³⁰ The CCC state that to meet the intended budget, 61 MtCO₂ of emissions reductions are needed by 2020 compared with 2013 levels, for the non-traded sector. They state that the "Extended Ambition" scenario delivers 47 MtCO₂, and the Stretch Ambition delivers 59MtCO₂ – just 2MtCO₂ short.

Buildings

Below we set out additional policies which deliver more than 20 Mt CO₂ extra cuts by 2020, at a cost far below the CCC's estimate for a central carbon price by 2020 (£40 per tCO₂). The total cost of these extra policies, using the CCC's figures, is £350million, a cost of £17 per tCO₂:

		Extra savings (MtCO ₂)	Notes
Homes	Solid wall insulation	3.7	7 million households have solid walls needing insulating. The stretch scenario assumes only 2 million are done – an extra 2 million would deliver a further 3.7 MtCO ₂ savings.
	Efficient boilers	2	CCC say that efficient boilers “offers savings at low cost, not included in our stretch scenario, worthy of further consideration”
	Thermostats down one more degree	5.5	Would bring average home temperature to the same level as 1993. Hardly an era of shivering austerity. Still two degrees higher than in 1986.
	Renewable heat technologies	3	Savings of 24 MtCO ₂ possible, extended and stretch scenarios save 10MtCO ₂ .
Other buildings	Energy efficiency	2	11 MtCO ₂ savings possible at zero or negative cost, 4 more at less than £40 a tonne. 8 MtCO ₂ savings are in extended and stretch scenarios. 7 more are possible at very low cost with extra policy support: 2 assumed here.
	CHP	3	CCC say 8 Mt is possible, but only model 1 Mt CO ₂ , which they say “may understate potential”. CCC say 4 MtCO ₂ is possible below £40 a tonne.
	Renewable heat technologies	2	Technical potential is 18MtCO ₂ , 2 is assumed in extended/stretch, a lower ratio than in residential sector, where capital costs are a bigger problem. A further 2 Mt still leaves 78 per cent of potential undeveloped.

Transport

Three areas for action to cut emissions from surface transport were not considered in detail in the Stretch Ambition scenario. These were:

- shifting modes of travel (eg air to rail or car to bus or cycle)

- regulating access to the road network (such as bus lanes and pedestrianisation)
- reducing demand (eg by cutting back on new roads and introducing road charging)

The CCC has said that it intends to carry out further work in this area to estimate possible emissions cuts.

Below are examples of policies already in use that can be expanded to deliver substantial emissions savings in the UK, together with comments from the Committee on Climate Change on their potential and estimates of potential savings taken from other sources

Policy objective	Policy examples	CCC comments
Modal shift	<p>Smarter Choices agenda (work and school travel plans, awareness and information campaigns and car sharing schemes)</p> <p>Increase investment in rail/tram/bus infrastructure and provision.</p>	<p><i>“If even modest shifts in traffic volume away from high-carbon intensive modes could be achieved useful levels of emissions reduction would result”</i> p290.</p> <p>A national roll-out of the TravelSmart³¹ programme would cut car trips by 10% and emissions by 3.3 MtCO₂ a year at a cost of £20 per household³².</p> <p>Company travel plans have reduced car use for commuting by an average of 18 per cent³³ – much greater uptake could lead to major emissions cuts as commuting accounts for a quarter of emissions from passenger transport.</p> <p>Analysis of case-studies estimates that 40 per cent of current car journeys could be moved to other modes without the need for changes to existing bus services, cycle routes etc, and a further 40 per cent could be shifted if alternatives were improved³⁴.</p> <p>Shifting all London-Scotland air journeys to rail would deliver 0.7MtCO₂ abated and increasing</p>

³¹ TravelSmart is an existing programme which works with households offering tailor-made information and support, helping people to walk, cycle and use public transport more often.

³² http://www.sustrans.org.uk/assets/files/travelmart/behaviour_change_ff36.pdf

³³ <http://www.dft.gov.uk/pgr/sustainable/travelplans/work/ngtravelplansworklessons5783.pdf>

³⁴ Sloman, L, 2006. Car Sick. Green Books.

		rail and bus travel by 50% from their current levels would deliver 1.5MtCO ₂ abated ³⁵
Regulate access to the network	Designated road network and town centre access (bus and cycle lanes, pedestrianisation, restricting access at specific times and parking control)	<p><i>“Network access and land use planning ...could potentially result in deep emissions cuts both within and beyond the first three budget periods”</i> p294</p> <p>The Government has estimated that there is potential for 16 per cent reduction in emissions over a 20 year period through land-use policies in association with transport measures³⁶.</p>
Reduce demand	<p>Congestion/road user charging</p> <p>Cut road building</p>	<p><i>“Unconstrained growth of capacity is not economically desirable and that road pricing is likely to have a significant role to play both in city centre environments (congestion charges) and on motorways”</i> .p295</p> <p>IPPR estimate that a revenue-raising national road pricing scheme could cut road transport emissions by 8 per cent³⁷.</p>

Traded sector (mainly electricity generation and heavy industry)

In the traded sector , 114 MtCO₂ of emissions reductions are needed by 2020 compared with 2013 levels in order to meet the intended budget. The “extended ambition” scenario assumes a 2020 carbon price of £40 tCO₂ via EUETS based on an EU 30 per cent target, one CCC demonstration plant, and a successful Renewable Energy Strategy delivering 30 per cent of electricity from renewables by 2020. This delivers cuts of 73 MtCO₂. There are no additional policies set out in the “Stretch Ambition” scenario.

The EU-mandated renewables target legally requires the UK to produce 15 per cent of its energy from renewable sources by 2020. The UK currently sources only 1.8 per cent of its energy from renewables but in response to the target has initiated – but not yet begun to implement - a major shift in policy in the traded sector. In order to deliver on the intended budget the Government will need to not only deliver on the policy changes proposed but go beyond them.

At the European level the EU ETS itself also needs to be strengthened. The Government has many policies in the traded sector beyond EUETS – and many of these could be strengthened.

³⁵ CCC, 2008. Op. cit. p291 assumes all extra rail and bus journeys replace car travel.

³⁶ Cited in <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmenvaud/981/981we60.htm>

³⁷ <http://www.ippr.org/press/files/InthefastlaneJuly04.pdf>

Indeed, the EUETS itself could be strengthened. Recent analysis of the impact of the recession has shown that the cost of meeting a stronger EUETS target, based on a 30 per cent EU reduction by 2020, has halved, and that the cost is now 33 per cent lower than the estimated cost last year of meeting the current³⁸ EUETS target³⁹. As costs have lowered so much, this is a strong argument for the EU adopting a stronger than 30 per cent target when it reviews EUETS post Copenhagen.

The table below sets out some established policy options for the traded sector that offer the opportunity to meet the intended budget without the use of offset credits.

Policy option	Comment
Climate Change Levy (CCL) – agreements negotiated by sectors to claim 80% exemption from the CCL are up for renewal and can be tightened considerably – this should be augmented by an increase in the rate to encourage agreement.	The CCC is considering taxation options that can work with EU ETS. The CCL is estimated by Treasury to reduce energy demand in the business and public sector by nearly 15 per cent per year in 2010. The Negotiated agreements tax break cost the Treasury £280m in 2008-09 but are estimated by Treasury to induce £1billion on investment in CHP alone following the agreements being extended to these schemes ⁴⁰
Ensure that the energy regulator Ofgem is reformed so that its main responsibility is to drive the transition to a low-C future.	As regulator of an energy market that urgently needs to be transformed to deliver a low-carbon economy, OFGEM must be reformed to be fit for purpose.
Strengthen and extend high voltage network to allow expansion of offshore renewables	UK’s huge natural resource for wind, wave and tidal renewables urgently requires connections available to the grid.
Information technology infrastructure to allow smart grids to work at the local level	Investment in Smart grids is essential for both the needed revolution in microgeneration in homes and businesses and greater energy efficiency
Establish a Green development bank to finance renewable expansion ⁴¹	It will crucial over the next decade that finance for low-carbon investment is both sufficient and reliable.
Open up the UK energy system to decentralised energy at all scales –	The UK energy system is currently “locked in” to a large scale, centralised energy system

³⁸ The current EUETS target is a 21 per cent reduction on 2005 levels by 2020, as part of a total EU package for all sectors of a 20 per cent cut on 1990 levels by 2020. The EU has committed to a 30 per cent total cut in the event of a global climate deal.

³⁹ New Carbon Finance, 2009. Recession lowers cost of EU Emissions Trading Scheme by a half. *20th March*. http://www.hm-treasury.gov.uk/d/Budget2009/bud09_chapter7_193.pdf, Table 7.1 and Box 7.2

⁴¹ See paper by Climate Change Capital and E3G, at http://www.foe.co.uk/resource/briefings/green_financing.pdf

house, Local Authority, region and city wide.	which fails to exploit the full range of low-carbon technologies available.
Create a genuine industrial strategy that will establish skills and manufacturing capacity in the UK	There is an urgent need to address shortages in the supply chain for renewables , particularly wind power.
Government should maximise efficiency of fossil fuel generation by ensuring strategic siting of new electricity generation near to existing and future heat loads.	Government should, where feasible, create district heating networks at existing power plants. Local authorities should map current and future heat demand in their area, and the assessment of heat capture potential should become a planning condition on all new power stations.

Stronger policies in the traded sector can also deliver:

- Further efficiency gains through less home electricity use in lights, appliances
- Further efficiency gains through less electricity use by industry, commerce, public sector
- Greater uptake of microgeneration – solar-voltaics by industry, commerce, public buildings
- Greater uptake of CHP

2.3 How much offsetting is allowed in the UK carbon budgets?

For the purposes of the UK budgets, the rules on offsetting are different for the traded and non-traded sectors. For the **non-traded** sector, the current Government plan is to have no offsetting in the first budget period. This is a weaker position than in the CCC’s advice, which said no offsetting in the first three budget periods.

This position is further weakened, as ‘no offsetting’ turns out to have two get-out clauses: offsetting is allowed for firms covered by the new Carbon Reduction Commitment⁴²; and it is allowed as an insurance policy if it looks like carbon budgets will be breached (instead of the alternative of simply strengthening policy). This is particularly weak of the Government, given that the budget for the first period is not stretching, being entirely determined by what existing policies are. It is literally a business-as-planned Budget for the first five years.

The CCC are also recommending that if the EU does adopt a 30 per cent 2020 target, the UK should move from an ‘interim’ to ‘intended’ budget, but the entirety of that extra effort can be bought via offsetting. This is an unacceptable position, as the EU 30 per cent target is based on global effort which requires action from developing countries *as well as*, not *instead of* EU action (see section 2.4 below).

⁴² The CRC is a cap and trade scheme due to start in 2010 for large energy users not covered by EUETS or Climate Change Agreements. <http://www.carbontrust.co.uk/climatechange/policy/CRC.htm>. The exemption is set out in footnote 4, page 23 of http://www.hm-treasury.gov.uk/bud_bud09_carbon.htm

For the **traded** sector the situation is more complicated. Firstly, at present the UK accounting regime is to count allocated EUETS permits against the budget rather than actual emissions (see section 3 below). This bizarre decision means it does not make any difference to the UK carbon budget how many emissions the UK's power stations actually emit, or how many carbon permits, offsets or otherwise, they buy. Cutting through this accounting fog, it is extremely likely that UK emissions in the traded sector will be much higher than allocated emissions, and that offsetting will make up much of the difference.

The CCC accept that too much offsetting is a bad thing, but they state that '*As long as the EUETS total emissions target is adequately tight (and with appropriate limits on offset credit purchase into the EUETS) emissions reductions will be achieved within Europe, and new technologies for energy efficiency and renewable energy will be developed*'⁴³. But this is not the case – emissions reductions will largely NOT happen within Europe. EUETS is awash with offset credits – its rules allow 50 per cent of all required emissions reductions to 2020 to be made by offsetting.

UK firms, as net purchasers of EUETS credits, will be buying counterfeit credits – for example if UK firms have bought up to their offset limit, there is nothing to stop German firms buying offset credits and selling on 'equivalent' EU allowances to UK firms – this will make financial sense for them as CERs are cheaper than EUAs. The EUETS is not a closed system guaranteeing EU carbon cuts – because of the high allowance of offset credits the UK will be effectively buying further offsets when it purchases EU allowances.

The bottom-line is that the UK's reliance on offsetting significantly minimises the effort required in the UK, heavily reducing the incentive to decarbonise the UK economy.

2.4 Flaws with offsetting

Offsetting allows developed countries to meet part of their emissions reduction targets by paying developing countries to deliver greenhouse gas reduction projects.

The first problem with this, highlighted above, is that offsetting is delaying action in the UK, resulting in lock-in to high-carbon infrastructure, at high economic cost. But there is a further major problem with offsetting – which is that, from a global climate change perspective, **it does not work**, as this section sets out.

For a start, there are major (and largely insurmountable) problems with verifying whether offsetting projects represent genuine emissions reductions⁴⁴. However, irrespective of verifying reductions, offsetting still results in **smaller** emissions cuts than if the developed country had just acted itself. This is because offsetting is intended as a **swap** of an emissions cut in a developed country for a cut in a developing country, when cuts in **both** are required.

⁴³ CCC, 2008. Op cit. P160.

⁴⁴ http://www.foe.co.uk/resource/briefing_notes/dangerous_distraction.pdf, section 4

Mike O'Brien, then Government Minister of State for Energy, said on 2nd June 2009 that: *"The 30 per cent target which the EU has adopted was adopted in line with the IPCC recommendation that we needed to be, in Annex 1 terms, within the 25-40 per cent range by 2020"*. This IPCC recommendation requires these developed country cuts **in addition** to 'deviations from baselines' in developing countries.

The IPCC is saying that action is needed in **both** developed and developing countries. But in practice developing country action is being used – via offsetting – to reduce the amount of effort taken in the EU. This is no small issue – in June 2009 Minister Mike O'Brien highlighted that 50 per cent of the emissions reductions required in the EU between 2008 and 2020 via the EUETS can be made via offsetting. For non-EUETS sectors, the EU figure is even higher.

Offsetting and financial flows to developing countries

Financial support for developing countries is a central part of any fair and effective international agreement, but developed countries must make this financial support available, at far higher levels than at present, without this support being conditional on developed countries getting credits to avoid them having to take action at home.

An often quoted argument in favour of offsetting is that it delivers much needed financial assistance to developing countries to help their transition towards low carbon economies. However, there are two major flaws with this argument.

First, the majority of financial transfers through the Clean Development Mechanism (CDM), the main means of offsetting, are not going to activities which help countries to travel down a low carbon path⁴⁵ – they are either directly funding fossil-fuel intensive sectors, or going to projects not involving new technologies⁴⁶.

Second, even if it were reformed to prevent this, the scale of the credits is not sufficient. **CDM flows from the whole of the EU are likely to be less than \$5 billion a year to 2020**, this is around a tenth of a fair EU contribution to global mitigation costs alone, as estimated by the United Nations and a 20th of the global fund recently proposed by the Prime Minister⁴⁷. Offsetting is not the answer to financing mitigation in developing countries, but it is a major cause of delays in essential action in developed countries.

⁴⁵ http://www.foe.co.uk/resource/briefing_notes/dangerous_distraction.pdf, reference 76

⁴⁶ For example, credits to chemical industries for destroying HFC and N₂O gases

⁴⁷ Road Map to Copenhagen Speech. <http://www.number10.gov.uk/Page19813> 26th June 2009.

Friends of the Earth is calling on MPs to:

- **In the run up to Copenhagen, support calls on the Government to commit the UK to meeting our international climate change obligations through domestic cuts without recourse to offsetting.**
- **Urge the Government to commit to meeting all of its UK carbon budgets through domestic action, in all budget periods, without recourse to offsetting, Immediately after Copenhagen.**

3. Close the accounting loophole - in which actual emissions are not counted

There is an accountancy loophole whereby the Act creates no incentive for strong policies in sectors responsible for over 40 per cent of emissions.

In the ‘traded’ sector (those sectors covered by the EU emissions trading scheme – around 40 per cent of emissions) the progress on the UK carbon budget is judged solely by the UK’s allocation in the EUETS, regardless of actual UK emissions by those sectors. This bizarre anomaly means the Act creates absolutely no incentive for any policies (positive or negative) in those sectors, as they would have no impact whatsoever on whether the budgets are met.

The Government accepts⁴⁸ that it is “highly likely” these accounting rules will have to be changed anyway at the end of Phase 2 of the EUETS (in 2012), as in Phase 3 there will no longer be any ‘national allocation’ to record.

It is also easier to simply count actual emissions – this is what the UK does already in its annual reporting of greenhouse gas inventories to the UNFCCC, which does not look at net credit purchase at all.

The Government’s first argument for recording allocated emissions is that the EUETS is a capped scheme, so additional cuts in the UK would simply mean more emissions elsewhere in the EU, as the overall cap remains constant. However, this is irrelevant. The Act is about UK not EU emissions, and bringing UK emissions down. Indeed, policies bringing UK emissions down in the traded sector would be financially good for the UK as they would be able to sell permits to other EU nations.

The Government’s other argument for recording allocated emissions is that to do otherwise would reduce the incentive for the UK to argue for stronger caps in future EUETS periods. First, the Climate Act’s budgets are predicated on the belief that there must be adequate EU and global progress on climate change, of which UK emissions are a small but important part. In this

⁴⁸ DECC, 2009. Guidance on carbon accounting and the net UK carbon account. P1

context, the UK would need to be arguing for a stronger EUETS cap in any case, to achieve the overall goal which the UK's 80 per cent is intended to help – ie preventing dangerous climate change. Counting allocated or actual emissions should have no effect on the UK's negotiating strategy.

However, even if it is assumed using recorded emissions *does* have an impact, then the political reality is that choosing to count allocated emissions would be more likely to result in weaker, not stronger, UK lobbying. This is because actual emissions in the UK are very likely to be higher than allocated emissions. The political reality is that it is harder for countries with higher emissions to lobby for lower caps, because of lobbying from carbon-intensive sectors in those countries.

The cynical interpretation of the Government's insistence on this bureaucratic and bizarre accounting system is that it will be much easier to meet the UK carbon budgets this way – as literally nothing is required of the UK. However, the Government has accepted on many occasions that the EUETS cannot successfully decarbonise these sectors on its own. Other policies are essential, and the Climate Change Act – as the overriding framework for all UK climate policy – must have an accounting system which creates an *incentive* to deliver these policies and measure their success against the carbon budgets.

Friends of the Earth is calling on MPs to:

- **Urge the Government to move immediately to an accounting system where *actual* rather than *allocated* emissions are what determine progress towards meeting the budgets in the traded sectors.**

4. Integrate all Government policy with the Climate Change Act

Lord Turner said recently of the carbon budget: *"I think there does need to be a process in Government for them to say: 'how do we make sure that the totality of the machinery of Government in all of its departments will make sure that it meets this?'"*⁴⁹.

This summer there are two critical markers as to whether this machinery is being put in place: implementation of the new Planning Act; and reform to the system of carbon pricing in policy appraisal.

National Policy Statements (NPS) under the Planning Act cover many areas central to the carbon budgets, for example fossil fuel and renewable power generation, and transport infrastructure. Decisions made now on this infrastructure will determine whether a low carbon economy can be delivered in the UK. NPS under the Planning Act are due to be published from this summer.

⁴⁹ Lord Turner evidence to Environmental Audit Committee, 4th February 2009, Q19.

The Department of Communities and Local Government (DCLG), which has oversight role for NPS, has not clearly committed to saying that NPS will not be automatically assessed for carbon or that the NPS will be compatible with carbon budgets. Exactly how it will be ensured that the system under the Planning Act delivers on the carbon budgets remains very unclear. This lack of clarity is of particular concern because there is no statutory duty on the new Infrastructure Planning Commission to consider climate change in making final decisions on new infrastructure. It is still far from clear that an NPS will only be adopted if it is clear that it is consistent with the CCA policy package and that it will not (and will not be capable of) undermining delivery of the carbon budgets.

We suggest that in addition the new Infrastructure Planning Commission applies a presumption in favour of projects consistent with their sector's trajectory towards meeting the carbon budgets, and a corresponding presumption against developments which are inconsistent with these trajectories.

Friends of the Earth asks MPs to:

- **Urge the Government now to require DCLG to ensure that the National Policy Statements show how they are compatible with the carbon budgets;**

And, if the NPS when published are not compatible with carbon budgets:

- **Seek amendments to ensure NPS are compatible with carbon budgets when NPS are debated in Parliament this autumn.**

A second issue is how carbon pricing in appraisal is made compatible with carbon budgets. In the past carbon impacts of a proposal are something which can be traded off against all other impacts in the final decision. Under carbon budgets however, if a carbon-intensive proposal goes through, there will need to be a mechanism in place to ensure that such carbon increases are matched by equivalent cuts elsewhere. This does not fit with the current use of the 'Shadow Price of Carbon' as the main tool for appraising policies' climate change impacts.

Friends of the Earth asks MPs to:

- **Urge the Government to commit that any reform of carbon pricing introduces new mechanisms to require that projects or policies (given the go-ahead through appraisal) which increase greenhouse emissions automatically lead to the strengthening of policies elsewhere to deliver an equivalent level of emissions cuts - so that carbon budgets are not breached.**

5. Ensure international aviation and shipping emissions are included in the Carbon Budgets

MPs have rightly pressed the Government to include the UK's share of the rapidly growing international aviation and shipping emissions in the carbon budgets: EDM 2233⁵⁰, calling for international aviation and shipping to be included, was signed by 115 MPs.

These sectors, according to Lord Turner Chair of the Committee on Climate Change, would under business as usual scenarios account for 50 per cent of acceptable CO₂ emissions by 2050. They are far too large to ignore.

The Climate Change Act says the Government must regulate to include international aviation and shipping emissions in UK budgets by 31st December 2012 or explain why this isn't possible. The Act also instructs the Secretary of State to take account of these emissions when UK budgets are set. However, in practice the recently published budgets do not account for these emissions adequately.

International Aviation is assumed to be included in the EU's budgets (and therefore counted in the UK budget) when aviation becomes part of the EU Emissions Trading Scheme (EUETS), but this won't happen until 2012. In the meantime, some 4 years of aviation emissions are being ignored - likely to be in excess of 150MtCO₂e.

Ignoring these emissions affects the budgets for other sectors in those years: the Government has said that the sum of the emissions in all sectors, including international aviation and shipping, need to stay within an overall budget – meaning that inclusion of international aviation and shipping requires fewer emissions from other sectors⁵¹.

Post 2012, the methodology to be used to allocate EU ETS aviation emissions to member states has yet to be decided. Under the Kyoto Protocol, the UK reports international aviation emissions based on 'bunker fuels' sales; these are an accurate reflection of emissions from all departing flights from UK airports and should be used to adjust the UK carbon budgets in the meantime.

International Shipping is more complex, because there are serious methodological issues over how to assign emissions to countries. International Shipping is not in the EU's budgets, nor are there any firm proposals to include it in them. 'Bunker' reporting is not an accurate assessment of the UK's shipping emissions – in fact it is likely to be a considerable underestimate.

Recent work by the Tyndall centre using the UK's per cent of global GDP put UK shipping emissions at 30Mt CO₂e (2006 Bunkers reporting = 6.8MtCO₂e). Work to provide a more accurate estimate must take place urgently. However it is better to use an estimate that can be

⁵⁰ Climate Change Bill (2): <http://edmi.parliament.uk/EDMi/EDMDetails.aspx?EDMID=36583&SESSION=891>

⁵¹ For example see answer from Joan Ruddock in parliamentary debate 28th October 2008.

<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm081028/debtext/81028-0005.htm>

adjusted later than the current practice of ignoring them completely for the purpose of UK carbon budgets.

The international context

The International Civil Aviation Organisation (ICAO) and the International Marine Organisation (IMO) were given responsibility under the 1997 Kyoto protocol for limiting and reducing emissions from international aviation and shipping respectively. They have failed to do this in the interim 12 years and there is now insufficient time for them to agree policies before COP15 in Copenhagen to achieve this. In addition, the issue of how to allocate these emissions to nation states remains stalled within UNFCCC. It will be challenging to resolve these issues before any successor to the Kyoto protocol starts in 2013.

Friends of the Earth asks MPs to:

- **Urge the Government to adjust the first carbon budget (2008-2012) to take account of estimates of emissions from international aviation and shipping from UK bunker fuel sales.**
- **Urge the Government to urgently research and consult on more accurate methodologies for estimating the UK's share of international shipping emissions, and set a date of 2012 for amending carbon budgets to account for these emissions.**

Conclusion

Friends of the Earth believes that with the five reforms outlined above, the Climate Change Act and its carbon budgets will become a strong framework for decarbonising the UK economy and preventing catastrophic climate change – ends which so many MPs have worked very hard to deliver through their work in campaigning for a strong Climate Change Act. These reforms are the last set of hurdles to jump for the Act, and we hope that MPs will continue to press Government to make these changes. The first opportunity to do so is to press the Government to ensure the forthcoming National Policy Statements are made compatible with the carbon budgets.

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