UK Fourth Carbon Budget

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This note summarises the provisions of the *Climate Change Act 2008* which requires the Government to set five yearly carbon budgets, twelve years in advance, from 2008 to 2050,. The Government is required to take – but not follow - the advice of the Committee on Climate Change (CCC), also created under the Act, when setting these budgets.

Three budgets, covering 2008 to 2022, are already in place The CCC published its advice to on the next budget in December 2010. The Government must set the fourth budget, covering 2023-27, by 30th June 2011. An announcement was delayed, reportedly due to disagreements between Ministers on whether the advice of the CCC should be followed or a less stringent budget set. The Government has now announced that it will accept the budget proposed for 2023-27 which will result in emissions reductions in the UK of 50% by 2025 compared to 1990 levels.

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1 The *Climate Change Act 2008*

Under the *Climate Change Act 2008* the Government put in place legally binding carbon reduction targets for 2020 of 34% and 2050 of 80% compared to 1990 levels.[1] This will require UK yearly emissions to be reduced from current levels of 574 MtCO2e (carbon dioxide equivalent) to 160 $MtCO_2e$.

To do this the Act requires the Government to set five-yearly carbon budgets at least 12 years in advance after taking the advice of the Committee on Climate Change (CCC). The CCC was set up by the Act as an independent body to advise the Government on targets, and to report yearly to Parliament in whether those targets will be met.

1.1 First Three Budgets

The first three budgets run from 2008-12, 2013-17 and 2018-22, and were set in May 2009 and implemented via a Statutory Instrument. They were set as follows based on the advice of the CCC:

	Budget 1 (2008-12)	**Budget 2 (2013–17)**	**Budget 3 (2018–22)**
Carbon budgets ($MtCO_2e$)	3018	2782	2544
Percentage reduction below 1990 levels	22	28	34

The carbon budget is set out as a percentage reduction and as the resulting total emissions for the whole five year period. The CCC also proposed a more stringent budget should be put in place should an international agreement on climate change be reached.

1.2 Progress on Meeting Budgets

The CCC published its second assessment report to Parliament in June 2010. This summarised progress to date on meeting the above budgets as follows:

- UK greenhouse gas emissions fell by 1.9% in 2008 and 8.6% in 2009, mainly due to the recession and other exogenous factors (e.g. fuel price rises).
- Implementation of measures together with the impacts of the recession should result in emissions lower than legislated for the first budget. Given the need for implementation of measures in preparation for the deeper emissions cuts required in future, the aim should be to outperform the first budget, and not to use this outperformance to reduce effort in the second budget.
- Our indicator framework envisaged limited progress on implementation of measures in 2009, based on modest ambitions in policies that were firm and funded in 2008. This is generally what has followed, for example with progress on loft and cavity wall insulation in line with our indicators. There has been outperformance against our indicator for new car efficiency, due largely to the impact of the recession and fossil

[1] The Climate Change Act 2008

fuel price increases in recent years, reinforced by policies (e.g. vehicle excise duty differentiation according to fuel efficiency).

- However, our indicator framework also builds in a step change in the pace of implementation across the range of measures (e.g. residential and non-residential energy efficiency improvement, renewable heat and electricity, and electric cars) moving towards the second budget period. There is no evidence of broad outperformance on implementation of measures in 2009, and therefore a step change is still required.[2]

The report also concluded that there needed to be new polices en several areas to ensure progress, inlcuding:

- Strengthening incentives for investment in low-carbon power generation.
- Developing new delivery mechanisms and incentives to improve energy efficiency of buildings.
- Encouraging a move to more carbon-efficient cars.
- Introducing new policies for the agriculture sector.[3]

2 Fourth Carbon Budget

Under Section 8 of the Climate Act the Secretary of State has to set the budget for 2023-27 by 30 June 2011, after taking into account the advice from the CCC:

S8 - Setting of carbon budgets for budgetary periods

(1)The Secretary of State must set the carbon budget for a budgetary period by order.

(2)The carbon budget for a period must be set with a view to meeting—

(a) the target in section 1 (the target for 2050), and

(b) the requirements of section 5 (requirements as to level of carbon budgets),and complying with the European and international obligations of the United Kingdom.

(3)An order setting a carbon budget is subject to affirmative resolution procedure.[4]

2.1 CCC Advice

The CCC published its advice to Government on the Fourth Budget in December 2010. It includes proposals for a new target for 2030, a more stringent target for 2020, and the future inclusion of aviation and shipping. As for the previous reports it proposed two budgets, the second (global offer budget) would be dependent on international deal on climate change being reached, which is not yet the case:

- An Indicative 2030 target to reduce emissions by 60% relative to 1990 levels (46% relative to 2009 levels).
- A Domestic Action fourth carbon budget of 1950 MtCO2e to be legislated in the first instance and to be achieved on a gross basis (i.e. without credit purchase).

[2] The CCC, Meeting Carbon Budgets – Ensuring a low carbon recovery, June 2010
[3] ibid
[4] The Climate Change Act 2008

- A Global Offer budget of 1800 MtCO2e indicating a minimum UK contribution to a future global deal to be legislated when a global deal for the 2020s is agreed.
- The second and third budgets should be adjusted to reflect the level of ambition in the Intended budget for the non-traded sector, giving an economy-wide reduction of 37% in 2020 relative to 1990.
- International aviation and shipping should in future be included in carbon budgets.
- The cost of meeting the Domestic Action and Global Offer budgets is under 1% of GDP.
- Annual investment requirements through the 2020s are around £16bn.
- New policies will be required, including fundamental reform of the electricity market.

2.2 Government Response

Under the Act the Secretary of State has to set the carbon budget, by laying a draft statutory instrument before Parliament. If the advice of the CCC on the level of the carbon budget is not followed a statement must also be made explaining the decision:

> **9 Consultation on carbon budgets**
>
> (1)Before laying before Parliament a draft of a statutory instrument containing an order under section 8 (order setting carbon budget), the Secretary of State must—
>
> > (a)take into account the advice of the Committee on Climate Change under section 34 (advice in connection with carbon budgets), and
> >
> > (b)take into account any representations made by the other national authorities.
>
> (2)The Secretary of State may proceed to lay such a draft statutory instrument before Parliament without having received a national authority's representations if the authority does not provide them before the end of the period of three months beginning with the date the Committee's advice was sent to the authority.
>
> (3)At the same time as laying such a draft statutory instrument before Parliament, the Secretary of State must publish a statement setting out whether and how the order takes account of any representations made by the other national authorities.
>
> (4)If the order sets the carbon budget at a different level from that recommended by the Committee, the Secretary of State must also publish a statement setting out the reasons for that decision.
>
> (5)A statement under this section may be published in such manner as the Secretary of State thinks fit.[5]

The Government had as of 16 May 2011 not made any announcement on what it proposes to do. There have also been articles in the press reporting differences of opinion between Ministers as to whether the proposed budget should be accepted:

> The biggest row over environmental issues that the coalition government has yet faced escalated on Wednesday afternoon when Ed Miliband sent a letter to David Cameron calling on him to accept the recommendations of the Committee on Climate Change (CCC).
>
> The committee, an independent body set up to advise the government on how to meet its internationally agreed emissions reduction targets, has set out a fourth carbon

[5] The Climate Change Act 2008

budget up to 2027. By that time, according to the CCC, greenhouse gas emissions should be at about half the levels they were in 1990 if the UK is to be on track to meet its obligation to cut carbon by 80% by 2050.

All of the previous three carbon budgets were accepted by the last Labour government. For the coalition not to accept this would be an extraordinary step, and quite possibly a resigning matter for Chris Huhne, the climate change secretary.

Yet refusing the recommendations is precisely what several cabinet members want to do – chiefly the Liberal Democrat Vince Cable, the business secretary, and Phil Hammond at the Department for Transport – who have intervened to push for a weakening of the targets.

Despite the row, the overwhelming likelihood is that Cameron will override the objections of his squabbling ministers and rule, at a cabinet meeting on Monday, that the CCC's proposed carbon budget must be accepted. He can scarcely do otherwise – to bottle out of the budget would leave him without a shred of green credibility, particularly given the timing – Saturday is the first anniversary of his pledge to run "the greenest government ever".

A copy of the letter sent by Ed Milliband is available on the Guardian website.

More recently there have been press reports that David Cameron has overridden objections and decided to accept some of the budget proposals, with a proviso that the rest of the EU also meets its carbon targets. The Guardian reports as follows:

After the intervention of David Cameron, Huhne is now expected to tell parliament that agreement has been struck to back the plans in full up to 2027. He will tell MPs that the government will accept the recommendations of the independent Committee on Climate Change for a new carbon budget. The deal puts the UK ahead of any other state in terms of the legal commitments it is making in the battle to curb greenhouse gases.

With the Treasury and Cable's business department sceptical, green groups had feared that ministers would refuse to back the committee and were accusing them of reneging on Cameron's promise to lead the "greenest government ever". But with Clegg and the Liberal Democrats desperate to boast a success on one of their key policies, supporters of a deal won the day. A government source told the Observer: "This is a victory for the cause of enlightenment over the dark forces at the Treasury."

Another senior government figure said: "This country is now the world leader in cutting carbon emissions. We are the only nation with legally binding commitments past 2020."[6]

3 Government Announcement

The Government made its announcement on the Fourth Budget on 17 May 2011. It accepted the main recommendation from the Committee of total emissions for the period 2023-27 of 1950 MtCO2e. However, other measures such as adjusting the second and third budget to make them more stringent will not be taken forward:

A limit on the total amount of greenhouse gases to be emitted by the UK between 2023 to 2027 has been proposed to cut Britain's emissions by 50% from 1990 levels and highlighting the Government's commitment to being the greenest government ever.

[6] The Guardian, Coalition commits Britain to legally binding emission cuts, 14th May 2011

> Today's proposal, set out by Energy and Climate Change Secretary Chris Huhne, is in line with advice from the independent Committee on Climate Change. It sets a fourth carbon budget of 1950 MtCO2e for the period that will span from 2023 to 2027, putting the UK on course to cut emissions by at least 80% by 2050. The carbon budget will place the British economy at the leading edge of a new global industrial transformation, and ensure low carbon energy security and decarbonisation is achieved at least cost to the consumer.
>
> The package announced today also includes measures to minimise costs of the low-carbon transition to industries exposed to international competition:
>
> In line with the Coalition Agreement, Government will continue to argue for an EU move to a 30% target for 2020, and ambitious action in the 2020s. We will review progress in EU climate negotiations in early 2014. If at that point our domestic commitments place us on a different emissions trajectory than the EU Emissions Trading System trajectory agreed by the EU, we will, as appropriate, revise up our budget to align it with the actual EU trajectory.
>
> Before the end of the year we will announce a package of measures to reduce the impact of government policy on the cost of electricity for energy intensive industries and to help them adjust to the low-carbon industrial transformation.

And

> Under the fourth carbon budget, government will aim to reduce emissions domestically as far as practical and affordable, but also intends to keep open the option of trading in order to retain maximum flexibility and minimise costs in the medium-long term.[7]

3.1 Review of the 2023-27 Budget

While announcing the fourth budget the Minister also made clear that it would be reviewed by 2014:

> Under the Climate Change Act, emissions reductions by the UK's industrial and power sectors are determined by the UK's share of the EU Emissions Trading System cap. This protects UK industrial and power sectors from exceeding EU requirements. However if the EU ETS cap is insufficiently ambitious, this could mean placing disproportionate strain on other sectors outside the EU ETS such as transport.
>
> To overcome this and to provide clearer signals for businesses and investors, government will review progress towards the EU emissions goal in early 2014. If at that point our domestic commitments place us on a different emissions trajectory than the Emissions Trading System trajectory agreed by the EU, we will, as appropriate, revise up our budget to align it with the actual EU trajectory.
>
> In line with the Coalition Agreement, Government will continue to argue for an EU move to a 30% target for 2020, and ambitious action in the 2020s.[8]

This intention to review the budget within three years of accepting in light of whether or not the EU commits to a 30% reduction in emissions was strongly criticised by the Environmental Audit Committee in a report on Carbon Budgets published in October 2011:

> The carbon budgets already set should be regarded as the absolute minimum for emissions reductions, and any loosening of them may put achievement of the UK's

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[77]Decc, UK proposes Fourth Carbon Budget : Emissions to be cut by 50% by 2025, 17 May 2011
[8]

> 2050 target in jeopardy. A review of the carbon budgets threatens to undermine the benefit of the Climate Change Act, producing uncertainty about the trajectory for emissions reductions upon which key Government policies will be formulated and technologies developed. The Government should therefore set out as soon as possible the scope of the 2014 review, including the range of actions and the limits on policy change that might plausibly flow from the review.[9]

The reports conclusions were summarised as follows in ENDS:

> The government's intention to review the UK's widely praised fourth carbon budget almost a decade before it starts has provoked severe criticism from the House of Commons Environmental Audit Committee (EAC).
>
> The government's acceptance of the fourth carbon budget's targets this spring was conditional on a review being undertaken in 2014. The budget requires a 50% reduction in greenhouse gas emissions by 2027..
>
> The review is intended to allow for weaker targets in the event that the EU fails to follow suit by raising the ambition of its emissions trading scheme (ETS).
>
> The requirement was widely believed at the time to have been inserted by chancellor George Osborne and business secretary Vince Cable. The chancellor's speech to the Conservative Party conference in October confirmed he had insisted on the review, reawakening concerns among business and green groups.
>
> In its report into the UK's five-year carbon budgets under the Climate Change Act 2008, the EAC says: "The fourth carbon budget [running from 2023-2027] as currently set represents the minimum needed to ensure the 2050 emissions reduction target is met".
>
> It notes that the 2050 target of cutting emissions by 80% is legally binding and that loosening the budget "would put achieving that target in jeopardy".
>
> The report also points out that the prospect of the review itself risks undermining investors' long-term confidence in climate change policy.
>
> According to the committee, the timing would also be premature, given that it would come before the EU ETS rate of emissions reduction is reviewed in 2020, and any changes that would be adopted by 2025. It would more than likely also come before a global climate deal is concluded.[10]

[9] EAC, Carbon Budgets, 7th Report Session 2010-12, HC 1080
[10] ENDS Report, , MPs lambast plans for carbon budget review, 17 October 2011