

## **Diageo response to the Scottish Government's consultation on proposals for a Scottish Climate Change Bill**

Diageo welcomes the Scottish Government's consultation on proposals for a Climate Change Bill for Scotland. As an active member of the Scotch Whisky Association, we fully support the SWA's response to this consultation, which is strongly reflected in Diageo's own response.

This consultation response would like to highlight the following key issues before focussing on the specific questions included in the consultation paper:

- Scotch Whisky distillers, including Diageo, have a long and proud record of making extensive capital investments in energy efficient and emission reduction technologies
- As a member of SWA we are looking to develop a stretching Scotch Whisky Industry Environment Strategy focussing on priority environmental issues of which climate change is one.
- Scotch Whisky distillers are already covered by a range of schemes which each carry energy-efficiency and/or emission reduction targets – we are strongly opposed to the introduction of additional sector targets in this area
- Diageo urges the Scottish Government to carefully consider the likely impact of introducing new legislative measures to tackle climate change.

### **Introduction**

Diageo is the world's leading premium drinks business. With its global vision, and local marketing focus, Diageo brings to consumers an outstanding collection of beverage alcohol brands across the spirits, wine and beer categories including Smirnoff, Guinness, Johnnie Walker, Baileys, J&B, Captain Morgan and Tanqueray. Diageo trades in some 180 countries around the world and is listed on both the New York Stock Exchange (DEO) and the London Stock Exchange (DGE).

Scotland is Diageo's largest spirit supply centre responsible for producing nearly 50 million cases of leading brands of Scotch Whisky and white spirits and over 6 million cases of Ready To Drink brands annually. Around 90% of the brands produced in Scotland are sold overseas and thus Diageo accounts for approximately 25% of Scotland's total food and drink exports. Diageo employs over 4,000 people in Scotland across 50 sites. We currently operate 27 malt distilleries and two grain distilleries and, as well as engineering and technical support functions, there are extensive warehousing operations, which store up to 7 million casks of maturing spirit. The company's Scottish headquarters are in Edinburgh, whilst packaging is focused at three plants in Scotland: Leven in Fife handling white spirits, Ready To Drink products and Scotch malt whiskies; Kilmarnock in Ayrshire bottling the complete range of deluxe Scotch whiskies; and Shieldhall near Glasgow, the largest plant of its type in the industry, packaging Diageo's high volume Scotch Whisky brands.

In February 2007 Diageo announced a £100m investment in our Scotch Whisky production, including the building of the first new major malt whisky distillery in Scotland for 30 years and the significant expansion of our Cameronbridge grain distillery in Fife. Associated with this investment are ambitious plans to reuse energy and recycle water using cutting edge technology which will set new standards in the industry and maintain Diageo's position at the forefront of environmental sustainability. We are working closely with the Scottish Government and its agencies as these important projects progress.

## Consultation questions

Diageo's response to the key questions presented in the consultation is detailed below and reflects the Scotch Whisky Association's response. Specifically we would like to highlight the following responses which are of particular importance to Diageo:

- **Question 1** - Whilst CO<sub>2</sub> is the largest GHG by volume, we believe that the Bill should include the basket of six other GHG's as like-for-like other gases have a greater impact on global warming. The Bill is seeking to reduce the effect of climate change – this will require a holistic and international approach.
- **Question 3** - It is crucial that environmental regulation keeps up with technological changes and demand from industries to innovate. Clearly a holistic approach is needed when it comes to protecting the overall environment. We would look to the Bill to help address such regulatory barriers.
- **Question 4** - We would be concerned if the Scottish target (80% reduction by 2050) is further tightened due to 'international developments'. It would be helpful to clarify what type of 'international development' might lead to the targets being reviewed

In addition, it is essential that timeframes should match EU ETS schemes.

<u>Question</u>	<u>Comment</u>
1	Whilst CO <sub>2</sub> is the largest GHG by volume, we believe that the Bill should include the basket of six other GHG's as like-for-like other gases have a greater impact on global warming. The Bill is seeking to reduce the effect of climate change – this will require a holistic and international approach
2	Yes – although any change to which gases are included may require baselines and targets to be recalculated.
3	Of the three suggestions, we believe that the simplest methodology would be to base targets on source emissions. Tackling climate change requires a holistic and international approach. To a large extent, the geographical source of GHG emissions is not the issue as their combined impact is the same wherever they are emitted. To take the end-user inventory to its logical conclusion, other benefits, such as employment and income generated from any exports of electricity from Scotland should be deducted from other official Scottish data. It might be considered inappropriate if the financial benefits of those emissions are attributable to the Scottish economy whilst the associated emissions are not. Basing the targets on the end-user inventory will require an agreement to be reached with the other countries of the UK to ensure that emissions are not double-counted. If emissions associated with electricity exports from Scotland are significant then perhaps a commentary explaining so could be included in any information which might accompany the targets and subsequent performance against the targets, for example on the Scottish Government Internet site.

What is important is that the Bill provides incentives/encouragement for the wider Scottish economy/society to move towards energy efficient/low carbon technologies.

Sometimes, regulatory and policy measures prevent alternative/low carbon technologies from being implemented. The long-debated issue of the management of waste can be used to illustrate this. The environmental consequences of the UK's interpretation of the definition of waste are perverse. By-products (in the case of the Scotch Whisky industry, residues left over after distillation) with the potential to be burned in the place of fossil fuels may be deemed to be "waste" under the UK interpretation of EU law. Whilst sectors such as our own have strategies in place for sustainable by-product management (through the production of animal feeds or land spreading), presently the option of burning by-product appears to be closed to us,

resulting in operators having to buy in commercial (mainly fossil based) fuels in their place to power boilers or abatement technologies (with the associated environmental impact of fossil fuel use). It is crucial that environmental regulation keeps up with technological changes and demand from industries to innovate. Clearly a holistic approach is needed when it comes to protecting the overall environment. We would look to the Bill to help address such regulatory barriers.

- 4 Yes – such flexibility should be incorporated in the Bill, although we are unsure about the reference to ‘international developments’. The Scottish target (80% reduction by 2050) is likely to be very demanding. The European Commission’s target (announced on 23 January 2008) to reduce EU GHG emissions by 20% (on 1990 levels) by 2020 may be tightened to a 30% reduction if international agreement is reached. We would be concerned if the Scottish target (80% reduction by 2050) is further tightened due to ‘international developments’. It would be helpful to clarify what type of ‘international development’ might lead to the targets being reviewed. We would recommend that the Scottish Government consult an independent advisory target-setting committee, for example the UK Committee on Climate Change, and the wider public on proposals to amend the statutory targets.
- 5 The target should take into account the forecast emission reduction efforts to be made at sites which are covered by EU ETS. Emissions from such sites will (collectively) be included in the overall source emissions data and so it should be straight-forward to include emissions from the Scottish EU ETS sites in the overall Scottish total.
- When setting the GHG reduction targets (both long and short term) Scottish Government might wish to consult sectors of the Scottish economy (both traded and non-traded sectors) on their forecast emissions to assess how realistic any emission reduction target proposals are.
- 6 International credits (ie those achieved through Joint Implementation and Clean Development Mechanism) are a form of offsetting. Whilst overseas investments may lead to a reduction in global GHG emissions, we believe that offsetting should be available but that it should be used as a last resort. It might be appropriate to limit the use of international credits towards Scottish targets, although it should be appreciated that the European Commission’s recent proposals for the revised ETS Directive appear to increase the use of JI/CDM project credits from Phase III onwards. On the other hand, incentivising Scottish businesses to invest in environmentally beneficial schemes overseas sends a strong message that Scottish business is serious about its environmental commitments.
- 7 Yes – for the same reasons as explained in our response to question 5.
- 8 The factors outlined in paragraph 6.5 appear to be comprehensive enough.
- 9 It would be appropriate to align the budget periods with those of the UK Climate Change Bill which are currently set to last five years. Whilst it is proposed that Phase III of EU ETS will last for a period of eight years, EU ETS is not the only policy instrument (at EU or UK level) to tackle climate change.
- 10 At least three budget periods should be set at any one time. This should be a rolling process so that the targets for the fourth budget period are agreed prior to the start of the first budget period, and the fifth prior to the start of the second and so on. Such a rolling process should provide business with more certainty to help plan long-term capital expenditure investments.
- 11 Unlimited borrowing should be permitted from any subsequent budget period. It is highly unlikely that 100% of the allowances (emissions) from a subsequent budget period will be borrowed to account for emissions arising during a preceding budget period. Borrowing (and banking) is permitted between trading years of EU ETS.

However, perhaps a safety mechanism whereby the Scottish Government is required to conduct a public consultation and seek the permission of an independent advisory committee should be introduced if the Scottish Government intends to borrow, say, over 30% of the allowances from a subsequent budget period.

- 12 It would appear appropriate to at least include an interim target for 2020 – this should allow comparisons (of targets and subsequent performance against) targets to be made with the UK and EU targets. Perhaps at least one other interim target for the period 2020-50 should be considered.
- 13 Economic and demographic factors might also be considered for inclusion in the reporting requirements. Including economic metrics within the report will help tie emission reduction achievements/commitments to the predictions/recommendations of the Stern Report. Socio-economic factors will have an important influence on GHG emissions.
- 14 Yes.
- 15 It would appear appropriate for the Scottish Government to utilise UK Committee on Climate Change, not least to avoid unnecessary duplication of work/cost. In terms of the broader picture one would anticipate that the UK Committee would have sufficient knowledge and understanding of any Scotland-specific factors, although we agree that this should be reviewed after the first three years.
- 16 We are not aware of any Scottish public body which currently has the broad level of expertise to carry out the role of the UK Committee on Climate Change within Scotland.
- 17 Again we favour utilising the expertise of the UK Committee on Climate Change to perform this task at least in the short term. Consideration might be given to utilising the expertise within the Scottish Environment Protection Agency (SEPA) to carry out emissions data collection and analysis, although an independent body, such as the UK Committee on Climate Change should oversee/audit the results.
- 18 SEPA for data collection and analysis (see response to question 17).
- 19 Yes – this is vital to help avoid the creation of a complex and unwieldy emissions reduction policy mix. As highlighted previously, we have concerns on the nature of the UK's energy-efficiency/emission reduction policy mix which includes EU ETS, the Climate Change Levy/Climate Change Agreements and the Carbon Reduction Commitment. The overlap between EU ETS and the CCA's has created an additional regulatory burden for industry. Any future measures should be targeted towards non-(emissions) traded/unregulated sectors.
- 20 Perhaps the UK Committee on Climate Change might be asked to carryout this function, although we would expect the Scottish Government to consult widely (including industry) during the initial development of any policy proposals. Policy proposals sometimes have unintended consequences – it is important to speak with all stakeholders (not just those at which a policy measure is directed at) to avoid unintended consequences/pitfalls from occurring.
- 27 This would appear to be appropriate. If a public sector body has a duty to undertake measures on climate change, compulsion to report on those measures would ensure regular reports.
- 29 Whilst the aims of variable charging are laudable – ie to incentivise action on climate change – the metrics used to assess the level of 'climate friendliness', which might in-turn determine rates/charges, would be very difficult to determine. The Scotch Whisky industry (which is energy-intensive) has made, and continues to make, extensive investments in energy-efficient/low carbon technologies. This is reflected in Diageo's own ambitious plans at our new distillery in Speyside and existing grain

distillery in Fife. It is not clear how a Scotch Whisky company's level of 'climate friendliness' might be compared to a business from another (non-related) sector, and then how that might be reflected in any rates/charges (e.g. business rates) that are applicable.

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As highlighted previously, we have strong concerns about the impact EU ETS will have on the industry. The European Commission's proposals to amend the Emissions Trading Directive for the period post-2012, push for the increased use of auctioning as the default allocation methodology. The majority of operators in the scheme are set to receive up to 80% of their allocation free of charge in 2013 and this will be reduced to 0% by the end of Phase III (2020). However, sectors/business which are exposed to international competition and which face the threat of 'carbon leakage' may receive up to 100% of their allocation freely. Clearly the Scotch Whisky industry is greatly exposed to international competition (90% of sales are overseas) as our competitors are not caught by the scheme and so their production costs will be lower. However, as Scotch Whisky can, by law, only be made in Scotland, we are concerned that those affected members might not be awarded allowances and will be forced to purchase these either at auction or from the trading market, against the good environmental record of the industry. The SWA are developing a case to DEFRA to demonstrate the industry's high exposure to EU ETS compared to our direct competition. Support from the Scottish Government would be appreciated to enable our industry to be eligible for free allowances alongside other internationally exposed sectors.

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