



## **THE UK CLEAN GROWTH STRATEGY – DRAWING THE STRANDS TOGETHER**

The Government has published its long-awaited Clean Growth Strategy<sup>1</sup> which sets out its plans to promote growth using a low carbon economy. It predicts pathways for development of different sectors of the economy which are consistent with achieving carbon reductions in the fourth and fifth carbon budgets from 2023 to 2032. It then presents a wide range of corresponding actions that are being, and will be undertaken, to assist those sectors in that task.

### **GENERAL APPROACH**

The Clean Growth Strategy's approach is to meet UK domestic climate commitments at the lowest cost while maximising the social and economic benefits. Analysis for the Climate Change Committee has predicted growth in the low carbon economy of 11% per year between 2015 and 2030. For this reason the Clean Growth Strategy is intended to work hand-in-hand with the Government's emerging Industrial Strategy, to be published later in 2017. The Clean Growth Strategy (the Strategy) places significant emphasis on innovation and funding support; in particular an additional £4.7 billion will be funded through the recently created National Productivity Investment Fund. Improving energy efficiency across all sectors is also a major focus.

The Strategy appears to recognise stakeholder concerns that climate action might be downgraded in the wake of impacts of the UK's departure from the EU. It accordingly reaffirms commitments to the UK's climate targets (e.g. an 80 % reduction in emissions by 2050<sup>2</sup>). It also confirms that the future approach to reducing both EU Emissions Trading System (EU ETS) emissions and Non-EU ETS emissions will be as ambitious as the current EU frameworks. However, in somewhat less comforting terms, the Strategy notes that the Government is prepared to deviate from carbon budgets using the flexibilities allowed under the Climate Change Act 2008 "*if this presents better value for UK taxpayers, businesses and domestic consumers*". The Government also feels that now is not the time to commit to a post-2050 net zero carbon emissions goal<sup>3</sup>.

#### **Key issues**

- The Clean Growth Strategy sets out the UK's plan to promote growth through a low carbon economy
- It describes a number of possible low carbon pathways for different sectors
- It places particular emphasis on innovation support and improving energy efficiency in industry and buildings
- Particular support is shown for nuclear power, offshore wind, Carbon Capture Utilisation and Storage, and technologies
- Proposals are also made to simplify carbon and energy reporting frameworks

<sup>1</sup> [The Clean Growth Strategy - leading the way to a low carbon future – HM Government](#)

<sup>2</sup> Compared with a 1990 baseline.

<sup>3</sup> The 2015 Paris climate agreement committed parties to limit global temperature increases to 2°C (and to pursue efforts towards a 1.5°C limit). It also contained an ambition that, in the second half of this century, carbon emissions should only be permitted where these can be taken up by carbon sinks.

While the Government is still considering its approach to the EU ETS following Brexit, the Strategy usefully confirms that the Government remains committed to "total carbon pricing", and that the 2017 Autumn budget will contain further details on carbon prices for the 2020s.

The Strategy does not set out a specific approach to meeting its targets but presents some illustrative long-term "pathways" which the Government is considering as possible routes to achieving them:

- *Electricity Pathway* – where electricity is the main source of energy by 2050 (generated by renewables and nuclear power);
- *Hydrogen Pathway* – where hydrogen technology is used to heat buildings and fuel vehicles by 2050;
- *Emissions Removal pathway* – where Carbon Capture Usage and Storage (CCUS) technology (see further below) is used in conjunction with biomass power generation.

The strategy then considers different business sectors and how they fit in to the wider aims and possible pathways.

## **ENERGY SECTOR**

The Strategy uses a BEIS 2032 reference case from 2016 to illustrate a possible pathway for development of the power industry. This would see a reduction of carbon emissions of 80% through a combination of increased low carbon generation and more flexible management of demand. The Levy Control Framework which ring-fences the budget for low carbon support is being reviewed and will be replaced with new controls beyond 2020/21. Details of this crucial reform will be available later this year. Particular announcements of note include:

- **Coal phase-out:** The Strategy reconfirms that Government's plan to phase out unabated coal generation by 2025, with a response to consultation expected shortly.
- **Nuclear:** The Strategy gives continued support for new nuclear build but notes its expectation that future projects (i.e. those brought forward after Hinkley Point C) will need to achieve a "competitive price" in discussions with the Government. Further innovation support has also been announced.
- **Renewable energy:** The Strategy confirms ongoing support for offshore wind. It predicts development of 10 GW of new offshore wind development in the 2020s and notes that additional deployment could be supported if it is economical and deliverable. £557 million will be available for Pot 2 *Contracts for Difference* support auctions in Spring 2019. The Strategy is somewhat more lukewarm in support for developing technologies such as wave, tidal and tidal stream - they will need to demonstrate their cost-effectiveness to receive support. The main focus in relation to solar, is the desire to see more of it without government subsidy.
- **Hydrogen:** Research and development into fuel switching towards hydrogen (i.e. from natural gas) will be eligible for funding under a £162 innovation fund up to 2021. Hydrogen technology (currently considered very expensive) could form part of plans for heat decarbonisation and low carbon transport (see further below).

- **Carbon Capture, Utilisation and Storage (CCUS):** The Strategy contains an aim for CCUS to be achieved at scale during the 2030s as long as it proves to be cost-efficient. To assist, £100 million will be available to support CCUS innovation, which could also be used as a production method for hydrogen. Of that, up to £20 million will be given to fund a carbon capture and utilisation demonstration programme. While this will be seen as a renaissance of interest in carbon capture technology, it might be considered rather half-hearted in comparison with the £1 billion Carbon Capture and Storage demonstration programme the Government cancelled in 2015. The Government is supporting research into other methods of removing greenhouse gases including afforestation, and direct air capture.

## **INDUSTRIAL DECARBONISATION AND ENERGY EFFICIENCY**

The Strategy also considers necessary actions in specific industrial sectors to decarbonise and improve energy efficiency. A consultation and separate plans for each sector have been published<sup>4</sup>. Interestingly, the plans consider the extent to which CCUS technology might be used in the various sectors. For example, CCUS is seen to have significant potential in the oil refining sector.

A new £12 million industrial heat recovery programme has also been proposed. This will offer financial support for projects<sup>5</sup> aimed at recovering waste heat from industrial processes for useful purposes (including, for example, use in the same facility, provision to heat networks or use in waste-to-energy schemes).

## **ENERGY EFFICIENCY IN BUILDINGS AND CARBON / ENERGY REPORTING**

The Strategy refers to a number of other initiatives aimed at improving energy efficiency in business and buildings. The goal is to achieve a 20% improvement in energy efficiency by 2030. Key items (a number of which are dealt with in separate consultation papers) include:

- **Simplifying the Energy and Carbon Reporting Framework.** The Strategy reaffirms the Government's commitment to closing the CRC Energy Efficiency Scheme in 2019 with levy elements to be replaced by changes to the Climate Change Levy. Proposals are also made for a new reporting framework to be introduced thereafter<sup>6</sup>. The Government has also endorsed the reporting recommendations of the Task Force on Climate-related Financial Disclosures<sup>7</sup>. We will consider the proposals in a separate briefing.
- A commitment to improving the energy efficiency of new and existing buildings following the review of building regulations, and to raise minimum standards on rented commercial buildings.

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<sup>4</sup> [Industrial decarbonisation and energy efficiency action plans - BEIS](#)

<sup>5</sup> The programme will cover major industrial sectors: cement, ceramics, chemicals, food & drink, glass, iron & steel, oil refining, pulp & paper. [Industrial Heat Recover Support Programme – Programme Design and evidence collection - BEIS](#)

<sup>6</sup> [Streamlined energy and carbon reporting – Raising awareness, reducing bills, saving carbon - BEIS](#)

<sup>7</sup> The recommendations encourage companies to include climate-related information within their financial disclosures. For further information, see our briefing: [Report urges Companies to Disclose Climate Change Impacts in Financial Filings – July 2017](#)

- Heat decarbonisation – The Strategy contains a policy of building and extending heat networks across the UK with funding through to 2021 allocated from the 2015 Spending Review.
- A call for evidence on building a market for energy efficiency in buildings to overcome barriers on both the demand and supply sides<sup>8</sup>. A separate call for evidence has been published on reforming the Government's Green Deal scheme (which provided up-front finance for energy efficiency improvements).
- A commitment to reviewing Energy Performance Certificates, and how they are used, in Spring 2018.

## **OTHER NOTABLE ELEMENTS OF THE STRATEGY**

- Transport Sector: The Strategy also includes the Government's recently announced proposals to end the sale of fossil fuel-powered vans and cars by 2040, with a major investment programme to drive the move to electric vehicles by facilitating creation of an advanced electric vehicle charging network. The Government has also recently announced plans for funding to encourage the development of hydrogen-fuelled vehicles and charging infrastructure.
- Waste: The Strategy sets out an objective of zero avoidable waste by 2050 with a new Resources and Waste Strategy to be published.
- Green finance: In addition to its endorsement of the climate Task Force recommendations as described above, the Strategy also notes the recent establishment of the finance industry / government Green Finance Taskforce. It also confirms that the Government will work with mortgage lenders to develop green mortgage products. £20 million will also be devoted to supporting early stage development of clean technologies. The Government will also work with the British Standards Institution to create a set of voluntary green and sustainable finance management standards.

## **COMMENT**

The Strategy has been criticised by some for both lack of ambition and detail. However, with 50 key policies and proposals, the Strategy does at the very least represent a significant effort to bring together the various strands of domestic action in the climate change and low carbon economy taking the UK forward through to 2032 and beyond. It also sends some significant messages in its continued support for new nuclear and offshore wind, its renewal of support for CCUS, and an increased focus on hydrogen technology. There is much work to do on the detailed plans and actions in the coming years and this will help determine which of the pathways to clean growth will ultimately be pursued and supported.

The Strategy will also need to link into the forthcoming Industrial Strategy and the future 25-year Environment Plan in order to ensure that clean growth is properly placed within the context of the wider UK economy and environmental protection objectives (presumably this is where the role of shale gas in the transition to a low carbon economy will be dealt with – it is not mentioned in the Strategy).

It is important not to underestimate the need for sustained political will to ensure these strategic aims are translated into detailed plans and concerted

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<sup>8</sup> [Call for evidence: Building a market for energy efficiency - BEIS](#); [Call for evidence – Green Deal Framework - BEIS](#)

long-term action. As ever, only a settled policy outlook will give investors the confidence to make the investment choices necessary to make the huge leap to a clean economy.

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