

Response by the Confederation of Paper Industries to the proposals for a Scottish Climate Change Bill.

Thank you for allowing the CPI to comment on the proposals on behalf of the paper and pulp industry in Scotland. In general the paper industry is supportive of measures to address climate change issues and is already improving energy efficiency within the industry, both as good businesses sense and in response to the sector Climate Change Agreement and EU ETS.

The paper and pulp industry continues to be an important part of the Scottish manufacturing economy, comprising six main mills manufacturing a wide variety of paper products. In general the UK paper industry has contracted in recent years and the number of Scottish mills is less than half it was a few years ago. The contraction reflects the growing international pressures on the industry.

It is important that the proposed measures do not add a financial burden on Scottish industry not faced by competitors in other countries. Indeed this danger is explicitly recognized in the consultation papers through the Partial Regulatory Impact Assessment, where in section 5 the risk of driving energy intensive industries out of Scotland is recognized.

Energy intensive industries subject to international competition are in a difficult position when faced with additional costs not faced by international competitors manufacturing outside Scotland. Economic theory expects these costs to pass through the supply chain and so impact on purchasing decisions. However the reality of the availability of imports from outside the EU means that the ability to actually pass on these higher costs is severely limited. Higher energy and raw material costs means the pulp and paper industries are not particularly – if at all - profitable at the moment and additional costs can only make things worse. It is worth noting that the power generation sector does not face these pressures – their ability to pass through price increases to captive UK customers is much greater. This means the same policy instrument will have a different impact on each sector – a power generator can pass on the cost increase whereas a paper manufacturer may be driven out of business.

The move to further increase the production of renewable energy is of course to be welcomed and the paper industry is playing its part with the construction of additional combined heat and power plant powered by wood by UPM-Kymmene at the Caledonian Paper Mill in Irvine. Indeed the cost of energy is a key issue for the paper industry. Higher energy prices are unwelcome, but manageable if they are faced by manufacturers irrespective of where they are based; they are not manageable if they are only faced by Scottish based manufacturers. It is important the move to renewables does not disproportionately increase energy prices to Scottish mills, indeed if energy from renewable sources is delivered cheaper than from fossil fuels, this could give Scottish industry a competitive advantage.

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Specific Questions

1. Should a Scottish target be based on carbon dioxide only or the basket of six greenhouse gases?

To minimise the regulatory burden it would make sense to follow the format of the UK Climate Change Bill and focus on carbon dioxide emissions and other greenhouse gas emissions should it be subsequently amended.

2. Should the Bill contain provisions to alter which gases are included, for example if the reliability of data for a particular gas improves or if science changes in the future about which gases cause climate change?

Investment decisions in capital intensive paper industries are paid back over a long time period. Therefore micro management of targets should be avoided and targets be set for a long time period, remaining unchanged unless severe anomalies in data are discovered or major changes to scientific understanding occur.

3. The Scottish Government wishes to ensure that the Bill gives sufficient incentives to invest in energy efficiency and renewable electricity. Should the targets be based on source emissions; an end-user inventory; or on individual targets for energy efficiency and renewable electricity? Do you have any other suggestions?

An adjusted end user inventory would seem to be the most effective option to actually focus on energy used in Scotland by excluding exported energy. However more consideration needs to be given to the any effect of artificially increased costs on energy intensive industries, as one perverse effect may be to drive such production industry from the Scottish economy, thus misleadingly seeming to reduce carbon dioxide emissions. Products would still be produced in other countries and imported in Scotland, meaning the production and (increased) transport emissions are misleadingly excluded from the Scottish figures.

There may be merit in investigation the opportunity to make the costs of any new scheme cost neutral for participants. For example the CCA agreements provide for the majority of the CCL scheme charges to be waived as long as energy efficiency improvement targets have been agreed and met. Revenue from any scheme could be used to fund an energy efficiency program for participants and so address some of the investment barriers and showcase world-class environmental production in Scotland.

4. Do you agree that the Bill should allow the means of measuring the target to be changed through secondary legislation to reflect international developments or unforeseen consequences of the Bill?

See response to Q2.

5. Should the emissions reduction target take account of the abatement effort made by companies under emissions trading schemes? If so, how?

Yes. The EU wide emissions trading scheme and subsequent links to a global scheme provide the primary mechanism to drive down emissions at the lowest possible economic cost. The issue of driving energy intensive industries out of the EU through import substitution is being addressed with a free allocation of allowances for such sectors being considered. Following the logic of this argument there is no point in imposing higher target on such industries in Scotland as over time this would tend to drive such companies out of Scotland, while having no effect on global GHG emissions (as is highlighted in the Impact Assessment.) If the Scottish Government considers targets are too low, higher targets need to be agreed at an international level to avoid 'carbon leakage' to areas not as strictly regulated.

6. Do you agree that international credits should be counted towards Scottish targets? Should there be limits on credits counted towards Scottish targets?

Yes. It does not matter where in the world the reductions are made.

7. Should the Bill allow the level of the 2050 target to be changed through secondary legislation? If so, should this only be allowed on the basis of independent, expert advice, to reflect international developments or unforeseen consequences of the Bill? Should any changes to the target be limited to an increase in the target?

See response to Q2.

SUPPORTING FRAMEWORK

8. What factors should be taken into account when setting the level of budgets?

For the paper and pulp sector the cumulative effect and interaction between different national and international policy instruments addressing climate change need to be considered. This consideration needs to include what is technically possible, financially affordable and comparison with competitors based outside Scotland – both elsewhere within the EU and those in countries outside the EU.

9. How long should interim budget periods be?

In line with the UK Climate Bill and EU ETS.

10. How many years in advance should emissions budget periods be set in order to provide sufficient time to develop infrastructure?

Paper and pulp making machinery can have a working life in excess of 40 years, so investment decisions are made over a long time period. A rapid response to challenging policy instruments is not always possible as the more simple energy saving investments have already been made.

11. What should be the limit (in terms of absolute quantity or as a percentage of the budget period) on the amount of emissions which the Government can borrow from a following budget period?

As long as the overall targets are met the maximum flexibility to bank, borrow or trade should be retained.

12. Should the Bill include an interim point target? If so, what year (or years) should it be for (2020, 2025, 2030, etc.)? How should the level be chosen?

No comment.

REPORTING SCRUTINY AND FRAMEWORK

13. Should the Scottish Ministers be required to report on any other issues related to climate change in addition to the requirements already set out. If so, what and how often?

It is important to understand the effect the policies are having in an international context.

14. Is a process of Parliamentary scrutiny the appropriate way of holding the Scottish Government to account if targets or budgets are not met?

Yes.

15. What should be the primary source of advice to the Scottish Government for setting emissions targets or budgets and why? Options include: the proposed UK Committee on

Climate Change, a new Scottish Committee on Climate Change, an existing public body in Scotland, or the Scottish Government itself.

It would seem sensible to establish a Scottish based advisory group to consider information specific to Scotland as well as drawing on international data via the UK Climate Change Committee. It is important the group has industrial expertise drawn from industry based in Scotland facing the international competitiveness issues highlighted elsewhere.

16. If it were to be an existing Scottish public body, which public body is most suited to carrying out this task and why?

No comment.

17. Which organisation should be tasked with monitoring the progress of the Scottish Government on reducing emissions and why? Options include: the proposed UK Committee on Climate Change, a new Scottish Committee on Climate Change, an existing public body in Scotland, or the Scottish Government itself.

No comment.

18. If it were to be an existing Scottish public body, which public body is most suited to carrying out this task and why?

No comment.

19. Should additional independent mechanisms for scrutinising the effectiveness of the Scottish Government's policies in reducing emissions be created by the Bill (in addition to any scrutiny already provided by the Scottish Parliament)?

No comment.

20. If so, which organisation is best placed to carry out this function and why? Options include a new Scottish Committee on Climate Change or an existing public body in Scotland.

No comment.

21. If it were to be an existing Scottish public body, which public body is most suited to carrying out this task and why?

No comment.

22. Are there any other functions related to climate change, existing or new, which should be carried out at arm's length from the Scottish Government and why?

No comment.

SUPPORTING MEASURES

23. Should the Bill contain enabling powers to introduce a duty on certain parts of the public sector (i.e. local authorities and large public bodies) to take specified actions on climate change or other specified environmental issues? Why?

All parts of government need to lead by example so should be at the forefront of implementing and showcasing new ideas.

24. What should such a duty (or duties) include?

No comment.

25. Should the Bill contain enabling powers to introduce statutory guidance for certain public sector bodies (i.e. local authorities and large public bodies) on specified climate change or other environmental measures? Why? Are there gaps in any existing guidance?

No comment.

26. What should this guidance include?

No comment.

27. Should the Bill contain enabling powers to create a requirement for certain public sector bodies (i.e. local authorities and large public bodies) to make regular reports on specific measures they are taking to tackle climate change (whether mitigation or adaptation) or other environmental issues? Why? What should be included in such reports?

No comment.

28. As a potential non-legislative measure, should current Best Value guidance be amended to take specific account of climate change mitigation and adaptation? If so, how should Best Value guidance be amended?

No comment.

29. Are there any amendments to existing legislation or any enabling powers needed to allow for variable charging (for example by local authorities) to incentivise action or eliminate perverse incentives?

No comment.

30. Are there any provisions to help Scotland adapt to the impacts of climate change which should be included in the Scottish Climate Change Bill?

No comment.

31. Should provisions within the Environmental Assessment (Scotland) Act 2005, be amended in order to provide clearer links with emissions reduction? If so, how should this be done?

No comment.

32. What are the equalities implications of the measures in the proposals for the Scottish Climate Change Bill?

No comment.

33. Is there any existing legislation within the competence of the Scottish Parliament (devolved) which needs to be amended so that appropriate action on climate change can be taken by sectors in society?

No comment.