European Commission Green Paper: A 2030 framework for climate and energy policies

Consultation response from The Scotch Whisky Association

1. Introduction

The Scotch Whisky Association (SWA) welcomes the opportunity to comment on the European Commission's Green Paper on the 2030 framework for climate and energy policies.

SWA members are distillers, blenders, bottlers and those engaged in the Scotch Whisky trade. The Association represents 90% of the Scotch Whisky industry, which itself accounts for over 25% of all UK food and drink exports. In 2012, exports of Scotch Whisky generated £4.3 billion to the UK balance of trade.

The industry is a leader in energy efficiency and renewable energy. In the last five years members have invested over £200m in renewable energy projects and more investments are planned. A sample of some of the projects have been published as case studies alongside our award-winning Environmental Strategy. The Strategy was launched in 2009 and includes stretching targets to source 20% of energy from non-fossil fuel sources by 2020, rising to 80% by 2050, and to make further improvements in energy efficiency and reduce greenhouse gas emissions.

2. Green Paper – general comments

We agree with the rationale for obtaining early agreement on the 2030 framework. Business needs certainty in order to plan. The framework needs to achieve the right balance between setting an appropriate level of ambition and ensuring that EU industry remains in the EU and is able to compete internationally. The rising cost of energy is an issue which the framework must seek to address: between 2005 and 2012 EU industrial gas and electricity prices increased by 35% and 38% respectively, whilst in the US the prices reduced by 66% and 4%[1].

Despite the current "low" price of carbon under the EU Emissions Trading System (EU ETS), Scotch Whisky distillers have continued to invest in renewable energy projects at their EU ETS-covered sites. There are around 110 Scotch Whisky distilleries in Scotland. Of these six, plus one packaging site and an industry animal feeds plant participate in EU ETS. Large-scale anaerobic digestion plants have been built at three of the EU ETS-covered sites, including Wm Grant and Sons' Girvan Distillery and The North British Distillery, Edinburgh. Diageo's Cameronbridge Distillery will use AD and distillery by-product derived biomass to provide 98%

[1] Source: Presentation of J.M. Barroso to the European Council, 22.5.13

of the thermal steam and 80% of electrical power required by the distillery. A renewable energy plant has also been commissioned at Diageo's EU ETS-covered Glenlossie Complex which comprises of two malt distilleries and an animal feeds plant. A joint venture – Helius CoRDe (Combination of Rothes Distillers Ltd) - 7.2MW biomass CHP plant, fired predominantly on distillery by-products, was opened in April 2013. Those investments alone were in excess of £130m. In addition, significant investment in renewable energy at sites which are not covered by EU ETS have been, and continue to be, made by Scotch Whisky distillers. Based on this evidence, we do not agree with the statement that, 'the low carbon price is not providing investors with sufficient incentive to invest and increases the risk of "carbon lock-in"'. In our sector this is not the case.

We believe that there is scope to develop well-designed incentive schemes to help improve energy efficiency and promote the switch to renewable energy which together should help the EU meet its greenhouse gas reduction targets. Through their participation in the UK Climate Change Agreements Scheme distillers have delivered energy efficiency savings of 25% since 1999. Companies participating in that scheme are incentivised to meet their energy efficiency targets by receiving a reduction in the rate of the UK energy tax (Climate Change Levy). The UK has also introduced financial incentive schemes to help increase the uptake of renewable electricity and renewable heat by UK industry.

3. Green Paper - questions

3.1. General

We believe that the 2030 framework should include more emphasis on improving the infrastructure that will be necessary to increase the deployment of renewable or lower carbon intensive energy. Improvements to the electricity transmission network are needed to unlock the potential of renewable energy sources. Even at some large distilleries located in urban areas, members have explained that grid connectivity limits the quantity of renewable electricity that can be exported off-site. More generally, the grid will need to be improved to allow renewable electricity generated in more remote areas to enter the grid.

3.2. Targets

Overarching EU-wide and national greenhouse gas emission reduction targets should be set in absolute terms. It should be possible to set indicative absolute targets for the traded (EU ETS) and non-traded sectors, although targets at sub-sector level in the non-traded sector could be relative (i.e. energy efficiency or emission efficiency based).

3.3. Instruments

In addition to EU ETS, UK business faces a plethora of complex and at times, contradictory, set of climate change instruments, including:

- Energy taxation (Climate Change Levy)
- Additional taxation on fossil fuels used to generate electricity (Carbon Price Floor)
- Climate Change Agreements scheme

- CRC Energy Efficiency scheme – carbon reduction scheme with taxation element

The Association has long argued for this policy landscape to be simplified as some members are caught by each instrument and this adds considerable cost both in terms of operating costs and management time. In addition to the policy measures outlined above, the UK has developed a basket of financial incentive schemes to encourage the deployment of renewable energy, including Renewables Obligation, Feed-in-Tariffs and Renewable Heat Incentive. The 2030 framework must take recognition of different climate change instruments currently in place in each Member State.

3.4. Competitiveness and security of supply

Although Scotch Whisky production is tied (by law) to Scotland, it is heavily exposed to international completion both in the UK market and in the 200 overseas markets in which it competes. Carbon leakage may occur if the cost of production in the UK increases forcing up the retail price which may ultimately lead to consumers switching to other competing alcoholic beverages which are produced outside of the scope of EU ETS, many by producers in countries which do not face climate change policy cost burdens, and are likely to be less efficient. Some of the large EU ETS-covered grain distilleries produce other spirits such as grain neutral spirit (GNS) which can be further processed into other spirit drinks such as gin or vodka. The production of those products is not tied to the UK and we have witnessed a marked reduction of the volume of GNS that has been produced in the grain distilleries which participate in our CCA scheme. This has been mirrored by an increase of imports of GNS, largely for gin and vodka production. These concerns should be considered when developing the 2030 framework.

As mentioned previously, business needs regulatory certainty. We believe that 'trigger mechanisms' should be considered for inclusion in regulatory measures to avoid knee-jerk reactions, such as the recent 'back-loading' proposal for EU ETS. A trigger mechanism could have been built into the EU ETS regulations from the outset so that operators would know that a certain amount of allowances would be temporarily withdrawn if the average allowance price over a period (e.g. six-months) fell below a pre-determined level. Similarly, allowances could be released back if the allowance price rises above a pre-determined level. Such a mechanism would depend on accurate and updated information being available and would help avoid sudden interventions which creates uncertainty.

The Scotch Whisky Association
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