



# HOUSE OF LORDS

Revised transcript of evidence taken before

## **The Select Committee on the European Union**

Agriculture, Fisheries, Environment and Energy (Sub-Committee D)

Inquiry on

## **EU ENERGY AND CLIMATE CHANGE POLICY**

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WEDNESDAY 9 JULY 2014

3 pm

Witness: Rt Hon Mr Edward Davey MP

Members present

Baroness Scott of Needham Market (Chairman)

Lord Bowness

Lord Cunningham of Felling

Baroness Howarth of Breckland

Lord Renton of Mount Harry

Lord Trees

Lord Whitty

Lord Williams of Elvel

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**Examination of Witness**

**Rt Hon Mr Edward Davey**, Secretary of State for Energy and Climate Change

**Q1 The Chairman:** Secretary of State, good afternoon. It is a pleasure to have you here again. I was just reminded that it is about a year since you came before, which just shows how time flies. It is a really good opportunity for the sub-committee to catch up with you on this very fast-moving area. As I am sure you will know, since we carried out our report, which was published in May last year, the sub-committee has kept a keen eye on developments in the energy sector, and most recently have had a number of informal sessions just to bring us completely up to date with some of the latest thinking, including from your own officials on the international scene just last week. You are very, very welcome.

We have provided you with a list of interests that have been declared by Committee members. If any of them are relevant to today's meeting, they will declare them before they speak for the first time. It is a formal evidence-taking session of the Committee. A full shorthand note will be taken and put on the public record in printed form and on the parliamentary website. You will be sent a copy of the transcript, and you will be able to revise any minor errors. Finally, the session is on the record, is being webcast live and will be accessible via the parliamentary website in due course. I will kick off if that is all right.

**Mr Davey:** Yes, please go ahead.

**The Chairman:** When we met last year, the question on everyone's minds was: are we going to be able to keep the lights on? That is a story that still periodically appears in the newspapers one way or another, and in the year since we last met the Energy Bill has become an Act and you made announcements last week about how the capacity market is going to work. Could you start off by outlining for us how confident you are feeling at this stage about keeping the lights on and how the capacity mechanism is going to work in that regard? That would be very helpful.

**Mr Davey:** Obviously it is a critical priority of any Secretary of State for Energy to make sure we keep the lights on. We have been working on this for several years. It is not a new issue for us at all. In fact, in July last year we published in effect our policy package for dealing with it, and before that there had been a huge amount of work on it. I always look at it in three timescales: there is the short term, by which I mean the next two or three winters; there is the medium term, which is the back end of this decade; and then there is the long term. We have already started on the long-term timescale, of course. The massive investment that is going on in electricity is all about dealing with the long term. For example, between 2010 and 2013 there was £45 billion of investment in energy generation, transmission and distribution. There is a huge pipeline; the pipeline of investment in energy is bigger than all the infrastructure investment pipelines for the rest of government put together. It is huge. That long-term investment pipeline, I believe, can give you a lot of confidence about the long term.

The medium term is the capacity market, and subject to state aid clearance, which we hope to get relatively shortly, we will be running the first capacity-market auction later this year. The whole purpose of that is to ensure that we are incentivising existing power stations to stay on the bars that otherwise might close, encouraging people who have got mothballed

plant to bring it on to the system and indeed encouraging a new plant to be built. The capacity market is not a new thing in the UK; we had it for the first 10 years after electricity privatisation, you see it in a large number of the United States' states, and you see it in a number of European countries. Because the market sometimes fails to deliver the capacity, you have the capacity market, and we think it is well designed, not least to keep costs down for consumers, and if we run the market this December we will clearly deliver for 2018-19.

The short term is what people are particularly worried about, and Ofgem and National Grid do a lot of work on that. Using powers in the Electricity Act 1989, they developed proposals for the supplementary balancing reserve and demand side balancing reserve, so there are measures on the supply side and the demand side. We were extremely happy with those. It was a very cost-effective way of ensuring that you have capacity when National Grid needs it. Effectively, the capacity that is bought sits outside the electricity market, and if National Grid thinks that we are nearing the peak and it needs to have an extra load on or take demand off, it brings it into the market. In fact, it does not go into the market; it just switches it on. That is a tried and tested method. It is obviously of a slightly higher capacity and it is really clear that that will help to get us safely through this winter and next winter. Ofgem's recent electricity capacity assessment noted that because of those services, it will reduce the risk of blackouts in 2015-16, the winter after next, from as low as one in four, which was a tiny margin anyway, to one in 31, which is pretty good.

**The Chairman:** Sorry, one in 31 what? You will have to forgive me.

**Mr Davey:** The risk of blackouts, effectively. We have a pretty comprehensive approach to electricity security, and it is worth putting on the record that the United States Chamber of Commerce considers Britain the most energy-secure country in the European Union and the fourth most energy-secure country in the world. If you ask who is better than us, it is Norway, New Zealand and Mexico—I do not quite understand why Mexico is there. There

might be other reasons to do with it, but that means that we are more energy secure than Germany, France, Italy, Spain, Canada and the United States, and I could go on. There is an awful lot written in the press about this. Most of it is not as well informed as it should be.

**The Chairman:** That is helpful, thank you. When I was in Brussels around Christmas-time, the Commissioner was not really glowing about the idea of capacity mechanisms and said something to the effect that they would be taking a long, hard look at them. You referred to state aid rules, so I wondered whether you could update us as to what the Commission thinking is about this.

**Mr Davey:** When were you in Brussels?

**The Chairman:** December-time.

**Mr Davey:** That is the message that we got. If I am honest with you, when I first became Secretary of State and I looked at the capacity market, which was a proposal that was already on the table, albeit in the early stages, I questioned it, because it is an intervention in the market and you have to justify that. But it is clear to me that from the theory of the way energy markets work, and historically and internationally, it is quite a justifiable intervention. Given the lack of investment that we saw for a period, and given that a lot of coal generation is coming off over the next couple of years, there is a very good reason why we should do it. We engaged with the Commission, and have engaged with them for some time on this. They were rightly asking questions. I have absolutely no problem about doing that because we need to ensure that however the capacity market is designed in Europe, they follow market principles as much as possible and are as least distortive as possible. When they published their draft energy and environment state aid guidelines, we were slightly wary of the first draft because it would have created some problems for us, as they were against a market-wide approach to a capacity auction. We think that is the least distortive approach. When they published their final energy and environment state aid guidelines, they adopted a

guideline approach to these types of interventions that our proposal would be in line with. We have not had their ruling on it, and I would never pre-judge what they are going to say. I do not know actually; that is the truth. Nevertheless, our proposal ought to fit within their guidelines comfortably.

**Q2 Lord Williams of Elvel:** Secretary of State, thank you. The June Council adopted a strategic agenda for the Union in times of change, which talked of an energy union with a forward-looking climate policy. Do you think that makes any sense? Does it mean anything? If it does, what is it supposed to mean? Do different member states have a different view about what it might mean? There is talk of the Polish interpretation, whereby the Commission would negotiate gas prices for the whole of the EU. Do you think that is a sensible idea? Is that something Her Majesty's Government would support?

**Mr Davey:** Let me start with the last question and work back, if I may. We certainly do not support the idea of the European Union acting as a collective purchasing mechanism for gas for member states. We think that has quite a number of problems with it. We understand where our Polish friends are coming from. They tend to pay higher gas prices than western Europe does, so they have a concern. The question is: can that be addressed in other ways? One of the ways in which I would like to see it addressed is through extending the single market, not just the codes and regulations but the actual infrastructure—the pipeworks—whether it is gas pipelines, energy terminals, electricity interconnectors, all the physical infrastructure that is needed to make the single market not just an idea but a reality. If electricity and gas can genuinely flow across borders in Europe, that would probably help our central and eastern European colleagues and mean that some of the more grandiose ideas about dealing with gas prices are not needed.

I cannot talk for other member states about how they interpret the language you refer to in the European Council conclusions. I can say that the discussions we are having at the EU

environmental and energy councils are very constructive. The two big issues on the table are the 2030 energy and climate change package, which is about what targets we should have, how we should reform the EU ETS, and so on. That has been debated for quite a long time. That, we hope, will reach a good and ambitious conclusion on climate in October.

As a result of events in the Ukraine, and the actions of the Russian Government, obviously energy security has become a big issue for Europe as well, so energy security is being debated alongside the 2030 energy and climate change package, and what I see in the June Council conclusions is a real signal from the Heads of State that backs up the conclusions in the March European Council that they want the European Union to take energy policy to another level. If that level is in line with our views, and everything I have seen from both the 2030 package and the Energy Security Strategy suggests that it is in line with the British approach, that will be a very good thing for the European Union. I would like to think, for the record, that we have been very active in influencing thinking around the Council and the Commission on both these dossiers.

**Lord Williams of Elvel:** Is the expression “energy union” something that grabs you? Is that something you would go out to your constituents and advocate, across the whole of Europe?

**Mr Davey:** Let me put it this way: you could describe the same thing in three ways. Let me give you three descriptions of what I think are the same thing. You could talk about an energy single market, you could talk about a European super grid, or you could talk about an energy union. To me they mean more or less the same thing.

**Q3 Lord Cunningham of Felling:** Secretary of State, on the proposal that Lord Williams has already asked you about, I was perfectly content with your answer when you said that you would not be in favour of some construct, as yet not in existence, that would negotiate on behalf of the whole of the EU for gas prices; it seems barely credible to me, frankly, but

there you go. How could that be construed as following market principles in a single open energy market?

**Mr Davey:** I do not think it could be.

**Lord Cunningham of Felling:** Good, neither do I. Would such a proposal not be a building block in a more federal approach to European affairs?

**Mr Davey:** It might be. I am not sure the Polish Government would see it that way.

**Lord Cunningham of Felling:** I am not asking about the Polish Government, forgive me.

**Mr Davey:** It is an idea that they are punting around. Prime Minister Tusk, who I have a lot of respect for, has come up with this six-point plan for an energy union, and it includes rehabilitation of coal and the interesting idea of the collective purchase of gas. I have no problem with individuals coming together to collectively purchase energy, so long as they abide by competition law. The idea of member states coming together and giving that power to the European Union is not one that I find attractive. I am generally regarded as someone who is a strong believer in the European Union.

**Lord Cunningham of Felling:** Me too, but would such a construct not make the European Union the biggest single purchaser of gas anywhere in the world?

**Mr Davey:** That is the likely result, although whether the Chinese contract with Russia would be a comparator, I do not know.

**Lord Cunningham of Felling:** It is fair to conclude that you are not in favour.

**Mr Davey:** That is the exact conclusion you should take.

**The Chairman:** Lord Renton, you wanted to ask about the 2030 agreement?

**Q4 Lord Renton of Mount Harry:** Yes, I would like an idea of your view on whether the agreement can be secured in October 2014. Obviously the basis of this is the question of the level of greenhouse gas reduction to which the EU is determined to commit. Will you

have difficulty in persuading member states that are heavily reliant on coal to take on an ambitious agreement on this issue?

**Mr Davey:** This has been something I have been thinking about for at least 18 months, if not longer. When we were approaching the 2030 target, the UK—it was a cross-government agreement—was leading the argument for the most ambitious greenhouse-gas target that any member state was putting forward. We argued that it should be at least 40% domestic—i.e. that European Union countries should reduce their greenhouse gases by 40%—and that we should be prepared to go to 50% in the context of an international deal. We first had to persuade the countries in the EU that, like us, are ambitious on climate change, and that was not as easy as it might sound, first because they had to get used to the idea of being that ambitious. We have already got used to our Climate Change Act, but not every ambitious EU member state has a Climate Change Act. There are also differences in the means to the end. That is why in February 2013 I set up something called the Green Growth Group, getting a whole number of member states round the table to discuss this, to build up trust and relationships to see whether we could persuade them and they could try to persuade me of different ways forward. We have an agreement that we would push for at least 40% round these ambitious countries. So that was stage one.

Stage two was also about influencing the Commission. The white paper that came out on, I think, 27 January this year was very much in line with the UK Government's thinking. That left a number of other countries, which I think are the ones you are referring to, that were not so keen. They are sometimes known as the Visegrad 4+2. They tend to be led, in terms of coal dependency, by Poland. These are the countries that I and other colleagues have been engaging with extremely actively over a period of time. Although they present a united face, which is absolutely fine, they do have different views in this area.

I have engaged, officials have engaged, and indeed the Prime Minister has engaged at his level, with colleagues in other central and eastern European countries. This year alone I have been to Poland, the Czech Republic and Hungary, and had separate meetings with Ministers from Slovakia and Romania. I set up a UK-Romania energy dialogue, all to try to understand their position so that we are more likely to influence them towards ours. It is fair to say that the real challenge is Poland. You can talk about the other countries, but Poland is the one. It is the most coal-dependent, and Prime Minister Tusk, for obvious reasons, is concerned. We have to find a way around this.

There is a whole set of policies, whether it is the single market that we referred to earlier to reduce gas prices, or what is called the effort share—the 2008 decision for the 2020 targets had an effort share—so that the burden of the transition to a low-carbon economy is shared out and some countries have free allowances for their power and industry sectors so they do not have to make the change as quickly or as expensively. Those are the sorts of things that we need to look at again. I am not saying that we need to replicate the 2008 decision, because there has been a lot of economic development since then. Poland has been very successful. Clearly some sort of sharing out of allowances is going to be part of the solution. We can point to other countries—the United States and China—that are now taking action where they were not previously. This begins to answer some of the arguments by countries such as Poland.

An idea that I am looking at—I do not know whether it will come to anything, but I can assure you that we are thinking very creatively about this issue—is whether CCS could be a solution. It will be up to the Poles whether they consider it to be a solution, but one can imagine a European fund, a bit like the one we had in 2008. The UK was the only one. It was awarded yesterday actually; we got €300 million for the White Rose CCS project in Yorkshire. However, we could imagine another project, not necessarily the same design as

the NER300 but another design, which, if the Poles wanted to build a new coal-fired power station in Poland, could support the CCS technology that would then be applied to it. That might be where the end game goes. I genuinely do not know. We are engaging intensively.

**Lord Renton of Mount Harry:** Interesting.

**Q5 Lord Cunningham of Felling:** Secretary of State, in your statement on the EU energy council and in your department's memorandum on the Commission's Energy Security Strategy, you acknowledged links between discussions on energy security and the debate about emissions control objectives for 2030. Do you see significant overlap, and indeed reinforcement, between your own choices—the United Kingdom's choices—on energy security, for example a development facility for nuclear power, on which you ought to be congratulated, and the objective of reducing emissions even further because the targets in 2030 will be even more onerous?

**Mr Davey:** There is a huge overlap. It is quite interesting on the Council, though, because there are some countries that are really keen and really think that it is the 2030 package we should be focusing on. There are others that do not want to focus on it at all and just want to focus on energy security. The UK is in the middle; we think that both are relevant and I almost feel as though we are brokering here a little. The arguments I make to broker are on the similarity between what needs to be done. Energy efficiency is probably the most important policy lever for both. Having your own indigenous production of energy—home-grown energy—whether it is nuclear or renewables, is one of the best ways for improving energy security and reducing carbon emissions. So there are other matters where the overlap is clear.

The question you have to ask yourselves is: where is there not an overlap? There are two areas, although again one can bridge the gap. The area I point to where there is no direct overlap is first of all the single energy market. You might think that you should do the 2030

package, whether or not we concluded the single energy market, but with energy security you really need a single energy market.

**Lord Cunningham of Felling:** Would it be possible to do the 2030 package without a single energy market?

**Mr Davey:** It would be more expensive, so it would be unwise to do the 2030 package without the single energy market, because we can reduce the costs. You can call it an energy union, a single energy market or a super power grid, but the idea is of renewable energy flowing across Europe—Professor Stern has this great vision of the wind in the north, the sun in the south and it all flowing around. The more the energy can flow quickly and cheaply the better, and that reduces cost. So the single energy market complements the 2030 package. That is another reason why the energy security objective and the climate objective are not really in opposition.

The one area where there is a difficulty comes back to Poland, because from a Polish perspective coal gives them energy security. That is why you have to put yourself in the shoes of the Polish Government and Polish industry. If we are going to persuade our Polish friends, that is an issue for them, and in my interventions at both the informal council in Athens and the formal one last month in Brussels I was just trying to posit the idea that we need to find a solution, whether or not you are looking at it as an energy security issue, because in fact their coal is increasingly expensive. They import a lot of coal. They do not always admit that, but that is the case.

Of course, you need to think about the climate, so I come back to CCS. Every way you look at this, CCS looks like an option. Let us remember that the Poles explored CCS, and there is a new power plant—I forget the town where it is—that has a pipe that is ready for CCS. They just found it very expensive and they are right; CCS is expensive at this stage,

but it is a new technology. I would hope that if they went down that route, possibly with European funding, we would have a complete matching of security and climate change policy.

**Lord Cunningham of Felling:** You will probably smile when I tell you that as an Energy Minister in 1976 we looked at the potential of carbon capture and storage. We still have not got there. Can I ask you one final question? If you were to list your priority objectives—what you would like to see from the EU's internal discussion on energy security—what would they be?

**Mr Davey:** I cannot resist a comment on your 1976 point there.

**Lord Cunningham of Felling:** If you want to know, we also looked at the Severn barrage and an island airport.

**Mr Davey:** All I would say is that I am sure you did a huge amount as Energy Minister and there was a lot of progress. In the last 12 months we have come a long way on CCS in the UK. We have signed two front-end engineering design contracts. We have a really strong strategy of supporting R&D innovations and new projects. We have been looking at industrial CCS at Teesside. So I think it really has come a long way. Hopefully we will not have to wait for another 40 years.

You asked about the priorities in energy security in the EU. The single energy market is critical to this. The interconnectors, the gas pipelines and the energy terminals are great for consumers and businesses because they will lower costs, create more liquidity and make us more secure. A number of member states have surplus electricity, for example. They are very frustrated that they cannot sell it. The obvious ones are Portugal, Spain and Romania, but there are probably a few others on the list, if you look around—the Nordics, for example. Getting better interconnectors is important. I am very keen on Britain becoming more interconnected with Europe, and we are making some progress there. That would be top of my list.

The next is energy efficiency. That is such a no brainer and such good value for money, we should be pursuing that. We should be prioritising indigenous energy production, nuclear and renewables. They are the three obvious ones.

You could say that is from the British perspective, but we also have to think about the Baltic states, Bulgaria, Hungary and others, which are more dependent on Russian gas. Their solutions would require a few other things going into the mix. When we did our non-paper for the European Council we added a few other things, because although they are not directly relevant for this country, I believe we need to show solidarity with our central and eastern European colleagues. Diversification of gas suppliers is really important so that the southern corridor can bring gas to south-eastern Europe.

We need to have more of a political initiative with north African countries. That is some way off from the security issues, but that looks to me to be the obvious thing, and energy terminals.

In the UK we are doing a lot to maximise economic recovery from the North Sea. I commissioned Sir Ian Wood to do a review on that and his review has been warmly welcomed in the industry. There is shale gas exploitation. Some member states do not seem to be so keen on that, but they are quite keen for America to ship shale gas. So the Americans are saying, "Why are you blocking shale gas exploration, but you like our shale gas?". That does not quite work for Washington.

There are a number of other issues to diversify primary energy sources that I think we will need to look at for the whole of Europe.

**Q6 Lord Bowness:** Secretary of State, your reply to Lord Cunningham's second question encouraged me very much, because while the question of security might overlap with all the things that you have been speaking of, it is actually a separate issue. While there may be an overlap in the objectives, one thing there will not be is an overlap in money when it comes

to saying that the euro cannot be spent twice. Yet in the paper's conclusions the Commission talks about energy security and that the transition to a low-carbon economy should be prioritised in the implementation of the EU financial instruments in the period 2014 to 2020. We do have to go down two roads, but we see two separate problems. Your interconnectors, your pipelines—you talk about the Baltics and the Balkans, all of which I agree with—have to be given some kind of priority that is separate from all the other issues that you are talking about, because we are in a very different political climate in terms of energy security. My question is: are we, as a European Union, never mind as the UK, actually addressing that element of the problem with sufficient urgency? I know you cannot do it tomorrow, but in the timescale of the project we need all sorts of political initiatives and encouragement to get that element on the move.

**Mr Davey:** I agree with you, and I will in a second, if I may, sketch out where I think we need to go. I would just take slight issue with what you said about the same euro being spent twice, because you cannot spend it twice. The good thing about the overlap that I see between energy security and climate change is that when you are investing in energy efficiency and therefore not having to import so much gas, that euro or pound is having two effects. Equally, investing in home-grown energy, such as renewables and nuclear, is having two effects for that same spend. One of my arguments to my Polish and central and eastern European colleagues is that if we do energy security, the extra costs of climate are minor because a lot of the things that you do for energy security will give you your greenhouse gas reductions. There is a genuinely happy coincidence here and we should exploit it. It shows that going green can be very, very affordable.

**Lord Bowness:** Please forgive me. Can I just follow that? Maybe I put the question badly, but the fact of the matter is that there is a financial framework for 2014 to 2020. If we spend it on renewables, we do not have it to spend on pipelines.

**Mr Davey:** I am not suggesting that the European budget is used for spending on renewable energy efficiency.

**Lord Bowness:** No, but their conclusions did suggest that.

**Mr Davey:** If the European Union wants to give the UK Government money for renewable energy efficiency, I will not say no. However, at the moment it is not in the work programme or any policy that we have agreed that the European Union's funds would be used for subsidising renewables in member states. That is not on the table and I do not think it ever has been. That is why I am saying that the European budget is not for that. I was really thinking from a member-states point of view.

Let me address the European budget, which is where you are pointing. The long-standing policy is the projects of common interest, which are the infrastructure projects both for gas and electricity. The list of projects of common interest is rather long. I am not sure whether this figure is absolutely right, so I might need to correct the record, but from memory there are 241 projects of common interest. I have said to the Commission and to my European colleagues that when you have 241 priorities, you do not have any priorities. In our non-paper on energy security, we argued to reduce the number of projects of common interest to a much smaller number, which means then that some people do not have their projects and do not like it, but we have to do so.

We put forward some ideas about where those projects were, and none of them was in the UK. They were in the Baltics and central and eastern Europe primarily, although we see a case for one over the Iberian Peninsula. That list will no doubt be debated and discussed, but the notion of focusing on a smaller number of projects of common interest has been accepted, and people now believe that is the case. The pot of money that is there would genuinely be able to support that.

Let me also add this rider. My Czech counterpart told me, “We are not actually interested in support”. I am sure they would not turn it down, but they believe that you should build an interconnecting pipeline if it makes economic sense. In a way he is right, but I am not arguing for huge numbers of pipelines and interconnectors that have no real commercial value at all, because that could be a real waste of money. Sometimes there should be a bit of support, maybe a feasibility study, maybe support for a particular leg that might not be absolutely commercially viable but would assist and give extra protection. That is the sort of way in which we should spend the European money. A lot of the things that people are talking about would be built if we could get the political will to get the planning permissions and give the right signals to industry investors.

**The Chairman:** I will have to ask colleagues now to be fairly brisk in their questions, because we are up against a time constraint.

**Q7 Lord Whitty:** I have two points. One is on nuclear power. You have told us what the state aid situation is on the capacity mechanism, but can you update us on the Hinkley Point situation? We need to get on with that. Secondly, I am really pleased you are underlining the importance of energy efficiency, but at the European level we have one directive that is pretty waffley. Could energy efficiency be driven more from the European level, because this could be a major component both in security and carbon reduction?

**Mr Davey:** For the state aid on Hinkley Point C, the Commission has had their investigation, we have responded, and they are in detailed working discussion with us. When is it going to conclude? I cannot be exact, but Commissioner Almunia, and I think Barroso himself, would like to ensure that it is concluded during this Commission’s mandate, which runs until the end of October. We have underlined that that is what we want. We do not want to go beyond that. The Commissioner will need to take it to the college, and we are assuming that he will do so in September. We will then have a clearer view of where

we stand. It is fair to say that we have engaged very constructively with the Commission. We were very happy that their investigation was robust. It was really important that it was robust, first to ensure that people who want to challenge it are unsuccessful. We need to prove our case, otherwise there is a danger of judicial review, and that delays everything. Moreover, people are seeing this very much as a test case for future nuclear generation. We set up—I forget exactly when; two years ago, I think—a like-minded group on nuclear power. I think about 13 member states have joined in that, and they have all been very supportive of our state aid notification. Obviously I do not know what is going to happen, but that is the sort of timescale.

I absolutely agree with you, Lord Whitty, that energy efficiency is critical. The question is how you do it at the European level. There is the energy efficiency directive. That is being reviewed now, and as a result of that review we will see what is recommended. The 2020 target was indicative, not mandatory. We have been a bit reluctant to have a 2030 target that is a legal requirement for this reason: we always argue that it should be down to each member state to de-carbonise in the least costly way. Different member states are in very different positions, whether it is in respect of energy efficiency, renewables, CCS, nuclear or overall carbon emissions. So with a whole set of targets, you could end up imposing costs on a particular member state. That is why we have always argued for a technology-neutral approach, but for a really ambitious one. We have sometimes been criticised by people from the environmental movement for saying that we did not want a renewables target or an energy-efficiency target. It is not that we do not really believe in investing in renewables and energy efficiency; we really do. It is just that if you have individual targets for those, you undermine the case for investment in other technologies, almost by definition, and you will inevitably impose more costs on some member states because it would not be a right approach for them. By being really ambitious on greenhouse gas emissions, we have proved

our environmental credentials; we just do not want to force an individual member state down a particular road that is expensive for them, but no one should take that as any lack of ambition on energy efficiency or renewables.

**Q8 Baroness Howarth of Breckland:** My question was going to be about interconnection. You have said a lot about that, so maybe I can be forgiven for asking you something a little different, if the Chair can indulge me. This really goes back to capacity markets, the storage of CCS, and all that. I want to think a little about knowledge transfer. If we are going to go into capacity markets, there are going to be issues about emissions in relation to some of the units that are brought back online. We are at the forefront, in some places, in looking at CCS and the way forward. Do you have any comment on how those two things are going to fit together? When we are developing this knowledge and we think about the Polish situation, are we, across Europe, prepared to share knowledge about how those technologies are being developed, because that will clearly have an impact on the environmental issue?

**Mr Davey:** That is a question I have never been asked before in that form.

**Baroness Howarth of Breckland:** Sorry.

**Mr Davey:** No, it is good. It is interesting. Yes, the capacity market will bring on some plant that is not low-carbon and that was, or might have been, mothballed, or indeed that will be new plant. We are not requiring a new gas plant to have CCS already applied, because we are not there yet. If you look at our carbon plan, which looks at how we are going to implement the Climate Change Act by 2050—people often forget this—there is a huge amount of gas that we expect to be using over the next decade and a half and beyond. Because moving from a fossil-fuel economy to a low-carbon economy is going to take quite a long time, and if we are going to keep the lights on, we are going to have to have a lot of gas. It is much lower-carbon than coal. Coal is the real problem in the short and medium term,

without a doubt, and we are fairly aggressive on coal. You cannot, at the moment, think you can do it all by nuclear, because it takes a long time to build nuclear power stations. You cannot do it all by renewables, because although we are rising rapidly now in renewable capacity, it is not there yet. Gas has a role to play, so I am not so worried about that in the short and medium term. The longest the capacity market contracts will be, depending on whether we get state aid clearance, is 15 years, so I do not really see that as a major problem for the carbon side.

Your issue about knowledge transfer is extremely well made. We have tried, as a country, respecting individual companies' intellectual property, to be as open as possible about CCS from the experiences that we have had to date. I think I am right in saying that in the feed contracts we signed with the White Rose project in Yorkshire and Peterhead in Scotland, there were various rules about openness, the experience and the knowledge, so that it can be transferred. I might need to write to the Committee to give you details about that. That is very much in our minds, and when we look internationally and collaborate and talk to the Americans, the Canadians, the Dutch, the Norwegians, and others who are quite up on CCS, there is that feeling that while we are trying to collaborate, occasionally competition issues get in the way inevitably.

On the Poland point, if there was a European fund supporting that, we could very much argue that this was about technology innovation within Europe to tackle climate change and that this was a public good. One of the good things about using European public money would be that you could ensure that knowledge transfer was real and evident. Given the urgency of tackling climate change—it gets quite frustrating, because scientists are really clear that you need to get a move on—technology like CCS is going to be incredibly helpful, so the more we can take that forward the better. There was an electric car manufacturer

who has opened up his technology to others. Given that climate change is affecting everybody, we need at least to have a more open approach to sharing our knowledge.

**The Chairman:** Sorry, Lady Howarth, we have to move this on.

**Mr Davey:** It is my fault.

**The Chairman:** Unless you have a little longer than an hour.

**Mr Davey:** I am afraid I do not.

**Q9 Lord Whitty:** I heard you talking an hour or so ago in rather more upbeat terms than most of our witnesses about the future of the emissions trading scheme, but most of us who have supported the ETS are in roughly the same position as the supporters of the Brazilian football team; it should have worked but it has not. Even the proposals for sharpening it up, including the stability reserve proposition at the moment, are relatively minor and it is not obvious that they are going to win. They are running into difficulty at the political level. What is your considered judgment on where we go on the ETS, and particularly what the prospect is for the stability reserve proposition?

**Mr Davey:** It is always clear that our preference has been for slightly more radical measures than were in the paper. One disappointment in the Commission's white paper was that it was not more radical, but I understood why, given the experience they had on the back-loading reforms. We were in favour of permanent removal of a significant number of allowances before 2020. Since then we have lost that argument. We are doing quite a lot of analysis of the market stability reserve and we are talking across government about where we think we can take this proposal, and we have not come to a final decision. However, we are looking at it in terms of whether some amendments can be made to the proposal on the table on the market stability reserve to make it more ambitious and effective. For example, could you require some of the allowances to go into the reserve earlier than is proposed and then be permanently locked away? There are a number of different options.

Unusually, a number of member states have given out their positions publicly before we have. The good news is that Germany and France, for example, although they do not have the same proposal, want to strengthen the Commission's proposal. This may explain some of my optimism.

Just to amplify that a little, the last German coalition was rather split on the back-loading proposal. The FDP leader, Rösler, was not keen on back-loading at all, but the CDU Minister, who was then Peter Altmaier, was very keen on the back-loading proposal. Because of the upcoming election, Chancellor Merkel was not keen to push the issue. Now, with the CDU/SPD coalition, Germany seems to be in a much more ambitious place with respect to ETS reform. Sigmar Gabriel, who is my oppo, has been clear that he supports serious reform. Peter Altmaier, who is now in the Chancellery office, is keen on that. Germany is in a much better position. So while we are doing some more analysis to find out how we can make the reforms bite more effectively, I am more positive. We will then get to the issue of the 2030 targets, and will need to persuade our Polish colleagues and so on, but in a way it is always a little easier because there are some allowances there to be distributed and talked about. It is also qualified majority voting.

**Q10 Lord Trees:** Can we turn to international climate discussions? You talked quite a bit earlier about the EU discussions on the energy and climate 2030 package, which you said would be resolved in October. You seem to be moderately optimistic that they would result in a good agreement. First of all, how optimistic are you that there will be a high degree of unanimity and a strong agreement? Going in next year to the international discussions, how optimistic or hopeful are you of long-standing, ambitious and legally binding agreements being reached internationally?

**Mr Davey:** On the European piece, I am pretty optimistic. We talked about agreement with the Poles, but subject to that coming to fruition—and energy security is helpful in

negotiations, as it were—we can go at least with the Commission’s proposal. From the British point of view, and from my personal point of view, getting a deal at 40% I would regard as a good outcome, but I would not want to leave it there. If you look at what the EU needs to do to take its fair share of carbon reductions in order to keep the world on a path where we could credibly keep global warming to two degrees or below, we would need to reduce our greenhouse emissions in Europe by 50%. I never thought we would get there in one go because that is just not *realpolitik*, and our view has always been, “Get to 40%”. Then in the context of an international deal in Paris, possibly using international credit to help other countries, we could then get to 50%. That is the way I have seen it. In October, 40% is what we could get to. We have put a lot of evidence forward to other countries. We have commissioned a lot of research. A French consultancy did some research for us to show that a 40% target is very cost-effective and that the benefits that many member states would get in reduced air pollution, for example, would more than offset the costs involved. Forty per cent is extremely doable for every member state, so there is no reason why we should not get it.

**Lord Trees:** Should it be legally binding?

**Mr Davey:** Yes, it should be legally binding.

**Lord Williams of Elvel:** Forty per cent of what?

**Mr Davey:** Forty per cent reduction in greenhouse emissions across the EU. There would be different allocations for different member states. In the EU it is done on 1990 levels like the UK’s. That is the European position. The international position is more favourable than it has been ever before, but that does not mean we will do it. Getting the European position was the thing that I wanted to achieve most of all, because without an ambitious EU position we will never get a global deal. That is the necessary condition, but it is not sufficient.

What are really heartening are the moves in the USA and in China. What Obama is doing is absolutely fantastic. The Environmental Protection Agency's proposals to regulate emissions from coal power stations is quite a step forward—using the 1970 Clean Air Act, I hasten to add. They could not get more legislation through Congress because it is a divisive issue there, but he is taking this forward using executive authority that is already there under American legislation. Gina McCarthy, the head of the EPA, is doing it in a very flexible way. She is doing it at state level, allowing states to decide how they are going to meet these targets, and the business and political opposition to the proposals, which I think many of us thought would land quite badly, has been far more muted. The Obama regime has done a really good job, whether it is the EPA, the Department of Energy or indeed in the White House. The appointment of John Podesta to be his climate change adviser was extraordinarily significant. Basically his job is to wake up and think about climate change and go to bed and think about climate change. He is right there next to the President.

I was in Washington last week and met John Podesta and a number of other people, and I went there thinking, "Are the Americans just doing enough?". Actually, they are enthusiastic and really committed to doing this. They want to get it done in this Administration. That has never happened before. That is a big change from the world's biggest economy.

Then you have the Chinese. It is not always easy to be clear about what we are going to do, but when Premier Li was here in London he spoke eloquently about this, and we signed a climate change agreement with them and will work together to get a deal. I am off to China this month to see, among others, their Climate Minister, Minister Xie. When I have met him in the past, not only has he been incredibly knowledgeable about every aspect of it but they are in a more forward-leaning position than you might expect. There are some really good reasons for that. The environment is a much bigger part of the politics of China than many people recognise—the air pollution in the cities in the east and so on. Because of time I will

not bore you with all the details. The Chinese Government—the Chinese Communist Party—understand that tackling environmental issues, which includes climate but is not necessarily driven by climate, is in China's interest.

**Lord Trees:** Would you be looking for a similar target internationally, if Europe went with 40%?

**Mr Davey:** I do not know. I am certainly not going to give my hand away too publicly. We respect the fact that different countries are at different stages of development, and the real issue with China is when they peak their emissions. You see some people talking about them peaking in 2030, which would be too late, and some are talking about peaking in 2025, which would be not early enough, but it would not be a bad contribution. So as long as they fall rapidly after that, that would be a good result.

I can hear the Bell. The fact that the USA and China have moved and are in a much better place politically is one of the reasons that give me hope. I am also off to see the new Indian Administration later this month as well. Clearly if Prime Minister Modi, who has a fantastic record on Gujarat actually, is prepared to move India into a space to do a deal, you can really see one taking shape.

**The Chairman:** The Division Bell has been very helpful to us because it did not ring until you were in your concluding remarks, so we will let you go and vote. Thank you so much for coming and talking to us today and answering in such a straightforward and knowledgeable way. We appreciate it. Thank you.