



# Environmental Audit Committee

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From Tim Yeo MP, Chairman

UK Statistics Authority  
London

26 MAR 2009

Rt Hon Ed Miliband MP  
Secretary of State  
Department of Energy and Climate Change  
3-8 Whitehall Place  
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On 2 December you sent a letter in response to my letter of 23 October, on the Government's CO<sub>2</sub> reduction targets for 2010 and 2020.

In your letter, you said that, according to Government projections, UK CO<sub>2</sub> emissions were expected to be about 15% down on 1990 levels in 2010. You spelt out that this projection "takes into account the net impact of allowances and credits surrendered through the EU emissions trading scheme". A footnote explained further that: "The equivalent figure, without the effect of the EU ETS, would be a reduction of about 11%." Another footnote referred to a Government paper, which clarifies that the difference between these two figures is to be made up by the expected net purchase of 24 million EU ETS credits in 2010.<sup>1</sup>

My first question is how will the Government demonstrate that a net purchase of 24 million EU ETS credits in 2010 will lead to a real reduction of 24 million tonnes of carbon dioxide?

On this theme, I would like to ask about a related issue: the Government's treatment of the net purchase of EU ETS credits in preceding years (i.e. during Phase I of the Scheme, which ran from 1 January 2005 to 31 December 2007). Throughout this period, the UK sectors included in the Scheme as a whole emitted an excess of CO<sub>2</sub> above their allocation of carbon allowances. Thus, in 2005 the UK was a net purchaser (i.e. from elsewhere in the EU) of 25.2 million credits; in 2006, 31.4 million; and in 2007, 25.7 million.<sup>2</sup> In its official publications, the Government has treated these purchases as though UK emissions were, respectively, 25.2MtCO<sub>2</sub>, 31.4MtCO<sub>2</sub>, and 25.7MtCO<sub>2</sub> lower than actual in each of those years.

As an example, a recent statistical press release, published by your Department on 3<sup>rd</sup> February, stated: "UK net emissions of carbon dioxide were 12.8 per cent

<sup>1</sup> Table 2.3, p 11, <http://www.berr.gov.uk/files/file48514.pdf>

<sup>2</sup> [http://www.defra.gov.uk/ENVIRONMENT/statistics/globalatmos/download/xls/ghg\\_annex\\_c\\_20090203.xls](http://www.defra.gov.uk/ENVIRONMENT/statistics/globalatmos/download/xls/ghg_annex_c_20090203.xls)



lower in 2007 than in 1990, down from 592.9 to 516.9 million tonnes.”<sup>3</sup> As the same press release highlighted, *actual* UK CO<sub>2</sub> emissions in 2007 were some 542.6 million tonnes (a reduction of 8.5% from 1990). The difference between the “actual” and “net” figures corresponds precisely to the number of EU ETS credits purchased net in that year (542.6m – 516.9m = 25.7m). This makes it clear that the Government has decided to treat the net purchase of each EU ETS credit as being perfectly equivalent to reducing the UK’s emissions by one tonne of CO<sub>2</sub> in that year.

For the years during Phase I of the Scheme this appears questionable, given it is widely accepted that —at an *overall* level— EU Member States issued too many carbon allowances. Surplus credits were made available to the market, not necessarily because a power station or steel plant had become more carbon-efficient, but largely because installations had simply been given more allowances than they needed. In this context, purchasing credits was described by many as “buying hot air”.

This view was not merely held by some outside observers, but has also been expressed on occasion by the Government. For instance, in December 2007 the Secretary of State for Environment, the Rt Hon Hilary Benn MP, told my Committee: “[...] the lesson of the EU ETS is simply that you have to get the caps right. In phase one the cap was not good enough and we all know that to be the case [...]”<sup>4</sup> A Treasury report, accompanying the 2007 Comprehensive Spending Review and Pre-Budget Report, spelt out explicitly that: “[...] Phase I has had a number of problems as a result of over-allocation of allowances in the EU as a whole [...]”<sup>5</sup> A Defra press release, on the results of emissions trading in 2006, stated: “The issue of overallocation in some EU Member States was a problem identified in Phase I [...]”<sup>6</sup>

My second question, therefore, is: Given that there was an over-allocation of EU ETS allowances in Phase I, what justification is there for assuming that the net purchase of 25.2 million credits in 2005, 31.4 million credits in 2006, and 25.7 million credits in 2007, was equivalent to reducing actual UK emissions by 25.2MtCO<sub>2</sub>, 31.4MtCO<sub>2</sub>, and 25.7MtCO<sub>2</sub> in those years?

This is not the first time I have raised issues such as this in correspondence with Ministers. Following the Government Response to the Committee’s Second Report of 2006-07, on the EU ETS, I wrote to the Secretary of State for Environment to raise concerns about the way in which the use of emissions credits was being reported. I asked the question: “Does the government have—or will it develop—a code of practice concerning the transparency with which it reports UK carbon and GHG emissions, especially covering how it reports the contributions of the EU ETS and other uses of international emissions trading?”

In reply (July 2007), the Secretary of State referred to the way in which the reporting of both national emissions figures and EU ETS trading was covered by international rules. He then stated:

<sup>3</sup> [http://www.defra.gov.uk/ENVIRONMENT/statistics/globalatmos/download/ghg\\_ns\\_20090203.pdf](http://www.defra.gov.uk/ENVIRONMENT/statistics/globalatmos/download/ghg_ns_20090203.pdf)

<sup>4</sup> Oral evidence taken before the Environmental Audit Committee, 4 December 2007

<sup>5</sup> [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_stern770.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_stern770.pdf)

<sup>6</sup> <http://www.defra.gov.uk/news/2008/080205a.htm>



The overall emissions figures are National Statistics, and are produced and published following the National Statistics Code of Practice and its associated set of Protocols. The estimates are subject to quality control procedures, are reviewed annually, and the underlying data archived. The Government does not therefore see the need for a new code of practice in addition to the National Statistics Code and the international agreed procedures.<sup>7</sup>

I note, however, that as your Department's recent statistical press release makes clear: "European Union Emissions Trading Scheme (EU ETS) results are not published as National Statistics, and any results which incorporate EU ETS figures should therefore not be treated as National Statistics."<sup>8</sup>

My third question is: Does the Government plan to designate as National Statistics the UK's "net" emissions figures, incorporating the effects of emissions trading, for the UK Statistics Authority to assess against its Code of Practice?

The Environmental Audit Committee may pursue this matter further in a forthcoming inquiry and may decide to publish this correspondence. I am copying this letter to Sir Michael Scholar, Chair of the UK Statistics Authority.

**Chairman**

CC  
M.  
Scholar

<sup>7</sup> <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmenvaud/1072/1072.pdf>, p 56

<sup>8</sup> [http://www.defra.gov.uk/ENVIRONMENT/statistics/globalatmos/download/ghg\\_ns\\_20090203.pdf](http://www.defra.gov.uk/ENVIRONMENT/statistics/globalatmos/download/ghg_ns_20090203.pdf)