



WWF-UK
Registered office
Panda House, Weyside Park
Godalming, Surrey, GU7 1XR

Tel: +44 (0)1483 426444
Fax: +44 (0)1483 426409
info@wwf.org.uk
wwf.org.uk

Investment in low carbon manufacturing and jobs: the case for a 2030 decarbonisation target

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This document outlines in brief the value of a sector-specific decarbonisation target for electricity in 2030. Hon. Members will have the opportunity to vote for amendments to the Bill on this issue at Report Stage, 3-4 June 2013.

- Investment certainty out to 2030 is absolutely critical for attracting investment in the UK's renewable energy manufacturing supply chain, which holds the key to driving significant amounts of investment and GDP growth in the UK. According to the CBI, the UK's "green business" sector could have the UK's trade deficit by 2014/15. However, the same report warns that lack of long-term policy certainty could result in the UK losing around £0.4bn in net exports by that same year.¹
- Investments in the renewable energy supply chain, such as those currently being considered by Siemens in Hull and Gamesa in the Port of Leith, are not made on the basis of short term assumptions but require a clear market outlook well into the 2020s. In the case of offshore wind for instance, it takes several years to build a turbine factory, following which several years of continued operation (often 10 years or more) are required to make a return on investment. In other words, 2030 is only one investment cycle away for the renewable energy manufacturing supply chain.
- The current package, which was announced as part of the Energy Bill, should mean that the UK is in a good position to meet its renewable energy target for 2020, which is good news. However, as it stands, the Energy Bill package offers no certainty beyond 2020 and therefore risks creating a cliff edge in 2020 for investment in new renewable energy projects. This causes a problem in that the less clarity there is on the minimum volume of orders that can be expected from project developers in the post-2020 period, the more investors will delay their investment in the renewable energy supply chain.
- It is worth noting here that the lack of clarity on the UK's long-term energy policy has already had some bearing on the decisions taken in 2012 by General Electric, Doosan Power and Vestas to shelve their plans for investment in offshore wind factories in the UK, which would have created thousands of new highly skilled jobs in parts of the country with low economic activity.²
- Mike Rolls from Siemens said to the Energy Bill Committee in January 2013: "If we wait until 2016 to get the certainty that would help us to make a decision, particularly around the

¹ Colour of Growth, CBI, July 2012: http://www.cbi.org.uk/media/1552876/energy_climatechangerpt_web.pdf

² More details on these projects can be provided on request.

Hull investment [a new factory for offshore wind turbines] – this is for other companies with other technologies as well – we would probably miss the boat.”³

- A 2030 decarbonisation target would therefore play a critical role in that it would send a strong signal to investors, project developers and supply chain manufacturers that the UK is committed to significantly reducing carbon emissions in its power sector over the next 20 years. This, in turn, would provide a clear outlook as to the minimum volume of low-carbon generation projects required out to the next investment cycle, which in turn will help stimulate and accelerate investment in the UK’s renewable energy supply chain.
- To illustrate this, a report from Cambridge Econometrics⁴ published in November 2012 by WWF-UK showed that supporting continued investment in offshore wind out to 2030 instead of going down the route of a heavy reliance on gas-fired generation would provide a much better economic outlook for the UK. The report found in particular that, compared to a gas-heavy scenario, a sustained development of offshore wind would add £20bn annually to UK GDP by 2030, would increase net employment by 70,000 by 2030, would reduce gas imports by some £8bn/year and would deliver power sector carbon emissions that were three times lower. This could be achieved with only minimal impacts on electricity prices, the consumer price index being only 0.2% higher by 2030 in the high offshore wind scenario.
- The conclusions of the report do not even take into account the additional economic benefits that would arise from the UK exporting offshore wind technology to foreign markets and are also robust to a wide range of assumptions, including lower future gas prices. However, the analysis makes clear that for these economic benefits to be harnessed, long-term certainty as to the direction of UK energy policy will be required. This requires an outlook beyond 2020.

There is therefore a strong case for a sector-specific decarbonisation target for electricity in 2030 to provide that longer term clarity, attract investment, and bolster our carbon targets.

The Government has accepted all these points at Committee stage, and agreed in principle that a carbon intensity target for 2030 “would be useful and of value”. Energy Minister John Hayes said explicitly that there was no disagreement about the principle, only the mechanism and timing of the target.

However, the Government’s new Chapter 1 is weak on both the mechanism and the timing: it merely gives a power to consider setting a decarbonisation target in 2016 or any year thereafter, with too few details. This has not satisfied the calls of businesses, investors, manufacturers or suppliers who have continued to call for a proper target, set in 2014.

WWF-UK therefore urges Hon. Members to support amendments (11-20) at Report Stage which propose to set a target in 2014, rather than delay until 2016.

Contact	Tom Viita, Public Affairs Specialist, WWF-UK tviita@wwf.org.uk / 07824 821 175 Nick Molho, Head of Climate & Energy, WWF-UK nmolho@wwf.org.uk / 07770 238 068
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³ <http://www.publications.parliament.uk/pa/cm201213/cmpublic/energy/130117/pm/130117s01.htm>

⁴ A study into the Economics of Gas and Offshore Wind, Cambridge Econometrics, November 2012: <http://bit.ly/economicsofwind>