Written evidence submitted by the Scotch Whisky Association (EUE0017)

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 energy 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. 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 area since the 2008 base year.

**Energy Policy and the Scotch Whisky Industry**

3. We consider energy policy to include two broad themes: security and supply; and policies to reduce energy use and emissions and improve energy efficiency. It is vital that the UK continues to have a secure energy supply once it leaves the EU. This applies to all types of energy.

4. The Scotch Whisky industry is covered by a wide range of energy 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. For example, if the UK joins the EEA, it will still need to comply with EU ETS.

**Inquiry questions**

**Q 1.** To what extent have the Government’s energy policies been driven by EU law? Are any policy areas currently at risk?

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\(^1\) 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.

5. Although elements of UK energy policy affecting industry arise from EU energy policy, there is still a considerable amount which is wholly domestic and which predates EU action. 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 came into force. Furthermore, UK Climate Change Agreements, which set stretching energy efficiency targets for qualifying energy intensive sectors (currently 53 sectors covering over 9,000 industrial facilities), were introduced in April 2001 to help mitigate the impact of the CCL on those sectors.

6. 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. Although UK ETS has since closed, it demonstrates that UK energy policy developed before EU-wide legislation. UK business is also covered by a further energy reduction scheme – CRC Energy Efficiency Scheme – which is not a requirement of EU law.

7. The EU Energy Efficiency Directive, introduced in 2012, has had some impact on UK domestic policy. Article 8 requires member states to introduce national measures whereby large companies conduct audits of their energy use to help them identify potential energy savings. This was achieved in the UK with the introduction of the Energy Savings Opportunity Scheme (ESOS). Other articles look at ways of increasing cogeneration and heat transfers. The UK has taken active steps in this area, such as the introduction of the CHP Quality Assurance Scheme, development of the Scottish Heat Map and the on-going work to develop action plans to support the BEIS Industrial Decarbonisation and Energy Efficiency Roadmaps. It is likely that these schemes, or something similar, would have progressed without EU legislation.

8. The EU Renewable Energy Directive sets targets to increase the proportion of renewable energy throughout the EU. The UK’s target is to achieve a 15% renewable energy share by 2020. Whilst the CCL penalises fossil fuel use and could be seen as a ‘stick’ to improve energy efficiency, reduce energy use and fuel switching (e.g. from fossil fuels to renewables), the UK has developed a suite of measures to incentivise renewable energy use, such as the Renewables Obligation (and the Scottish scheme), Feed-in-Tariffs and Renewable Heat Incentive. Given the UK’s strong position on climate change, particularly the ground-breaking Climate Change Act 2008, it is likely that these incentive schemes would have been introduced without the influence of EU energy policy.

9. We do not believe that there is a significant risk that the above policies will change significantly although we do think that Brexit presents opportunities to simplify the current policy landscape, for example by widening the scope of the CCA scheme to allow more industrial process, such as the bottling of Scotch Whisky, to qualify. If the UK has the option of withdrawing from any
EU energy policy schemes, we would support withdrawal from EU ETS. Although EU ETS is one of the EU’s flagship energy/climate change policy instruments we have expressed concern on the impact it has on Scotch Whisky distillers. Just seven of the industry’s 150+ sites are captured by the scheme and this clearly places those seven sites at a competitive disadvantage. That disadvantage is perhaps more significant when viewed across the EU as we understand that just two other distilleries in other Member States are captured. Many other spirit drinks, including Cognac, therefore do not face the compliance costs associated with EU ETS. If the UK has the option to withdraw from EU ETS but is minded to develop its own national scheme to link into EU ETS, there is scope to increase the eligibility threshold so that the UK’s scheme captures only the very largest energy consuming sectors.

10. Looking at the bigger picture, in terms of the generation and supply of energy throughout the EU, progress has been made in the last ten or so years on opening up energy markets to better connect and integrate national energy markets. There is a risk that energy supplies between the UK and EU member states could be affected, although this will depend on the trading terms that are agreed. Clearly we would not wish there to be any deterioration in the current arrangements which allows energy to flow to and from the UK, such as low carbon electricity from France’s nuclear electricity sector. We are concerned that restrictions could lead to energy cost increases for UK consumers (both industrial and domestic) and/or energy shortages.

Q 2. What should be the Government’s priorities on energy when negotiating the UK’s exit from the EU? What would a successful negotiation outcome look like?

11. The top priority must be to ensure access to EU energy markets to ensure continuous energy supply. As a minimum, a successful outcome would be no worsening of the current position.

Q 3. What aspects of existing EU energy policies and directives are beneficial to the UK? What should be the Government’s priorities in deciding which EU-led energy policies and legislation to retain?

12. As our response to question 2 suggests the main EU policies of most benefit to the UK are those which allow access to the EU energy market. The EU Energy Union has identified key energy infrastructure projects, such as interconnectors between the UK and the EU, which should be progressed.

13. The priority policy areas therefore relate to those which ensure a secure supply of energy for the UK. Beyond that, Government might wish to conduct a cost-benefit assessment to determine which policies should be retained. For Scotch Whisky, we would support moves to withdraw from EU ETS as it 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 combustion capacity threshold. We believe that the CCA scheme is
the most appropriate climate change mitigation measure for the seven sites from our sector which are currently captured by EU ETS. However, EU ETS applies to EEA countries so this might not be an option.

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