Addressing carbon leakage risk to support decarbonisation - consultation overview session-20230406_100457-Meeting Recording (1)

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Industrial Decarbonization in the Department for Energy Security and Net Zero.

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Jennifer Rowland is the deputy director for Energy and Transport Tax at the Treasury, and Catherine Stewart is the deputy director for Trade policy in the Treasury's international group.

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Over to you, Sam.

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Thanks so much, [REDACTED Regulation 13 - personal data], and yeah, welcome everyone. It's great to have so many people on the call here today. So really exciting to finally be talking to everyone about the consultation which we launched last week. And last week was a really, really big moment for net zero across the UK government where we announced the Powering Up Britain plans, which were a really sort of comprehensive set of plans which I guess at the core had about how we scale up

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clean, affordable homegrown power and also build thriving green industries. And sort of our work on carbon leakage certainly falls into the sort of how we are going to have a thriving green economy in the future.

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Within our industrial decarbonisation strategy, which we published a couple of years ago now, we sort of set out our general approach of how we can transform our industrial economy from where it is today to one which is sort of net zero compliant over the next sort of few decades. And there were three real sort of core components of that. One was having a robust carbon price and we have the UK ETS which is here to stay, which provides that sort of strong carbon price signal. We also going to need the,

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I guess they're more financial sort of fiscal sort of support packages. You know for example, the Industrial Energy Transformation Fund which we announced £185 million uplift only last week. So, it brings it to £500 million to sort of provide that sort of grant support to sort of share the costs and risks of decarbonisation. And that sort of sits alongside our sort of CCUS and hydrogen packages which again were further announcements are made on that last week.

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And then the other core part of it is really around making sure we've got the right might say sort of business environment or policy landscape. And this is where we see carbon leakage and carbon mitigation forming a really, really core part. It's going to, it is vital to enabling sort of industry to successfully decarbonise over the next sort of few decades. And UK industry is a core part of our net zero plans. Without it, we can't hit net zero.

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So collaboration with sort of global partners is going to be really important to that. So, you know, ideally, you know, we are working with international partners to address carbon leakage is our priority. But not all countries are going to move at the same speed on decarbonization. So, we now need to consider domestic policies to ensure UK efforts, including the efforts of the UK industry, lead to a true reduction in global emissions.

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So the government is therefore going to be exploring a package of potential matters of carbon leakage. So, there's all stages of the transition to net zero, providing industry with that strong signal that they can invest in decarbonisation in the UK without the fear that their environmental efforts were undermined.

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So, you know we've obviously published the consultation now and this is the sort of first of our engagement sessions of that and we really want to hear the views and evidence across stakeholders on the best possible mix of policies to manage carbon leakage. You know, measures need to be fair, transparent and contribute to green global economic transition to net zero. So, we really welcome your engagement today and going forwards and providing evidence and data we need to we can make the right policy choices.

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Thank you.

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I think Jenny is going to have to say a few words now,

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I will do. Thanks, [REDACTED Regulation 13 - personal data], and thanks, Sam. And good morning, everybody. I am Jenny Rowland, and I'm the deputy director for the Energy and transport tax team here in the Treasury. I should also introduce my colleague, Catherine Stewart, who you may be able to see in a small box at the top of your screen. She's the Deputy director for trade policy in the Treasury. So, we have responsibility for the CBAM elements of the consultation document. And just to add a little bit to what Sam was saying, particularly thinking about a strong carbon price. I think one of the things that we're very conscious of is the need for certainty.

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It's a message we hear all the time and we really understand the importance of it and we know that a strong carbon price gives that to some degree and we also know we need to do the same in the carbon leakage space. I think many of you will be aware of the UK UTS authority is set out the free allowances within the UK ETF until 2026. But we do need to talk about kind of what goes beyond that. So as some said, it is great that we've got so many of you here because we need your help in making sure that we get that right and we get the right policy mix that we are incredibly interested in your views

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really value your time. And I should say that being from the Treasury as you won't be surprised to hear that I'm quite interested in understanding some of the economic impacts of the policies that we're talking about here. But as we think about this and I'm sure you'll be aware this is an environmental

measure, we're very conscious of it, I think the WTO are very conscious of it. So, as you think about the evidence that you're giving us and I'm sure you will be thinking about kind of the impact on competitiveness, the impacts on the economic impact, but evidence that you can give us on how these policies will ,

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impact on decarbonization efforts is particularly valuable to us. So I will stop talking now because I'm sure that you want to hear all of the presentations, but it just wants to say like thank you very much and please do engage with us. We're really, really keen to make sure that we've got a full range of views as we think about the future policy mix. So, thank you and I think back to [REDACTED Regulation 13 - personal data],

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fantastic. Thanks Sam and thanks Jenny. Yes, so this has actually largely been covered by those introductions. Our approach to carbon leakage, we recognise that we're looking for an international solution and we are working very actively with international partners to address carbon leakage.

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Conscious that that will take time. We are also looking to consider domestic policies. That's what this consultation covers and that's what we're exploring with you guys today and through this process. And we're aware that any policies we do come out with will need to take into account for really wide range of policy and priorities for the UK, not least of which is the ongoing process of ETS reform which is being explored by the ETS Authority.

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So, with that in mind, if we could move to the next slide, just cover off some of the detail of the consultation. This launched a week ago today on 30th of March. It's running for 12 weeks and closing on the 22nd of June. As we've said, we welcome inputs from all stakeholders on this call and more widely, really keen to hear from industry in the UK and stakeholders overseas, as well as kind of a fuller range of anyone with an interest in UK decarbonisation.

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There's a few links up here which we can post in the chat as well to where you can find the consultation itself online. And also to really plug that we're welcoming responses through the Citizen Space consultation portal. There's a link there as well, but we also have an e-mail inbox or any questions about the consultation.

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With that covered, I'm going to pass over to [REDACTED Regulation 13 - personal data], a colleague in the Treasury, to talk us through the kind of potential policy package that we're exploring. Over to you, [REDACTED Regulation 13 - personal data].

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Thank you, [REDACTED Regulation 13 - personal data]. As [REDACTED Regulation 13 - personal data] said, I'm [REDACTED Regulation 13 - personal data]. I work on this consultation from HM Treasury. So, as I think you'll be aware, we've kind of launched this consultation as an exploratory consultation to get a wide range of stakeholder views on the kind of potential package of policy options that UK government could put in place to tackle the future risk of carbon leakage.

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The intention is that we use this consultation at this stage to inform decision making on which policies if any we should be introducing. And the government hasn't taken any decisions at this time on kind of what the right course of action is. And we really are genuinely seeking collaborative engagement from our stakeholders to understand what the best kind of forward pathway is. And that's on all the policies equally so that we can understand how they work together and we can make the right decisions about the package going forward.

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Some things we have set out in the consultation though are that the measures need to respond to carbon leakage risk in a proportionate way. We need them to kind of really match the size of the risk that we think is evident because otherwise we might be going in too hard. We need to make sure we're timing them in the right way, etc. And they need to be targeted in the right sectors, evidence based and effective. And then you also need to align with the decarbonization policy we already have in place in the UK.

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And the second thing we need to do is to kind of promote and encourage increased climate action that's both in the UK but also using these measures as a lever to make sure that globally we are also driving towards net zero and not just focusing on the UK as a very small proportion of global emissions

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in that we have to take into consideration that lots of countries will be in different places. And so, there's a particular kind of focus on different levels of development, low income countries, etc. as we think about how these measures would impact. And we also need to make sure it's kind of compatible with, and deliverable alongside our other domestic priorities. The government has kind of a focus on sustainable and balanced growth that we need to make sure we're being mindful of and supporting as we introduce, or look to introduce

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any measures. And we're very conscious, as I'm sure you all are too, of business compliance costs and trying to make sure we're streamlining and making sure these policies fit alongside the wider package as much as possible. And also finally, just to say that we are very conscious, and we have set out that this needs to be consistent with our commitment to free and open trade and we're conscious of our international obligations, particularly the World Trade Organisation obligations and we need to make sure we're designing something that is compatible with those.

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I'm going to move on to the next slide. I should start by kind of setting out that this consultation is written in two parts. Part 1 explores the policies that we are looking at that could mitigate carbon leakage. So, we'll run through these and some colleagues from the Department of Energy Security and Net Zero will help me because I'm not the expert on all of them. And then there is a second part of the consultation which looks at an emissions reporting system. So, kind of

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the key element of how we do any of this is how we report those emissions and we've split the consultation out in that way. But we'll take you now through kind of those policies in those two parts. So, the first part of the potential mitigation policies that we come to in the consultation is a carbon border adjustment mechanism. A carbon border adjustment mechanism would be a measure applied

on imports in order to reflect the carbon emitted in the production of that product, so that you are kind of making sure that those emissions,

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despite being produced elsewhere in the world and have had a price paid on them. We would also look to ensure that that price reflects what the price would have been had those goods being produced in the UK. But also recognising that if those goods have come from a country where they have carbon pricing, we are adjusting for that. So, we are not double charging where goods have come from, say Canada, where they have their own emissions trading system. The aim is to make sure that goods that are on the UK market have a similar price paid whether they were produced in the UK or imported from overseas.

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The kind of overview of the chapter sets out that our initial thinking is that this sort of measure would be introduced for imported products that are in sectors that are already liable to the UK domestic carbon pricing. So, our starting scope is sectors that are under the UK ETS, understanding what that means in terms of applying a CBAM and what products you might apply it to. And then we discussed the CBAM liability and how that would be calculated as we've kind of set out it would be

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imported emissions multiplied by the carbon pricing differential between the UK and the jurisdiction that the goods have come from. But there's lots of questions within that. That's a very complicated statement underneath the one liner. So, we welcome views on that and then also how we could

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understand the emissions embedded in those products and whether there's a role for things like default values and how you verify emissions data that's come from overseas. And there's lots of key areas for consideration that are joint between the carbon border adjustment and the next chapter. So, I will hand over, I think to [REDACTED Regulation 13 - personal data] now on the mandatory product standards and other policies.

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Thanks, [REDACTED Regulation 13 - personal data]. I'm [REDACTED Regulation 13 - personal data] at the Department for Energy Security and Net Zero. And our team have been exploring product standards and other so-called demand side policies which are set out in chapters 3 and 5 of this consultation. These chapters built on previous applications by our team. First was the industrial decarbonization strategy, which discussed how to get consumers to choose low carbon products. And second was a call for evidence on how to grow the market for low carbon products. And the core of this product standards policy remains how to effectively differentiate between

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better and worse performance in terms of the emissions intensity of individual products. Doing so would then enable us to consider product standards in two distinct ways. First is voluntary product standards, which would essentially be a labelling system.

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This would help the best performing, lowest emitting producers distinguish their products as such. And second, there's the idea of mandatory standards which is the focus of Chapter 3, and these would seek to regulate against the worst performing, most emissions intensive versions of products by

setting an upper limit on their embodied emissions. This limit can be brought down over time in line with the sector's progress towards net zero and as new technologies become available.

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As out the consultation, we're interested at least in the first instance in targeting product standards in the steel and cement sectors, specifically, the intermediate versions of their products rather than downstream consumer facing ones. So, for example this would be a piece of steel itself rather than the car it would go into making. This targeting is based on a combination of ambition, deliverability and seizing opportunities. For example, there are already significant initiatives underway in these sectors, both industry led and international, such as the work of the US industrial deep decarbonisation initiative, the IDDI, this initiative seeks

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to establish low carbon standards, some procurement targets for the construction sector, in other words steel and cement. I do want to stress though that this is an initial proposed focus and this does not mean that these policies cannot later be expanded to encompass more sectors or types of products and we welcome feedback on those points.

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We're also conscious of the various challenges which this policy could encounter, some of which are worth flagging as they're shared with the CBAM and set out in their own separate chapter, Chapter 4. These include discussions of the potential impacts on low-income countries and downstream supply chains, the risk of carbon leakage and export markets and the possible future role of carbon credits and offsetting in complying with these policies. And then in Chapter five, we discussed the possible role of procurement as another option of demand side policy. This includes public procurement, where the main focus is again the IDDI and also private procurement where we look at the First Movers coalition which is led by the US.

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And then in Part 2, this explores the product level embodied emissions monitoring, reporting and verification which could support the implementation of all the policies we've been discussing. This includes considerations about the methodology used for calculating emissions data and the mechanism by which these companies would report that data. Our thinking is generally that increased transparency of data is a positive objective in and of itself and it could support improved policy making within government and greener purchasing decisions in both the private and public sectors. However, there is currently a multiplicity of different methodologies

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calculating and reporting this these emissions data, both domestically and internationally, and the results aren't always comparable. So, we believe that there is a role here for government to try and simplify and standardise these systems, which includes international collaboration as well. We are, however, also conscious of the need to balance the need for accuracy of data against the possible reporting burden that this could place on industries. We will of course look to minimise this wherever possible, and we welcome views on how to do so in the consultation.

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That's all from me. I'll hand back to [REDACTED Regulation 13 – personal data].

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Thanks very much, [REDACTED Regulation 13 - personal data] and [REDACTED Regulation 13 - personal data].

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So that brings us to the end of our sort of brief overview of what the context is in which we're consulting, how we're looking to consult and what the key areas are that we're seeking views on.

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We're going to move now to the questions and answers part of the session. So, we will shortly stop recording the session and the thing from now onwards will be just for this group.