Written evidence submitted by the Chemical Industries Association (CIA) (NZG0008)

Net Zero Governance

Question 1 - What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?

1. The Industrial Decarbonisation Strategy, published on 17 March 2021, recognises the need for a strategic approach to industrial decarbonisation. The strategy outlines a number of policies and subsidies that are required for UK industry to reach net zero whilst remaining internationally competitive. BEIS must now work with Treasury to ensure funding is forthcoming, and with other departments to ensure government action is streamlined and achieves value for money.
2. For example, we now have the UK's hydrogen strategy. Hydrogen has great potential for the decarbonisation of high heat industries like chemical manufacturing, but also for the decarbonisation of heavy transport (e.g. HGVs, trains, planes and shipping). We would expect DfT and BEIS to work together on the roll out of hydrogen, to find synergies and reduce the overall cost to the taxpayer from decarbonising both sectors.
3. The Cabinet Committee on Climate Change and Industrial Energy Stakeholder Forum are good steps towards a joined-up approach from government, but there is a need to go further. A successful approach to industrial decarbonisation would see BEIS work hand-in-hand with the Treasury, other relevant departments and the energy regulator, Ofgem.

Question 1 (a) - Are the Government's existing net zero governance structures effective in this role, both in terms of coordination across Whitehall, and coordination with the devolved administrations and local and regional authorities?

4. No. A cumulative burden of energy and climate change policy threatens to overwhelm UK industry. Industry is currently facing significant and detrimental reform of energy and carbon pricing schemes. The complex cumulative cost impact of policy on our manufacturing industry remains poorly understood by government. It is not managed strategically - as in Germany for example - and, as a consequence, acts as a significant and growing deterrent to industrial investment in the UK. A look at the numerous extant energy and greenhouse gas (GHG) reporting and pricing schemes that apply to industry demonstrates the point (paragraph 8), but this is the tip of the iceberg. The government should use our break from the EU to reassess this overlapping and inconsistent palimpsest of UK climate policy and move towards a streamlined and effective regime.
5. One major hinderance to decarbonisation efforts is that the funding pots available to industry are not well-aligned, making it difficult for businesses to plan for the significant projects that will be required for net zero. For example, a site may wish to apply to the Industrial Energy Transformation Fund to help fund a comparatively more expensive hydrogen-ready boiler, to replace their current boiler at end of life. However, they would not be able to justify the investment without the hydrogen business model subsidy support scheme required to roll-out the necessary hydrogen infrastructure. This is not expected until

2022. Furthermore, cluster decarbonisation sequencing proposals mean that some sites may not have access to clean fuel infrastructure before 2030.

6. In terms of coordination between central government and devolved administrations, climate change is considered a devolved issue and so robust engagement is required to ensure measures to support the transition are complimentary and value for money. If devolved administrations move in a different direction to government with regards to support for key technologies like hydrogen and carbon capture, then the business case for investment within the UK could be undermined.

Question 1 (b) - What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?

7. No comment.

Question 1 (c) - What metrics should the Government use to measure their progress towards net zero?'.

8. In terms of measuring progress on industrial decarbonisation, there is a lack of alignment between policy teams even within departments. For example, BEIS has recently proposed introducing a 'performance-based policy framework in large industrial buildings', which would require businesses that fall within scope to report energy consumption and GHG emission data. This comes on top of five existing reporting schemes that chemical operators in the UK comply with: the Pollution Inventory, the Energy Savings Opportunity Scheme (ESOS), the Streamlined Energy and Carbon Reporting Framework (SECR), the Climate Change Agreements (CCAs) and the UK Emissions Trading System (UK ETS). Moreover, this proposal has arrived at the same time that BEIS are proposing to significantly expand obligations under both the SECR and ESOS.[1] [2]

9. The Industrial Decarbonisation Strategy, published on 17 March 2021, recognises the need for a strategic approach to industrial decarbonisation, embracing the advantages of creating a competitive zero carbon industrial base in the UK over offshoring our emissions. Monitoring progress to identify areas for Government action, will be an important part of that process and we note the proposals in the Strategy for additional monitoring metrics (page 97, Table 9.1). The current patchwork of energy and carbon reporting requirements is not a sensible or effective way of monitoring or even incentivising industrial decarbonisation. It duplicates requirements, creates confusion, complicates investment decisions, and even creates perverse incentives. Industry needs effective, joined-up action from government and a robust framework for measuring progress. Layer upon layer of slightly differing and poorly coordinated reporting requirements only serve to use up the time and resources of UK manufacturing's on-site energy managers, who would rather be working on energy and emission reduction projects.

10. Putting aside the administrative confusion, our narrowly focussed territorial emission targets penalise UK manufacturers in favour of more carbon intensive manufacturers overseas, leading to the offshoring of the UK's consumption-related emissions. The result has been the loss of jobs, skills and manufacturing capacity in the UK without much benefit to the climate.

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[1] *Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs*, published on www.gov.uk on 24 March 2021.

[2] *Strengthening the Energy Savings Opportunity Scheme (ESOS)*, published on www.gov.uk on 6 July 2021

The government must now focus on monitoring and reducing consumption emissions, through measures to encourage low-carbon consumption. This would allow UK manufacturers to maintain competitiveness by passing through the higher cost of low carbon manufacturing to the end consumer. It would also incentivise manufacturers overseas to reduce emissions. Such measures could include carbon border adjustment, product standards and labelling, and public procurement of low carbon products. These measures have the support of the Committee on Climate Change yet we understand that DIT is opposed to 'green protectionism'. [3] On this issue, government must heed the advice of their independent advisor on climate change, and BEIS, the Treasury and DIT must work together with industry to act on that advice.

Question 2 - What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?

11. No comment.

Question 2 – (a) How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?

12. No comment.

Question 3 - What signals and support does business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero target? What delivery function should Government provide itself and are relevant regulatory bodies mandated and resourced effectively to deliver on Government priorities?

13. A just transition for UK industry would include the following support: 1) In the **near-term**, carbon leakage protection - including appropriate free allocation under the UK ETS and insulation from high and rising energy prices - to maintain our international competitiveness during the transition; 2) In the **short/ medium-term**, tax-payer funded capital grants and ongoing operational subsidies to switch to net zero manufacturing techniques, and; 3) In the **long-term**, carbon border tariffs and minimum carbon standards, to allow us to pass through the cost of decarbonisation to the end consumer. The CCC's Sixth Carbon Budget supports this policy pathway and estimates that £2-3 bn would be needed per year, to support manufacturers at risk of carbon leakage in the early 2030s.[3]

Question 3 (a) - How do policy and regulatory signals and support vary between Government Departments (and how have they varied over time)? How is this affecting business activity on climate change?

14. Environmental impacts are inherently linked but are often addressed separately, by different departments and through different legislation. For example, abating an air pollutant such as volatile organic compounds through thermal oxidation creates in itself its own environmental impact. Support fuels may be required where autothermal combustion is not possible for a given waste gas stream, this represents an additional consumption of energy,

[3] CCC (2020) Sixth Carbon Budget: Policies for the Sixth Carbon Budget and Net Zero

natural resources and emissions of CO_2 and other pollutants. Therefore, government should ensure that a focus on one environmental issue, like air quality, does not adversely impact other objectives, such as net zero GHG emissions. This can be achieved through holistic assessment of activities, including chemical manufacturing, and careful consideration of trade-offs and cross-media effects. The UK's developing approach to Best Available Techniques and environmental permitting are key opportunities for improvement. Similarly, with respect to the circular economy, legislation such as Extended-Producer Responsibility for Packaging can focus too much on recyclability at the expense of considering the full life cycle impacts of material streams, including their carbon footprints. A risk adverse approach to waste inhibits the uptake of a more circular economy and the potential for GHG savings increased resource efficiency and circulation of resources.

15. Long-term strategic planning, communication of those plans and transparency in activities promotes the ability of industries to consider the wider picture during engagement with Government. However, this is often not delivered and following EU exit, is increasingly necessary to provide industry with long-term policy signals to enable business and resource planning. High-level ambitions should be complemented by detailed timelines and work programmes that are updated as necessary upon changes to planning or timeframes.

Question 3 (b) - Should Ofgem play a greater role in delivering on net zero and, if so, what changes are required to deliver this?

16. Ofgem's role should be strictly limited to economically regulating the network company licencees and ensuring their business plans and investment proposals, whilst enabling net zero are always delivering investment at the lowest cost for energy consumers and considering cross energy solutions. We believe Ofgem's remit and strategic direction should place greater emphasis at enabling more efficient solutions for customers not least of which should be by unlocking competition between regulated monopolies and enabling third party providers to tender both investment solutions and smart solutions that could offset or defer the need for investment. Such proposals could readily be delivered through the new independent, national system operator whose role should be extended across energy at the earliest opportunity.

Question 4 - The BEIS Committee will be working with the Environmental Audit Committee on this inquiry and inviting guests from other select committees. We are also interested in comments on the effectiveness of current parliamentary scrutiny arrangements for climate change and proposals to improve this.

17. No comment.

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