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**Dilemmas and risks in net zero debate**

*This round-up as of July 26th is not intended to be comprehensive but to inform and stimulate thinking and feedback. The net zero issue is likely to evolve for some time to come.*

**Uxbridge by-election sparks net zero changes**

Britain’s net zero policies are subject to greater uncertainty, after the Uxbridge by-election on July 20th acted as a catalyst to release latent opposition and start policy shifts.

Prime Minister Rishi Sunak is quoted this week as saying “of course net zero is important to me” and that progress would continue to be made. But Downing Street sources are quoted as saying net zero plans are being scrutinised in the light of cost-of-living challenges.

Pressure for change is coming principally from within the Conservative Party and supporting newspapers. Lord Frost, formerly Boris Johnson’s Brexit lead and now a commentator, says that the government should be “junking the costly net zero policies… The Uxbridge result tells you just how unpopular green net zero policies can be… So does the polling.” People support net zero in principle but not specific policies, Frost wrote in the Daily Telegraph.

The same newspaper splashed a leading article under the headline “The anti-green revolt is the Tories’ big chance” and urging the scrapping of “pointlessly punitive measures” such as plans to ban gas boilers and petrol and diesel cars.

Cabinet ministers were reported to be shifting policy within days of the Uxbridge result, in order to win votes that might otherwise go to Labour at the next general election, which the law says must be held by January 2025. It may well be, however, that net zero policies were already being re-considered.

News came thick and fast after Uxbridge. Housing secretary Michael Gove, “signalled that landlords would have longer to adapt to rules requiring rental properties to have at least a ‘C’ energy rating” within current timescales in England and Wales (The Times).

This was followed swiftly by “a Whitehall source” saying that the system of energy performance certificates (EPCs), which indicate buildings’ energy performance, needed “fundamental reform”. It was “designed as an informational tool to meet the requirements of EU membership” and was therefore ripe for reform (Financial Times).

On Tuesday this week, ministers said they were delaying a new, £1.7 billion-a-year recycling scheme until after the next general election. Firms had said it could raise the price of food and drinks.

Grant Shapps, energy security and net zero secretary, said within 48 hours of the Uxbridge election that the UK needed to “max out” the North Sea – echoing comments made by Jacob Rees-Mogg during his brief spell as business and energy secretary last year, that every drop should be extracted.

**EV policy shift**

Sunak was reported (The Times and elsewhere) to have declined to say he is committed to the current policy on phasing in electric cars and banning the sale of petrol and diesel-powered cars by 2030. The 2030 deadline was set by Boris Johnson in 2030 and is arguably the biggest “benefit of Brexit” after the ending of free movement of people. But the policy is criticised from many angles, including that is it impracticable. Abandoning or diluting the policy may lead to challenge in the courts from climate campaigners.

On July 26th, The Times reported that the 2030 ban would stay ”for fear of an industry backlash that would threaten green investment in Britain”. Michael Gove said that the 2030 date was “immoveable”. But interim targets for EV sales may be relaxed to allow more flexibility on hybrid cars, the paper reports. That would be positive for several manufacturers, and forToyota’s factory in Derby.

Two years ago, the National Audit Office published a report that was critical of the Department for Transport’s Office of Low Emission Vehicles (OLEV), saying that it was unable to demonstrate value for the £1 billion then spent and calling for greater input from the business department (then, BEIS). Government has refused to support research for internal combustion engines for cars, against the advice of industry experts.

Road pricing is a long-term option for balancing the tax and duty paid by EV users, who pay no fuel duty (57.95p/litre, on which VAT is charged) and just 5% VAT on the electricity for their domestic charge. But road pricing has rarely been mentioned, ever since a referendum in Manchester voted decisively against a local charging scheme 15 years ago. This is one of a number of uncomfortable issues that will almost certainly have to be addressed by the next government.

Sunak’s new business council, announced this month, includes Shell plc’s CEO, Wael Sawan, who says he wants to “help drive prosperity and growth in the UK, specifically through the provision of secure, affordable and cleaner energy”. It is both an obvious choice, Shell being one of the UK’s largest companies, and a controversial one. Environmental protesters disrupted a shareholders meeting there was talk of trying to unseat Sawan two months ago, after Shell said it no longer planned to reduce oil and gas production in the next few years.

**High Court challenges**

The High Court in London has just denied ClientEarth permission to take court action over Shell’s climate strategy. The judge says that ClientEarth’s case “ignores the fact that the management of a business of the size and complexity of that of Shell will require the directors to take into account a range of competing considerations”, in which the courts should not interfere (The Guardian). ClientEarth says it will appeal.

Companies have to navigate their way through these policy uncertainties and their impacts on demand. Meanwhile, urgent issues of planning, energy supply and cost, and the high cost of energy must be addressed. A danger for business is that is a lack of focus on progress in these areas, especially as they involve difficult planning choices and high levels of investment.

While there has been some discussion on the green levy on household energy bills, the Climate Change Levy on businesses’ energy bills has seen relatively little debate.

Just as some Conservative MPs see watering down net zero policies as a way to attract voters from Labour, Sir Keir Starmer will be aware that his party may be exposed on some policies. Labour has already eased back on ambitious net zero spending plans but is now being attacked for saying it would allow no more North Sea licences.

Meanwhile, the High Court in London is shortly to hear a challenge to the planning permission granted for a new coking coal mine in Cumbria. Friends of the Earth and a local campaign group will argue that Michael Gove, in making the decision, failed fully to assess the climate impact of the decision, in breach of the Paris Agreement on climate change, and perhaps also breaking the UK’s own net zero schedule, resulting from the Climate Change Act 2008 and subsequent amendments in 2019 and 2021.

The Cumbria decision is important for the UK’s international reputation, supporters of the legal action argue. These include Chris Skidmore MP, who wrote a review of net zero policies this year, commissioned by the government.

**UK ‘fiddling about’**

Lord Deben, who is stepping down after ten years as chairman of the Climate Change Committee, (which was set up under the Climate Change Act 2008 to advise government), has accused the government of “fiddling about” while the planet burned. The UK led the world and has lost that “because of some of the things we haven’t done and some of the things we have done”. (Daily Record.)

Deben said that the EU’s green policies are “really advanced”, the US has moved to a position of “considerable leadership” and “even China” has announced a “very considerably more effective programme”.

However, others may see other countries’ approaches as pragmatic. Anecdotally, many middle-ranking economies are said to take little interest in climate change in practical policy-making.

The Inflation Reduction Act in the US, which is causing concern over the huge subsidies to firms to undertake net zero-friendly manufacturing there, also provides for significant expansion of oil and gas production on federal land. Some Republic-controlled states strongly support the fossil fuel sector and, in some cases, discriminate against companies that are publicly hostile to it.

China has yet to hit “peak carbon”. On the positive side, the Chinese government predicted three years ago that the country would hit peak carbon in 2030 but energy experts believe that the country’s carbon emissions will start to decline several years before that, due to increased investment in renewables.

**EU Carbon Border Adjustment Mechanism**

The EU is pressing ahead with its Carbon Border Adjustment Mechanism (CBAM), stage 1 of which comes into force on October 1. Importers will have to give details of the embedded carbon in goods in six sectors: aluminium, cement, iron, steel, electricity, hydrogen and fertilisers. Levies will be charged from 2026, by which time other products may have been added to the list.

“The gradual phasing in of CBAM over time will also allow for a **careful, predictable and proportionate transition for EU and non-EU businesses,** as well as for public authorities. During this period, importers of goods in the scope of the new rules will only have to report greenhouse gas emissions (GHG) embedded in their imports (direct and indirect emissions), without making any financial payments or adjustments. Indirect emissions will be covered in the scope after the transitional period for some sectors (cement and fertilisers), on the basis of a methodology to be defined in the meantime,” the EU says.

CBAM grows out of the long-established Emissions Trading Scheme (ETS), which imposes costs on firms to encourage carbon reduction. It is intended to encourage other parts of the world to reduce climate emissions - and to protect EU industry by levelling costs in order to avoid “carbon leakage”, a term used when production moves abroad due to high energy costs.

The CBAM is controversial and India was reported in May to be planning to challenge the system at the WTO (report, Euractiv).

The UK has set up its own scheme, UK ETS, since Brexit. The dilemma of high energy bills faced by “energy-intensive industries” such as steel, cement and semi-conductors is being addressed in the UK by a new scheme called the British Industry Supercharger, which is due to come into force in spring 2024. Around 300 firms will benefit, with the reductions in energy bills being paid for by higher bills for other business and domestic energy users. The Supercharger has not been prominently reported.

Meanwhile, the EU’s Green Deal – which is often compared with the Inflation Reduction Act - aims to make Europe “the first climate-neutral continent”. The Commission in Brussels describes the European Green Deal as “our lifeline out of the COVID-19 pandemic. **One third of the €1.8 trillion**investments from the NextGenerationEU Recovery Plan, and the EU’s seven-year budget will finance the European Green Deal.”

Chancellor Jeremy Hunt has said he will respond to the US and EU programmes in the autumn. It is already clear that the UK cannot compete in terms of spending.

**UK’s five-year review**

In June 2019, when Theresa May tightened the 2008 Act in her final days as PM, the government made this statement: “This legislation will mean that the UK is on track to become the first G7 country to legislate for net zero emissions, with other major economies expected to follow suit. But it is imperative that other major economies follow suit.

“For that reason, the UK will conduct a further assessment within five years to confirm that other countries are taking similarly ambitious action, multiplying the effect of the UK’s lead and ensuring that our industries do not face unfair competition.”

It is unclear whether the five-year review has taken place. When it does, it may find that other countries are making progress but that many of our major competitors have been pragmatic in ensuring that their industries remain competitive in the meantime and that they build long-term retained value for their economies.

Meanwhile, climate campaigners will point to recent heatwaves and fires in Greece as evidence that the global economy needs urgently to accelerate progress.

Businesses above all want clarity, consistency and certainty: ideally, a cross-party approach. It is not clear that it is in prospect at the moment. However, there is strong momentum about carbon reduction and reporting within business, with both the buying public and industrial and public sector customers looking for evidence of carbon awareness and initiatives.

Feedback, evidence and queries on the issues above are welcome, in confidence.

Links:

[Outgoing climate tsar slams SNP and Tories' record on environmental targets - Daily Record](https://www.dailyrecord.co.uk/news/scottish-news/outgoing-climate-tsar-slams-snp-30427143)

[Carbon Border Adjustment Mechanism CBAM – EURACTIV.com](https://www.euractiv.com/topics/carbon-border-adjustment-mechanism-cbam/)

[Carbon Border Adjustment Mechanism (europa.eu)](https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#:~:text=with%20WTO%2Drules.-,Latest%20developments,importers%20ending%2031%20January%202024.)

[European Green Deal - Consilium (europa.eu)](https://www.consilium.europa.eu/en/policies/green-deal/)

[Government action to supercharge competitiveness in key British industries and grow economy - GOV.UK (www.gov.uk)](https://www.gov.uk/government/news/government-action-to-supercharge-competitiveness-in-key-british-industries-and-grow-economy)

[PM Theresa May: we will end UK contribution to climate change by 2050 - GOV.UK (www.gov.uk)](https://www.gov.uk/government/news/pm-theresa-may-we-will-end-uk-contribution-to-climate-change-by-2050)

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