1. The Scotch Whisky Association\(^1\) (SWA) is the industry’s representative body and works to sustain Scotch Whisky’s place as the world’s leading high-quality spirit drink and its long term growth worldwide. We welcome the opportunity to provide a response to the Energy and Climate Change Committee’s inquiry into the implications of leaving the EU (‘Brexit’) on UK climate policy.

2. Scotch Whisky is an energy-intensive industry. The process of distillation, which accounts for around 86% of energy use within the sector, is particularly energy-intensive. Despite being a large energy user, the industry has taken active steps and a leading role in reducing its environmental impact. Under the sector’s comprehensive Environmental Strategy\(^2\), the industry has set ambitious targets to mitigate greenhouse gas emissions, reduce reliance on fossil fuels and improve energy efficiency. The industry has made good progress against each target areas since the 2008 base year.

Climate Change Policy and the Scotch Whisky Industry

3. The industry is covered by a wide range of energy and climate policy instruments, including the UK’s Climate Change Agreement (CCA) scheme, UK Carbon Reduction Commitment (CRC), EU Emissions Trading System (EU ETS) and Energy Savings Opportunity Scheme (ESOS) (the UK’s implementation of the a requirement of the EU Energy Efficiency Directive). We have long called for the complexity and overlapping nature of these schemes to be simplified. Leaving the EU offers the opportunity to review again the complex policy landscape affecting business, although to some extent this will be determined by the trading relationship the UK adopts under Brexit. For example, if the UK joins the EEA, it will still need to comply with EU ETS.

Inquiry questions

Q 1. What role has the UK played within the EU in terms of driving the bloc’s international climate change ambitions?

4. We believe that the UK has played an active role in driving ambition within the EU. Although EU climate change legislation applies to the UK, we believe that the UK’s policy framework, including the Climate Change Agreements scheme, Climate Change Levy, CRC Energy Efficiency Scheme, Carbon Price Floor, Climate Change Acts (UK and Scotland), renewable energy incentive schemes, and range of other measures, such as the establishment of the Green Investment Bank and development of industrial low carbon and energy efficiency roadmaps, go above

\(^1\) The Scotch Whisky Association (SWA) is the trade association representing over 90% of the Scotch Whisky industry. SWA members are distillers, blenders, bottlers and those engaged in the wholesale and export trade in Scotch Whisky.

\(^2\) [http://www.scotch-whisky.org.uk/what-we-do/environmental-strategy/]
and beyond EU requirements. Many UK climate change and energy policies which meet EU policy requirements pre-date those EU policies. For example, taxation on energy use specifically to mitigate climate change was introduced in the UK in the form of the Climate Change Levy in April 2001. In contrast, similar EU provisions were not introduced until January 2004 when the Energy Tax Directive 2003/96/EC was implemented. Whilst the EU Emissions Trading System (EU ETS) is the cornerstone of EU policy to tackle climate change, it should be noted that the UK introduced a voluntary domestic emissions trading scheme – UK ETS – in 2002 as a pilot prior to introduction of the mandatory EU ETS. We understand that the UK Government is one of the key contributors to the development of EU ETS policy.

5. Above all else, the UK’s Climate Change Act, was a ground-breaking piece of legislation when introduced in 2008 and it sets legally-binding and ambitious climate change targets for the UK ahead of the EU 2020 Climate and Energy Package.

Q 2. **What should be the Government’s priorities on the EU Emissions Trading System when negotiating exit from the EU? What would a successful outcome look like?**

6. The future of EU ETS in the UK will depend upon the trading relationship or model the UK ultimately agrees. EU ETS applies to EEA countries and it is therefore possible that EU ETS rules will still apply but the UK may have little influence on the policy development. If the UK is not bound by EU ETS, we would favour it being withdrawn from the UK, or if that is not desirable to increase the eligibility threshold so that it captures only the largest energy users from the largest industrial sectors. EU ETS places Scotch Whisky distillers at a competitive disadvantage compared to other EU producers of spirit drinks which are not captured because they fall below the scheme’s combustion capacity threshold. We believe that a reformed UK Climate Change Agreement (CCA) scheme would be the most appropriate climate change mitigation measure for the seven sites from our sector which are currently captured by EU ETS. The CCA scheme is a mature and effective policy measure. A successful outcome would therefore be removing the requirement to comply with EU ETS for UK installations coupled with a reformed and expanded CCA scheme. If the UK is bound by EU ETS, a successful outcome would be for the UK to retain its position of influence around the table on policy development.

Q 3. **What are the implications of the UK’s exit from the EU on both the UK’s and the EU’s COP21 pledges? What will be the UK’s future role within the United Nations climate change process?**

7. No comment.

Q 4. **What should be the Government’s priorities in deciding which EU-led climate policies and legislation to retain?**
8. The priority should be to focus on those measures which incur the greatest cost to UK industry. We believe that it is possible to undertake an assessment on these costs and also identify whether alternatives are available or could be introduced. As we have identified in our response to question 2, our main concerns relate to EU ETS. If the UK is not bound by the scheme, it should be possible to reform and expand the CCA scheme and use this as the UK’s main policy measure to improve industrial energy efficiency and reduce greenhouse gas emissions. This would simplify the existing complex and burdensome policy climate change framework.

9. We are not convinced that the UK’s ambitions to increase renewable energy use, reduce greenhouse gas emissions or improve energy efficiency will be greatly impacted by Brexit given the UK’s range of national policies and initiatives, many of which pre-date similar policies introduced in the EU.

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