

What to expect from the government's new industrial decarbonisation strategy

Environment analysis: The Department for Business, Energy & Industrial Strategy has published a new strategy outlining how industries can decarbonise in line with government targets, while also remaining competitive. The plan addresses ways to encourage low carbon options among investors and consumers, how to transform current industrial processes, and how the UK's progress in this area can be tracked and improved. It also places emphasis on the need to avoid reducing the UK's own carbon footprint by transferring emissions abroad. Richard Goodfellow, Paul Dight and Alex Hiron, partners at Addleshaw Goddard, share their thoughts on the strategy.

This analysis was first published on Lexis®PSL on 29/03/2021 and can be found [here](#) (subscription required).

What is the background leading up to publication of the industrial decarbonisation strategy?

The government has set a target of net zero greenhouse gas emissions by 2050, enshrined in UK law by a 2019 amendment to the Climate Change Act 2008.

The COP26 UN Climate Change Conference coming up in Glasgow later this year has focused the government's mind on decarbonisation. As the UK is president of this conference, it wants to be seen to be setting an example for the world to follow.

This has led to a raft of policy documents and strategies over the last few months including the Ten Point Plan for a Green Industrial Revolution (November 2020) and the Energy White Paper (December 2020). There was a commitment in the Energy White Paper to publish an Industrial Decarbonisation Strategy in spring 2021.

UK industry sectors produce 16% of UK emissions. Around half of these are from industrial clusters, the rest from dispersed industrial plants like cement works, glass works and paper mills. These emissions will need to fall by around two thirds by 2035 and by at least 90% by 2050. The remaining 10% will have to be offset using negative emission technology or planting trees.

The challenge for the development of this policy in a globalised world is to find a way for industry in the UK to decarbonise without adding additional costs which make it uncompetitive. UK industry already complains that energy prices are much higher in the UK than France and Germany.

What are the key elements of the strategy?

The Strategy largely confirms earlier announcements but it is interesting to see the government's thinking. As yet, we don't know which technology (hydrogen, electrification or carbon capture) will prove the best, so there is considerable flexibility built in. There are however some key policy principles:

- government intervention should focus on addressing market failures or barriers to decarbonisation. Intervention should be technology neutral, and fairly share the cost and risk between industry, consumers and taxpayers (Chapter 2 and 3)
- where decarbonisation leads to significant costs that create carbon leakage risk (the risk that consumers buy cheaper, higher-carbon products from abroad because low carbon ones are more expensive), it should be supported by targeted intervention to mitigate this risk (Chapter 2)
- government should play a significant role in delivery of large infrastructure projects for key technologies (e.g. carbon capture, use and storage (CCUS) and hydrogen networks) where there is a shared benefit and the risk or cost is too great for the private sector (Chapter 4)

- government should intervene to deliver specific strategic outcomes in line with wider priorities set out in 'Build Back Better: our plan for growth' (Chapters 6 and 8), such as levelling up the economy and doing trade deals to create a global market for low carbon products

In the long run the government believes that markets will be best placed to determine the most cost-effective pathways to decarbonisation. But there are barriers that currently prevent industry from securing investment to start the low carbon transition.

During the 2020s the government will focus on helping to overcome those barriers, investing in shared CCUS and hydrogen infrastructure and developing a carbon pricing policy using the new UK Emissions Trading Scheme (ETS). It will also concentrate on helping industry to improve its efficiency (including through digitalisation), fuel switching from fossil fuels to hydrogen, bioenergy or electricity, and CCUS. CCUS plays a vital role and around 3MtCO₂ will need to be captured by 2030 if industry is to be on track to meet net zero.

In the 2030s and 2040s government funding will reduce as certainty about impact and cost of technologies improves. The core levers during this period will be emissions trading and product regulation. The government wants new voluntary product standards to define what is a "low carbon product" in place by 2025, so that consumers can choose low carbon options.

The Strategy contemplates two possible pathways to decarbonise industry: national networks and cluster networks. National networks is a scenario where hydrogen and CCUS infrastructure is available nationwide, ie there are pipelines connecting all the industrial sites in the UK. Cluster Networks assumes CCUS and hydrogen is only available to industries that are within a 25km radius of industrial clusters in Peterhead, Humberside, Teesside, Merseyside, South Wales, Southampton, Grangemouth, Medway and Londonderry. Other industrial sites would have to rely on electrification and efficiency improvements alone to reduce their emissions and so would be unlikely to reach a net zero compliant state by 2050.

How does the strategy interact with other environmental policies such as the Ten Point Plan for a Green Industrial Revolution and the Energy White Paper: Powering our Net Zero Future?

There is a useful table on page 24 showing how the Strategy interacts with other relevant government publications. As well as the Ten Point Plan and Energy White Paper already mentioned, the Strategy informs, and is informed by, policies such as the Procurement Green Paper, the 2021 Budget (Build Back Better: our plan for growth), the Construction Playbook and the Transport Decarbonisation Plan. HM Treasury's Net Zero Review Interim Report looks at ways of improving productivity to make UK industry more competitive and guard against carbon leakage. There is also the North Sea Transition Deal, published just after the Strategy.

The Strategy acknowledges that "Industry is greatly interconnected with the UK's energy system, and delivering net zero in the sectors will have a wide range of interactions with our wider economy as it too decarbonises". It is encouraging to see joined-up thinking across different government departments, with the common goal of reaching net zero by 2050.

How will progress against the strategy be tracked?

Chapter 9 explains that the government will publish an update on the progress of the Strategy every year in the annual government response to the Climate Change Committee's progress report, and will publish an update of the actions in the Strategy every five years.

Annex 1 lists the current actions set out in the Strategy, together with an overall timeframe and the specific steps to be taken in 2021 to 2022 for each.

Ultimately progress will be measured against the extent to which the UK is able to retain an industrial base, and meet its climate commitments.

Interviewed by Imogen Fitzgerald

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