

CCSA Response to the International Trade Select Committee – ‘Trade and the Environment’ Call for Evidence

1. The Carbon Capture and Storage Association (CCSA) is pleased to provide a response to the International Trade Select Committee: ‘Trade and the Environment’ call for evidence. The CCSA brings together a wide range of specialist companies across the spectrum of Carbon Capture, Utilisation and Storage (CCUS) technology, as well as a variety of support services to the energy sector. The CCSA exists to represent the interests of its members in promoting the business of CCUS and to assist policy developments in the UK, EU and internationally to support the commercial deployment of CCUS.

What might be the impacts of measures introduced by the UK’s trading partners designed to reduce reliance on carbon-intensive fossil fuels – for example carbon border adjustment mechanisms – on UK trade? And what could a UK carbon border adjustment mechanism mean for its imports and exports?

2. The UK Government has committed to deploy two Carbon Capture Utilisation and Storage (CCUS) clusters by mid-2020 and a further two by 2030. By deploying CCUS at scale, the UK is well placed to be a lead producer in Europe’s decarbonised products market. The introduction of carbon border tariffs will help to demonstrate the value of the carbon footprint of UK goods. By deploying CCUS and hydrogen at scale in the UK, we have a good opportunity to produce goods which when compared to international neighbours will have a low carbon footprint and lead this market
3. It is therefore in the interests of the UK Government to consider the benefits that a Carbon Border Adjustment Mechanism (CBAM/BCA) can bring including:
 - a. Ensuring that the UK is on track for net zero emission goals
 - b. Enabling export of high value decarbonised products
 - c. Stimulating domestic growth and avoiding carbon leakage from the UK
 - d. Establishing the UK as a global leader in industrial decarbonisation technologically and from a regulatory and policy perspective
4. The introduction of a CBAM has also been proposed in the European Commission’s Fit for 55 European Green Deal Package. To facilitate access to European markets for decarbonised UK products, alignment of any potential UK and EU CBAMs would be necessary.
5. Should CBAMs be introduced, it is crucial that from the outset, the international transport of CO₂ for the intention of permanent geological storage should be exempt from the CBAM. Any early communication on the treatment of permanent CO₂ storage in an EU and UK CBAM would provide industry with regulatory certainty for cross-border projects which interact with international neighbours outside of the EU and the EEA.
6. There are a number of advantages that a UK carbon border adjustment mechanism could have on UK imports and exports:
 - a. CBAMs include the cost of carbon in the market price of products, thus could incentivise consumers to switch to lower carbon products. This in turn may lead to the attraction of a range of low carbon goods to the UK, creating a market for such products and furthering net zero ambitions.

- b. BCAs can raise revenue for government
 - c. The introduction of CBAMs across multiple countries, for example across the UK and Europe could help to reduce 'carbon leakage' by producing a stronger incentive for producers to remain in their jurisdiction, because they would not have to pay additional carbon pricing on importing/exporting products.
 - d. By reducing the risk of carbon leakage out of the UK, BCA's would make the UK ETS more robust to higher prices and help to enable tighter caps. BCA's can also continue as the caps reduce and free allowances become scarcer, as they price emissions rather than subsidising free allocations.
7. However, whilst the above points are valid there are also a number of barriers which would need to be addressed in the design and implementation of a CBAMs:
- a. Significant administrative infrastructure would need to be developed in order to track imports at the border and their carbon content
 - b. Gain co-operation from industry and exporting countries to ensure they don't avoid CBAMs by rerouting productions through markets without CBAMs, which increases carbon leakage or avoiding CBAMs by exporting semi-finished goods.
 - c. Ensure there is compatibility with the World Trade Organisation (WTO) rules.
 - d. Addressing how BCA's can be used in conjunction with free allocations as part of the UK ETS, ensuring there is no overlap on the same proportion of emissions, to avoid surplus profits to producers.

What can the UK learn from how other countries' experiences of aligning trade and environmental policies? How have other countries innovated in this area?

8. The alignment of trade and environmental policies will be important to the successful deployment of a world leading UK CCUS industry, ensuring the UK can reach its net zero goals, stimulating innovation and development and establishing export opportunities in skills and services in the CCUS sector.
9. A number of reports including, EINA CCUS report¹, AECOM Next Generation Technologies report² and the CCSA CCUS Supply Chain Excellence report³, indicate that CCUS capture technologies present a significant potential export opportunity for the UK. In order for the UK to capitalise on this opportunity, environmental policies will need to provide a regulatory framework which can stimulate innovation and development, whilst retaining product IP protection and working within the boundaries of a known and robust environmental criteria that can be scrutinised by the public.
10. A framework which allows both of the above is crucial because if companies are not able to retain the IP of innovative capture technologies, there is a strong risk they will not view the UK as an attractive region for development or platform for global growth. This in turn will likely result in the UK not developing global excellence in capture

¹ Energy Innovation Needs Assessment – CCUS, 2019

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/845655/energy-innovation-needs-assessment-ccus.pdf

² AECOM Next Generation Capture Technologies Interim Report, 2021 [60666122-WP2-RP-001 Next Generation Carbon Capture Technology Review Rev P3 2021-12-17 \(ukccsrc.ac.uk\)](https://www.ukccsrc.ac.uk/60666122-WP2-RP-001-Next-Generation-Carbon-Capture-Technology-Review-Rev-P3-2021-12-17)

³ Supply Chain Excellence for CCUS, 2021

<https://www.ccsassociation.org/all-news/ccsa-news/ccus-supply-chain-report-showcases-major-uk-opportunity/>

technologies and skills, which can be exported. This will cause the UK to lose trade and export opportunities, as well as being in direct contradiction of net zero objectives, by not creating a framework to allow the best capture technologies to develop and remove the most CO₂ emissions.

11. An example of where environmental policies and CCUS are aligned and have worked successfully is in Norway, where they have been successfully capturing CO₂ and developing novel capture technologies within a rigorous environmental framework for more than 25 years.

What opportunities are there for the Government to innovate to create more opportunities for “green” goods and services to export, to decarbonise and green supply chains?

12. The global CCUS business is expected to grow into a multi-billion pound market. It provides the UK with an excellent opportunity to move first and at scale in order to capitalise on exporting CCUS knowledge and expertise internationally. With a UK CCUS industry in production, the UK will have the ability to provide green products for export and trade including digital products and services from Engineering, Procurement and Construction Management (EPCm) contractors and lead the way on green product labelling.
13. In order to unlock international opportunities, the UK must first demonstrate domestic expertise in the deployment of CCUS at scale. To do this are a number of key actions from Government which are required to develop a strong pipeline of UK projects:

I. *Clarity on future cluster sequencing phases and infrastructure development*

- a. Outside of the CCUS Track-1 and Phase-2 process for CCUS deployment, there is little clarity on the future allocation process and timelines for both the next stage of infrastructure development (Track-2) or future opportunities to access announced infrastructure. It is critical that industry can see the forward timeline for these processes to allow for applications in keeping with business timelines. At the moment, for unsuccessful clusters and capture projects, the forward timelines are unknown, without clarity this will prevent projects and the supply chain materialising.

II. *A long-term funding envelope to support the business models*

- a. It is critical that the CCUS industry is supported by a long-term funding framework, detailing future allocation rounds, through the business models. The Government has committed to outlining a funding envelope for industrial carbon capture and hydrogen in 2022, and it is critical that this funding level is proportionate to allow projects to come forward to access funding out to 2030. The CCSA analysis on the Economics of UK CCUS in 2021 noted that a funding framework is the largest gap in CCUS success compared to the deployment of offshore wind⁴.
- b. Without a proportionate framework in place, a strong pipeline of projects would not materialise as companies will not be able to justify investment with an uncertainty around the business model funding envelope throughout the contract.

III. *A clear funding framework mapped against the deployment timelines for projects*

⁴ CCSA 2021. Economic analysis of UK CCUS
<https://www.ccsassociation.org/wp-content/uploads/2021/07/Economic-Analysis-of-UK-CCUS-June-2021-executive-summary.pdf>

- a. It is vital that for FOAK and early CCUS projects, companies are supported by a funding framework which can facilitate projects and technologies to move to deployment and market. As CCUS can potentially cover so many applications and sectors, funding has the potential to become segmented and disjointed. If this funding timeline presents funding gaps, projects may struggle to pass internal investment decisions, preventing projects moving towards deployment.

IV. ***Cross Departmental Collaboration***

- a. One key enabler of UK CCUS and UK export opportunities is the collaboration and coordination of resources across Government department. There is an opportunity for projecting bodies such as UK Export Finance to work closely with developing CCUS projects to ensure they are successful, as well as to help CCUS projects identify export opportunities and support these going forward. The UKEF has the ability to work closely with the CCUS clusters to provide this springboard for export of UK technology, financing, as well as export of UK skills and expertise.