



House of Commons
Environmental Audit
Committee

**Government Response
to the Committee's
Tenth Report, Session
2003–04, on Budget
2004 and Energy**

**Fifth Special Report of Session
2003–04**

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The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

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References

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by page number as in 'Ev12'. number HC *-II

Fifth Special Report

Budget 2004 and Energy—Government Response.

1. The Environmental Audit Committee published its report on *Budget 2004 and Energy* on Wednesday 11 August 2004 as HC 490.
2. The Government's Response to the Committee's Report was received on Tuesday 12 October 2004 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

Appendix

GOVERNMENT RESPONSE TO THE ENVIRONMENTAL AUDIT COMMITTEE REPORT: BUDGET 2004 AND ENERGY (Tenth Report of Session 2003-04).

1. As a percentage of total tax, the revenues from environmental taxes have recently been at their lowest level since 1993. The latest Pre-Budget and Budget Reports contain few significant new measures, and fail to take forward the Treasury's strategy of shifting the burden of taxation from "goods" to "bads". Indeed, the Economic Secretary for the Treasury admitted that the Treasury's environmental tax strategy was a framework for taking decisions rather than a strategy as such.

The Government's approach to environmental taxes is set out in its Statement of Intent on Environmental Taxation in 1997, and in *Tax and the Environment: Using Economic Instruments*, published alongside the PBR in 2002.

It is important to note that levels of revenues from environmental taxes do not necessarily indicate the relative importance or the success of environmental policy. High environmental tax revenues can result either from high rates of taxes or from high levels of environmental problems leading to a large tax base. The broad measure of revenues can also fail to capture the effect of the differential rates that encourages a shift away from higher impact behaviour (such as the use of leaded petrol). If environmental taxes are effective then we actually expect the revenue from these to decline over time. The Government has introduced environmental taxation initiatives primarily to change behaviour and provide market signals and not to raise revenue.

The Government has continued to develop environmental tax policy in line with these principles. Economic instruments are being used across a range of markets, in support of the Government's sustainable development strategy. These can take a variety of forms such as taxes, trading schemes, subsidies and often these instruments work alongside each other.

The Government's approach to environmental taxes aims to increase incentives to reduce environmental damage. To this end, some environment taxes have generally been broadly revenue neutral, with the impact of new taxes offset by reductions elsewhere, or support for related spending programmes.

2. Recent data supports our contention that the Climate Change Strategy is seriously off course. The policy instruments the Government has put in place have yet to make a significant impact on the UK carbon emissions trajectory. The Government's latest forecasts indicate that carbon emissions will fall only to around 140 MtC by 2010, some 8 MtC more than the target. This carbon gap could be much greater if the policy instruments in place and planned fail to deliver the reductions envisaged.

3. In view of its central coordinating role, the Treasury will need to play a significant part in the review of the Climate Change Strategy and in exploring with other departments the scope for introducing further policy measures to promote both renewable energy and energy efficiency. A more imaginative and radical strategy which might involve the use of fiscal instruments—in particular for transport and domestic energy efficiency—is called for.

HM Treasury is committed to the Government's strategy to tackle climate change and will continue to work with other Government Departments to consider policy measures to meet our targets including those that promote both renewable energy and energy efficiency. HM Treasury will be closely involved in working with other Government Departments and the devolved administrations on the forthcoming review of the UK Climate Change Programme.

This review provides the opportunity for a full evaluation of the elements of the current programme to measure their impacts and effects, update greenhouse gas emissions projections, assess whether the UK is on course to achieve its targets and consider next steps. The review, together with the work Defra are currently undertaking on the extension of the Energy Efficiency Commitment and the forthcoming review of the Renewables Obligation (led by DTI), both of which HM Treasury are also involved in, will provide an important opportunity to reassess our progress in meeting our carbon reduction goals through a range of policies, including focussing on their relative value for money in terms of cost per tonne of carbon saved. Latest published projections show a decrease in carbon emissions of 14.3% against the 1990 Kyoto Baseline.

Much has already been achieved. For example, the changes to Vehicle Excise Duty and company car tax reform have been radical and applauded as models of best practice by the EC. Nevertheless, we will continue to consider new measures, including the role of fiscal instruments. Fiscal measures will continue to be judged against the key principles of good taxation: they must be well designed; to meet objectives without undesirable side-effects; they must keep deadweight and compliance costs to a minimum; the distributional impact must be acceptable; and care must be had to implications for international competitiveness.

In addition, since Budget 2004, Spending Review 2004 announced that, recognising the contribution of the transport sector to greenhouse gas emissions, the Department of Transport will share the joint Public Service Agreement Target with Defra and the Department of Trade and Industry. Revenues from increases in landfill tax from 2005-06

will be recycled to improve business resource efficiency, including at least £40 million a year by 2007-08 to expand the Carbon Trust's programmes supporting business in improving energy efficiency. Funding for sustainable energy and security of energy supply of £85 million by 2007-08, in addition to a total of £50 million allocated in the Energy White Paper, will help the UK meet its goal of putting itself on a path to cut UK carbon dioxide emissions by some 60 per cent by 2050.

4. Carbon emissions from transport are still moving in the wrong direction. The Government must use the fiscal incentives at its disposal to curb transport growth while at the same time ensuring that there is sufficient investment in low-carbon public transport systems—particularly in the development of new communities—to provide an efficient and effective alternative.

The Government agrees that transport has a critical part to play in reducing carbon emissions, and is committed to using fiscal measures to achieve environmental benefits and encourage more sustainable transport behaviour. Spending Review 2004 announced that, recognising the contribution of the transport sector to greenhouse gas emissions, the Department of Transport will share the joint Public Service Agreement Target on air quality with Defra and the Department of Trade and Industry. Graduated vehicle excise duty (VED) and company car tax both give real savings to those who choose fuel-efficient, environmentally-friendly vehicles. The reformed company car tax scheme is estimated to have saved some 0.2 million tonnes of carbon in 2003 alone and we expect this to grow.

With the publication of the Powering Future Vehicles strategy the Government has set out how it will promote the take-up of cleaner, more efficient vehicles and fuels; and ensure the full involvement of the UK automotive industry in these new technologies. Key measures within this strategy include fiscal and grant incentives for consumer and business take-up of cleaner, more efficient vehicles and fuels, and research, development and demonstration funding for new technologies.

5. The voluntary agreement with European car-makers may not deliver the forecast emission reductions, and the savings of 5.6 MtC predicted in the Government's Ten Year Transport Plan will not now be achieved. This highlights the need for complementary measures, including fiscal measures, to promote a shift to low carbon transport.

The ten year plan for transport predicted carbon savings of 1.6 MtC, this has now been revised to between 1.1 and 1.4 MtC by 2010.

The European Voluntary Agreements have been an extremely effective way of improving new car fuel efficiency. The auto industry has so far met all of the interim targets set out in the Voluntary Agreements, and remains committed to the 2008/9 targets - which would mean a 25% improvement in average new car fuel efficiency by 2008/9 compared to a 1995 baseline.

Alongside these voluntary agreements, the Government will continue to look at using taxation, such as fuel and vehicle excise duties, to encourage low carbon transport.

6. The attempt to set additional targets for low carbon vehicles in 2010 and 2020 was not particularly helpful, though we appreciate the Government's desire to give a long-

term signal to the industry. Capital grants and investment subsidies provide another way to promote change, and we are not convinced that there is sufficient Government support for, or indeed coordination between, the various bodies involved.

The PFV strategy has already identified the need for closer links between the various Research and Development programmes and the Government has asked the Low CVP for recommendations on how to improve these linkages. We will wait to receive these recommendations before considering the case for implementing any changes to the current situation.

We accept that in principle capital grants and investment subsidies can play their part and provide one way to promote change. However, all policy measures must be well-designed to ensure value for public money and no unintended side-effects and subsidies can have a range of distorting effects, leading to a less efficient outcome. Therefore, when deciding on action to be taken we will follow the approach set out in our PBR 2002 Publication, Tax and the Environment: Using Economic Instruments, and in choosing the most appropriate the Chancellor will take into all relevant social, economic as well as environmental factors into account.

7. We welcome the introduction of the Alternative Fuels Framework. We see this as a direct response to our earlier recommendations on this score. But the Government faces major choices in terms of the role it sees biofuels, LPG and CNG playing in future. The Treasury cannot expect industry to provide long-term investment in alternative fuels unless it adopts a long-term strategy itself, and there is clearly a need for a rather more substantial strategy than the Alternative Fuels Framework currently provides.

The Government is pleased that the EAC welcome the introduction of the Alternative Fuels Framework and recognise the role it plays within the overall Government Transport Policy.

The framework sets out the rationale for Government support for alternative fuels, placing environmental benefit at its core. In recognition of the importance to investors of providing long-term certainty in the market, the framework also includes an unprecedented Government commitment to a three-year rolling guarantee on the fuel duty differentials for all alternative fuels.

Such a structured approach to supporting this growing industry is intended to underpin yet more investment in this area, and the framework also provides a clear signal to industry by setting out the underlying principles for Government's support in this area. In terms of setting a future strategy for fuels, this is an issue that falls across Government but on which the Department for Transport lead, working closely with all departments. The Department for Transport's recent assessment 'Liquid biofuels and Renewable Hydrogen to 2050' sets out the Government's thinking on longer term strategic issues for future fuels.

8. The continued growth of carbon emissions from transport remains one of the most serious problems we face, and the Government's commitment to sustainable development will be called into question unless it takes steps to confront this issue. The 1999 Pre-Budget Report included a commitment to ring-fence any above inflation increases in duty and recycle the proceeds. We urge the Government to implement the

planned rise in fuel duty at the earliest opportunity, and to consider the case for recycling proceeds from future increases in order to subsidise transport spending and low carbon alternatives to conventional fuels. It would be helpful if the Treasury's fuel duty strategy could in future include specific discussion of this issue.

The Government's focus since 3 June has been on OPEC and oil producers and their responsibilities to meet their own targets on sustainable oil prices. With the next meeting of OPEC Ministers now moved from July to September, and in light of the continuing uncertainty in the oil market, the Government announced on 20 July that it had decided to review the planned inflation increase in fuel duty at the Pre Budget Report.

The Chancellor of the Exchequer will report back on this issue at the time of the Pre Budget report.

9. We are disappointed that the Future of Transport White Paper had nothing new to say on the practical steps the Department for Transport would take to tackle carbon emissions from transport and to promote a shift to a low carbon economy. It will take 10 to 15 years to introduce road charging on a national basis and such a regime would be far more of a blunt instrument than the present system, where larger differentials in rates of fuel duties and VED can potentially be used to promote a shift to low-carbon vehicles. We therefore see a continuing and important role for an environmental fuel duty strategy over the next decade or more.

The Government agrees that transport has a critical part to play in reducing carbon emissions, and is committed to using fiscal measures to achieve environmental benefits and encourage more sustainable transport behaviour. As announced in the Spending Review 2004, in recognition of the contribution the transport sector makes to greenhouse gas emissions from 2005/6 the Department for Transport will formally share the joint climate change PSA target with DEFRA and DTI. On road charging the Department for Transport will be issuing a response to the Feasibility Study of Road Pricing in the UK, building upon its initial response in the 'Future of Transport' white paper published in July this year. This will set out how Government intends to take forward the recommendations from the Study.

10. We trust that the review of the company car tax scheme will give full consideration to the scope to widen the differentials further in order to increase the incentives for purchasing very low-emissions vehicles.

The Government's evaluation of the company car tax reform has shown that over half of all employers who run company car fleets have changed their policies towards CO₂ emissions and are encouraging their employees to switch to cars with lower CO₂ emissions. We believe that the company car tax reform has had a significant impact in reducing levels of CO₂ in the UK. We estimate that in 2003 around 0.15 to 0.2 million tonnes of carbon will have been saved, equal to around 0.5% of all CO₂ emissions from road transport in the UK. These early findings suggest that we are on course to meet our estimated long-term reductions of 0.5 - 1 million tonnes of carbon per year due to the reform.

Company car tax differentials are already very significant with the percentage charge for petrol and diesel cars (meeting Euro IV emissions standards) ranging from 15% for cars

with the lowest CO2 emissions to 35% for cars with the highest. Further discounts are available for alternative greener fuels and in the 2004 Budget report the Government said it would examine discounts on LPG and NG vehicles to provide further incentives.

11. The Government's own evaluation of the current VED scheme shows that current differentials are insufficient to prompt behavioural changes. The Government should increase them radically as part of a coherent strategy to promote low-carbon transport.

The Department of Transport commissioned a MORI study to assess the impact of the graduated VED scheme on vehicle choice in the new car market in the UK. The purpose of this research was to gather views, via surveys and focus groups, on the impact that graduated VED is having on consumers' car purchasing decisions, and whether it encourages people to choose cars with lower CO2 emissions.

The study only looked at one aspect of the graduated VED system - its impact on new car purchasing decisions by private motorists. It showed that VED was not at the top of the list of factors influencing new car purchasers. This is not altogether surprising, and it certainly does not mean that the system is not working. VED was never intended to be the main factor influencing car purchasing decisions - it is instead intended to send signals to car purchasers and owners.

The Chancellor decides VED rates on a Budget by Budget basis, taking account of a wide variety of economic, environmental and social factors. This research study will help inform future decisions.

12. It is unfortunate that the Energy Efficiency Action Plan has had to be produced before a number of key evaluations on which it should have been based-including Spending Review 2004, the revised DTI Energy Projections, and the review of the Climate Change Programme. As a result, it is impossible to assess to what extent the measures it contains are sufficient to deliver the absolute emission levels required, or even unclear whether the various components of the Plan will indeed deliver their forecast benefits.

The Energy White Paper contained a commitment to publish an energy efficiency implementation plan within a year (i.e. by the end of February 2004) that set out further detail on delivery of the strategy contained in the White Paper. Publication of the Action Plan in April, two months later than originally anticipated, allowed announcements from Budget 2004 to be included as well as details on the extension of the Energy Efficiency Commitment, on which the Government consulted between May and August.

To have delayed held back publication of the Action Plan in order to include the outputs from the three processes mentioned above the Committee cites would have meant a further delay of up to a year, which was not compatible with the commitment to publish within a year of the Energy White Paper. We would also have disappointed key stakeholders, who made clear that early publication of the Action Plan was a priority and who were concerned that industry members would lose the confidence to invest in the expansion of the Energy Efficiency Commitment for the 2005-2008 phase if the Action Plan was not published within the planned timeframe.

The policy evaluation processes to be carried out as part of the review of the climate change programme will allow an assessment of the measures in the Action Plan, together with appraisal of options for further action. We will also ensure that the outcomes of the Spending Review and the latest Energy Projections inform any policy decisions.

The Government is also committed to monitoring progress of delivery against the Action Plan and reporting formally each year through the Energy White Paper annual report. We are in the process of developing new energy efficiency indicators that will have an important role in this monitoring.

13. In publishing the revised energy projections, the Department of Trade and Industry must highlight the extent of any 'carbon gap' and reconcile the impact of current policies to the 20% UK target for 2010 of 132 MtC.

DTI is working to further refine its energy and emission projections, with a view to publication later in the year. Those projections will aim to incorporate existing policy measures. Projections of this kind are inevitably subject to uncertainty, but any gap to the UK Government's goal to move towards a 20% reduction in CO₂ emissions by 2010 should be apparent from that work.

14. It is disappointing that the Treasury, after consulting in both 2002 and 2003 on fiscal measures for domestic energy efficiency, was unable to include in Budget 2004 a more significant package of measures.

The Government has already delivered, and in Budget 2004 continued to deliver, a significant package of measures to improve domestic energy efficiency. However, to ensure a sensible, cost-effective approach domestic energy efficiency policy needs to include a balance of both fiscal and non-fiscal measures. On the non-fiscal side, the Government has focused its action around greater insulation and more energy-efficient heating in properties. The Energy Efficiency Commitment for 2002 to 2005 (EEC) is the principal non-fiscal policy mechanism driving increases in the efficiency of existing homes and other significant non-fiscal measures including the extensive grant based programmes such as Warm Front. Some fiscal measures include:

- the introduction of a reduced rate of VAT on the installation of energy saving materials, such as loft insulation and draught proofing, and also for the domestic installation of ground source heat pumps, and solar and wind generating equipment;
- reduced rates of VAT on the grant-funded installation of new central heating systems and heating appliances;
- as part of the Affordable Warmth Programme (AWP) a capital allowance scheme is available to help incentivise supports help incentivise the installation of energy efficient heating systems boilers in up to 1 million low income homes. The AWP is administered by Defra and is supported by public spending and supplemented by a public/private partnership where the equipment is leased from Transco is currently managed by Transco. Special rules allow capital allowances to be claimed on the leased equipment;
- the new tax allowances for landlords who insulate their properties (through the Landlords Energy Saving Allowance).

The Government is also investing directly to bring homes up to the Decent Homes standard. The Deputy Prime Minister announced on 6 October £2.5 billion for the next three years of the Arms Length Management Organisation programme alongside £1.22 billion PFI credits to make homes decent and, importantly, build new social housing, as well as £180 million for the gap funding of some housing transfers.

These incentives provide a strong driver to improving the energy efficiency of the UK as a whole, and will continue to play an important role in helping the Government deliver carbon savings.

The Government has also identified options for the future, including the introduction of a reduced rate of VAT on domestic CHP, taking account of the emerging findings of the ongoing field trials, and a Green Landlord Scheme to further incentivise improvements in the efficiency rating of the private rented sector. At an international level, the Government has also been pressing for the right to use reduced rates of VAT for energy efficient products. We will continue to review and develop policies in light of emerging evidence.

15. We share the concerns expressed by the Energy Saving Trust about the scale of the savings which can realistically be expected from the Energy Efficiency Commitment, and about the commitment required to achieve these savings. While it may be right for the Government to adopt a cautious approach here, it is surprising that it did not seek to involve the Energy Saving Trust more fully in agreeing the figures in the Action Plan.

The Government intends to extend the EEC for 6 years at a level roughly double that of the present EEC. A firm target for the first period will be reviewed later this year following recent public consultation. The target for the second period, 2008-11, will be set in 2007, taking account of the need for continued cost effectiveness in relation to other carbon abatement options. We believe that even greater energy efficiency improvements for the household sector may be attainable in the period after 2008, but cannot set a firm level now. In conjunction with the post-2008 review, we will also explore with all interested parties the opportunities for trading of the energy/carbon savings achieved.

An official-level Energy Efficiency Working Group played a key role in development of the Energy Efficiency Action Plan. The Energy Saving Trust was represented on this group. In addition, a High Level Advisory Committee comprising representatives from Government, Ofgem, the Energy Saving Trust, energy suppliers and the energy efficiency industry advised on proposals for the extension of the Efficiency Commitment from 2005-2008. The Energy Saving Trust was therefore closely involved in development of the Energy Efficiency Commitment and the Action Plan. The Government fully considered the views of the EST alongside those of other stakeholders, experts and interested parties.

16. We welcome the evaluation the Carbon Trust has recently carried out of the impact of Enhanced Capital Allowances (ECAs), and the Treasury should publish it immediately. But we remain concerned about the extent to which efficiency savings from ECAs would in any case have resulted from the introduction of the Integrated Pollution Prevention and Control regulations.

To maximise the environmental benefit the Carbon Trust promotes the list of designated energy-saving technologies to all sectors that can invest in energy-saving equipment. That

includes businesses that can claim the accelerated tax relief offered by ECAs and also organisations not in the charge to tax, for example the public sector.

The Carbon Trust carries out an annual awareness assessment to gather information to help it develop its promotional and marketing activity to ensure that wherever possible, all organisations use the list of energy-saving technologies as a source of information when considering purchasing new equipment.

For its 2003/04 report - as well as collecting information to support its marketing activities - the Carbon Trust spoke to a small sample of equipment purchasers and manufacturers about other issues. These included discussions about expenditure on qualifying energy-saving technologies. This is a preliminary piece of work that is primarily useful for marketing purposes. It does not represent a full, robust evaluation of the scheme and we do not think it would be appropriate to publish it at this time. The results of this project will however feed into the Government's work to evaluate ECAs more generally, which we would expect to report on this in due course.

The ECA scheme has the specific aim of reducing emissions of carbon dioxide by providing an incentive for businesses to invest in equipment that can save energy. The Pollution Prevention and Control (England and Wales) Regulations 2000 are drawn more widely but require regulators to take account of the principle that energy should be used efficiently when setting conditions in permits to operate the industrial installations covered by the Regulations. There are other measures that can also encourage businesses to use energy more efficiently. Where measures have complementary aims, in this case the reduction of energy used by businesses, it will not always be possible to distinguish between the impacts that the measures have individually, but clearly a package of complementary measures can work together to have an impact greater than the sum of the individual measures.

17. We recommend that the Treasury should fulfil its earlier commitment to this Committee and regularly carry out systematic ex post appraisals of environmental tax measures.

Tax and the environment: using economic instruments published alongside the 2002 Pre Budget Report recognises that good environmental policy does not stop with the implementation of a measure, it continues through a process of monitoring and evaluation of the effectiveness of the measure. Evaluations should take account of experience and improved knowledge, for example on improved scientific understanding.

The Government is committed to appraise and evaluate the environmental impact of all Budget measures. Table 7.2 in the Budget describes the environmental effect of all recent Budget measures which have a significant environmental impact or serve an environmental purpose. The Government has also changed the format of table 7.1 to make more explicit the positive environmental changes that Budget measures are helping to bring about. By including more details from the sustainability headline indicators as published by DEFRA, the Government is committed to the evaluation of environmental tax policy, and has shown this through large scale evaluation programmes such as on vehicle tax reforms and the aggregates levy (which led to the changes to the exemption in Northern Ireland).

18. The Treasury now considers that the introduction of the EU Energy Products Directive provides a basis for extending eligibility for Climate Change Agreements to energy intensive industries. Yet it has failed to set out the rationale for introducing such an extension at this time or to include this measure in the table of environmental impacts appended to Chapter 7 of the Budget Report.

Prior to the proposed change, the definition of "energy intensive" sectors, and hence eligibility to the agreements, was based on the Pollution Prevention and Control Regulations. However, the current arrangements have produced competitive distortions, as there are directly competing energy-intensive sectors that are not included in the current CCA arrangements. The extension of the eligibility criteria will help reduce these competition problems. Following consultation with business, a further definition of "energy intensive" sectors, and eligibility to agreements, is to be introduced, based on the definition used in the Energy Products Directive (which took effect from 1 January 2005). This definition was chosen because it has a clear rationale, is relatively simple and has already been agreed as appropriate within the EU.

The first year results from the current CCAs have shown that energy-intensive sectors with agreements have made real reductions in their energy use and/or emissions. Extending the agreements to other energy-intensive sectors, therefore, has a strong environmental justification.

The impact of the climate change levy package as a whole was included in table 7.2 of the Budget Report ("The environmental impacts of Budget measures"), indicating savings of at least 5 MtC per year by 2010. Specific information on this measure was not included because environmental impacts will not be known until sectors have applied for the new agreements, their applications have been accepted and target figures for energy/emissions reductions have been agreed with DEFRA.

19. We are sceptical of the figures quoted for emissions savings from Climate Change Agreements and recommend that baseline figures and future assessments, including that for 2004, are independently audited. The transparency of reporting could be improved and it would be helpful if DEFRA assessment reports could include a more strategic overview of performance, including progress against targets under the Climate Change Programme.

Climate Change Agreements at both umbrella (sector) level and underlying (operator) level are independently audited for their baseline and target period performance data under a contract with Future Energy Solutions. All sector associations' systems were audited at the time of the last reconciliation period. Individual target units' data is subject to a rolling programme of sample audits. Where these audits uncover data errors, the target units must correct them and make good any consequent deficiencies in performance by buying allowances if they wish to continue to pay the reduced rate of CCL.

HM Customs and Excise also carry out audits on these facilities for revenue protection. Any overachievement against targets must be fully verified under the terms of the UK ETS if a company wishes to convert this overachievement to allowances under the trading scheme.

Defra published a full report of the results of the first target period performance in July this year. This contained an overview of performance and detailed analysis of each sector. Providing a strategic overview of the performance of 44 sectors of industry, each with its own base year, is inevitably complicated. The CCP targets for CCAs were constructed on the basis of projections of growth and “business as usual” savings at the time of the original negotiations ie 1999-2000. Those projections have changed and this makes it difficult to compare directly the predicted savings from the targets and actual savings achieved.

However, we note the Committee’s concerns and will seek to provide a more transparent analysis of the 2004 target period next Spring.

20. A central theme emerging from this report is the difficulty of assessing progress on energy efficiency in the absence of robust and reliable energy projections and systematic ex post appraisals of the impact of specific policy measures. For this reason it is difficult to come to any conclusive view on the extent of any shortfall between the savings which current policies will deliver and the absolute level of emissions we need to meet. However, as we have suggested, there are grounds for supposing that this shortfall might be more substantial than currently envisaged, and that the Government will need to adopt more radical policies and implement them with still greater commitment if we are to attain the challenging objectives it has set.

Evaluation of existing policy is made on the basis of the best available evidence and analysis. Inevitably, projections are subject to substantial uncertainty: aside from modelling issues, this also applies to market prospects, such as the level and relative prices of fossil fuels, and to the impact that existing Government measures will have. However work is ongoing on the evaluation of specific policy measures, like the climate change levy. DTI are also working to further refine their energy and emission projections, with a view to publication later in the year.

The forthcoming review of the UK Climate Change Programme, led by Defra with the close involvement of other Government Departments, will provide the opportunity to thoroughly evaluate the key elements of the programme and measure their impacts and effects.

21. We fear that the Treasury is failing to exploit opportunities for more imaginative policy initiatives that might deliver the step changes needed rather than steady incremental progress. The crucially important series of reviews which are taking place this year and next provide an opportunity for it to look afresh at the scale of the challenges we face and re-assess the adequacy of the policy mechanisms we have in place to meet them.

We have made considerable progress against our environmental objectives with the introduction of the climate change levy, the world’s first emissions trading scheme, the aggregates levy, a and graduated vehicle excise duty based on carbon emissions, and a range of other measures. However, we recognise that there will be more challenges and opportunities ahead. We will continue to work towards meeting these challenges and promoting sustainable growth.

As the EAC points out, the Climate Change Review, together with the work Defra are currently undertaking on the extension of the Energy Efficiency Commitment and the forthcoming review of the Renewables Obligation (led by DTI), will provide an important opportunity to reassess our progress in meeting our carbon reduction goals through a range of policies, including focusing on their relative value for money in terms of cost per tonne of carbon saved.

11 October 2004

Past reports from the Environmental Audit Committee since 1997

2003-04 Session

First	Annual Report 2003, HC 214
Second	GM Foods – Evaluating the Farm Scale Trials, HC 90
Third	Pre-Budget Report 2003: Aviation follow-up, HC 233
Fourth	Water: The Periodic Review 2004 and the Environmental Programme, HC 416 (<i>Reply, HC 950</i>)
Fifth	GM Foods – Evaluating the Farm Scale Trials, HC 564
Sixth	Environmental Crime and the Courts, HC 126
Seventh	Aviation: Sustainability and the Government Response, HC 623 (<i>reply, HC1063</i>)
Eighth	Greening Government 2004, HC 881
Ninth	Fly-tipping, Fly-posting, Litter, Graffiti and Noise, HC 445
Tenth	Budget 2004 and Energy, HC 490
Eleventh	Aviation: Sustainability and the Government's second response, HC1063
Twelfth	Environmental Crime: Wildlife Crime, HC 605

2002-03 Session

First	Pesticides: The Voluntary Initiative, HC100 (<i>Reply, HC 443</i>)
Second	Johannesburg and Back: The World Summit on Sustainable Development–Committee delegation report on proceedings, HC 169
Third	Annual Report, HC 262
Fourth	Pre-Budget 2002, HC 167 (<i>Reply, HC 688</i>)
Fifth	Waste – An Audit, HC 99 (<i>Reply, HC 1081</i>)
Sixth	Buying Time for Forests: Timber Trade and Public Procurement - The Government Response, HC 909
Seventh	Export Credits Guarantee Department and Sustainable Development, HC 689 (<i>Reply, HC 1238</i>)
Eighth	Energy White Paper – Empowering Change?, HC 618
Ninth	Budget 2003 and Aviation, HC 672 (<i>Reply, Cm 6063</i>)
Tenth	Learning the Sustainability Lesson, HC 472 (<i>Reply, HC 1221</i>)
Eleventh	Sustainable Development Headline Indicators, HC 1080 (<i>Reply, HC 320</i>)
Twelfth	World Summit for Sustainable Development – From rhetoric to reality, HC 98 (<i>Reply, HC 232</i>)
Thirteenth	Greening Government 2003, HC 961 (<i>Reply, HC 489,2003-04</i>)

2001-02 Session

First	Departmental Responsibilities for Sustainable Development, HC 326 (<i>Reply, Cm 5519</i>)
Second	Pre-Budget Report 2001: <i>A New Agenda?</i> , HC 363 (<i>HC 1000</i>)
Third	UK Preparations for the World Summit on Sustainable Development, HC 616 (<i>Reply, Cm 5558</i>)
Fourth	Measuring the Quality of Life: The Sustainable Development Headline Indicators, HC 824 (<i>Reply, Cm 5650</i>)
Fifth	A Sustainable Energy Strategy? Renewables and the PIU Review, HC 582 (<i>Reply, HC 471</i>)
Sixth	Buying Time for Forests: <i>Timber Trade and Public Procurement</i> , HC 792-I ,

(Reply, HC 909, Session 2002-03)

2000-01 Session

First	Environmental Audit: <i>the first Parliament</i> , HC 67 (Reply, Cm 5098)
Second	The Pre-Budget Report 2000: <i>fuelling the debate</i> , HC 71 (Reply HC 216, Session 2001-02)

1999-2000 Session

First	EU Policy and the Environment: An Agenda for the Helsinki Summit, HC 44 (Reply, HC 68)
Second	World Trade and Sustainable Development: An Agenda for the Seattle Summit, HC 45 (Including the Government response to the First Report 1998-99: Multilateral Agreement on Investment, HC 58) (Reply, HC 69)
Third	Comprehensive Spending Review: Government response and follow-up, HC 233 (Reply, HC 70, Session 2000-01)
Fourth	The Pre-Budget Report 1999: pesticides, aggregates and the Climate Change Levy, HC 76
Fifth	The Greening Government Initiative: first annual report from the Green Ministers Committee 1998/99, HC 341
Sixth	Budget 2000 and the Environment etc., HC 404
Seventh	Water Prices and the Environment, HC 597 (Reply, HC 290, Session 2000-01)

1998-99 Session

First	The Multilateral Agreement on Investment, HC 58 (Reply, HC 45, Session 1999-2000)
Second	Climate Change: Government response and follow-up, HC 88
Third	The Comprehensive Spending Review and Public Service Agreements, HC 92 (Reply, HC 233, Session 1999-2000)
Fourth	The Pre-Budget Report 1998, HC 93
Fifth	GMOs and the Environment: Coordination of Government Policy, HC 384 (Reply Cm 4528)
Sixth	The Greening Government Initiative 1999, HC 426
Seventh	Energy Efficiency, HC 159 (Reply, HC 571, Session 2000-01)
Eighth	The Budget 1999: Environmental Implications, HC 326

1997-98 Session

First	The Pre-Budget Report, HC 547 (Reply, HC 985)
Second	The Greening Government Initiative, HC 517 (Reply, HC 426, Session 1998-99)
Third	The Pre-Budget Report: Government response and follow-up, HC 985
Fourth	Climate Change: UK Emission Reduction Targets and Audit Arrangements, HC 899 (Reply, HC 88, Session 1998-99)
