

THE UK'S CROSS CUTTING NET ZERO STRATEGY – AN INTRODUCTION

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With the world watching its leaders gathered in Glasgow for the 26th UN Climate Change Conference of the Parties (COP26) at the end of October 2021, the UK government published its Net Zero Strategy (the “Strategy”) with days to spare (19 October 2021). As the host government, many commentators were eagerly awaiting the Strategy and hoping it would set the scene for ambitious action and real progress in Glasgow.

Now that it’s here, and weighing in at a hefty 367 pages, has it delivered? That depends. Yes, a response to be expected from lawyers. It depends very much on what the expectations and promises were. The Secretary of State’s Foreword (page 10) promises that the Strategy will plot a bold and ambitious new course:

"Now is the time the world needs to go further and faster to tackle climate change."

“Now is the time the world needs to go further and faster to tackle climate change. The UK is stepping up to that challenge. Here we set out our ambitious strategy – the first of its kind in the world of a major economy – to create new jobs, develop new industries with innovative new technologies and become a more energy secure nation with clean green British energy.”

But is the Strategy really going “further and faster”? Is it a “step up” and “first of a kind”? The answer is likely no. While it may be a helpful document that brings together policy strands from different sectors, it reads more like a reference of collated policies than an ambitious new framework.

WHAT IS THE NET ZERO STRATEGY?

Though familiar to many in the energy industry, “net zero” may be a new concept to those in other sectors. In essence, the UK has a legally binding target under the Climate Change Act 2008 to reduce the country’s emissions of certain greenhouse gasses to “net zero” by 2050. The electricity industry was the first to undergo decarbonisation, but emissions are produced across the economy. It is obvious that the oil and gas industry and transportation produce carbon emissions, both in exploration for and the use of said fuels. However, it may be less obvious that carbon emissions are produced by industry, via:

- fuels used in manufacturing processes;
- raw materials, including minerals and metals extracted from the earth and transported to the UK from around the globe; and

- other materials and products delivered by their supply chains.

Likewise, carbon emissions are embedded in our buildings (via construction, materials and daily use) and heating systems. The Strategy is broader than many that have come before it. It is built around several pillars of the economy, with an explicit aim to support the transition with “cross-cutting action” that benefits all sectors. Those pillars are:

1. Power;
2. Fuel Supply and Hydrogen;
3. Industry;
4. Heat and Buildings;
5. Transport;
6. Natural Resources, waste and fluorinated gases; and
7. Greenhouse Gas Removals.

"A systems approach', designed to 'enable innovative and desirable solutions to be developed, and to ensure that decisions are made when needed, based on the best evidence available at that time and with the fullest possible range of considerations brought to bear.'"

Key policies for each sector are neatly set out in the Strategy’s executive summary, followed by a report on delivering the Prime Minister’s Ten Point Plan.

WHY “NET ZERO” AND NOT “ZERO”?

Some activities and industries are difficult if not impossible to decarbonise completely. However, a “net zero” target requires delivery of greenhouse gas removal technology to offset the remaining emissions from those activities and industries. Hence, the final pillars included in the list above.

Chapter 1 (Why Net Zero) expands on this theme. While less than enlightening for those in sectors that are well on their way to decarbonising, it may be a good starting point for those setting out on that journey.

Chapter 2 (The Journey to Net Zero) has more substance, with a clear ambition to take “a systems approach”, designed to “*enable innovative and desirable solutions to*

be developed, and to ensure that decisions are made when needed, based on the best evidence available at that time and with the fullest possible range of considerations brought to bear” (paragraph 4). Concrete actions include establishing forums (including two new cabinet committees) for delivering shared goals and identifying key issues through cross-system governance structures and this is accompanied by a welcome recognition that the sectors of the economy are “highly connected – changes in one area can directly or indirectly impact others”. While this approach is commendable, let’s hope it does not result in “analysis paralysis”, inundating and overwhelming policy makers to the point that they don’t know where to start.

Crucially, citing the 2021 Fiscal Risks Report prepared by the Office of Budget Responsibility, the Strategy states that unmitigated climate change is projected to result in *“debt spiralling up to around 290% of GDP thanks to the cost of adapting to an ever hotter climate and of more frequent and more costly economic shocks”* (paragraph 11, Chapter 2). If anything, it is this realisation that will shock capitalist economies, businesses and individual consumers to count the cost and change their behaviour rather than maintaining the status quo.

The remainder of chapter 2 goes on to consider various modelled 2050 scenarios, expected emissions reductions for each sector and a list of factors that underpin the policies set out in the Strategy (e.g. green investment, increasing energy efficiency, demand-side changes and public engagement).

The real heart of the Strategy lies in chapters 3 (Reducing Emissions across the Economy) and 4 (Supporting the Transition across the Economy), spanning pages 94 to 297 – 55% of the entire published Strategy.

REDUCING EMISSIONS ACROSS THE ECONOMY

Further articles in this series will dive into the detail of policies in each of the sectors covered by the Strategy and what they mean for industry stakeholders. Not all of this is new and the Strategy draws together many disparate initiatives, programmes and policies from across the economy to present a holistic path toward Net Zero.

1. Power

A dozen key commitments to deliver a decarbonised power system by 2035 makes an impressive first impression, though not all are new:

"Not all of this is new and the Strategy draws together many disparate initiatives, programmes and policies from across the economy to present a holistic path toward Net Zero."

- Delivering 40 GW of offshore wind, including 1 GW of floating offshore wind by 2030 – this was part of the Offshore Wind Sector Deal struck in March 2019, with the increased capacity confirmed in December 2019. For context, see our article on the offshore transmission regime;
- Implementing the Dispatchable Power Agreement (DPA) to support the deployment of first of a kind power CCUS plant(s) – a dispatchable power agreement was first proposed in July 2019 as part of a consultation on business models for CCUS; a draft DPA was first published in December 2020 as one of a suite of documents annexed to an update on business models for CCUS;
- Delivering the actions in the recent Smart Systems and Flexibility Plan and Energy Digitalisation Strategy to maximise system flexibility – published in July 2021;
- Driving market-wide rollout of smart meters with a new four-year policy framework that introduces fixed minimum annual installation targets for energy suppliers from 1 January 2022 – this commitment is a stark contrast to the Smart Meter Rollout Strategy published in March 2011 (over 10 years ago) which included an obligation for domestic smart meter installation to be completed by the end of 2020;

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- Ensuring the planning system can support the deployment of low carbon energy infrastructure –one of the core principles in the National Planning Policy Framework since 2012. Paragraph 17 of that Framework sets this out much more comprehensively, stating that “*planning should...support the transition to a low carbon future in a changing climate, taking full account of flood risk and coastal change, and encourage the reuse of existing resources, including conversion of existing buildings, and encourage the use of renewable resources (for example, by the development of renewable energy)*”; and
- Exploring the system need and case for further market intervention for long duration storage and hydrogen in power –this has already started under the Hydrogen Strategy, published in August 2021. Our full analysis of the Hydrogen Strategy is available [here](#).

2. Fuel Supply and Hydrogen

This section starts off with a smaller list of key commitments, with half of them coming out of the Hydrogen Strategy (August 2021):

- An ambition for 5 GW UK low carbon hydrogen production capacity by 2030;
- Alongside the Hydrogen Strategy, the government consulted various other proposals, including on its preferred hydrogen business model. The Industrial Decarbonisation and Hydrogen Revenue Support (IDHRS) scheme has not been set up, with a promise of £140m to establish the scheme, including up to £100m to award contracts of up to 250MW of electrolytic hydrogen production capacity in 2023 with a further allocation in 2024; and
- Another consultation was on the £240m Net Zero Hydrogen Fund, which the Strategy now commits to implementing, alongside finalising the Hydrogen Business Model and the Low Carbon Hydrogen Standard in 2022.

Some of the remaining commitments also come from other plans or strategies:

- Working with the sector to help develop a low carbon fuel strategy for transport for publication in 2022, as announced in the Transport Decarbonisation Plan (July 2021) and deliver commitments on sustainable aviation fuels; and
- Regulating the oil and gas sector in a way that minimises GHG emissions, notably through the revised Oil and Gas Authority strategy (which came into force in February 2021).

3. Industry

This section is interesting for the breadth of key commitments included, almost half of which could have been distributed under the headings of Hydrogen and Greenhouse Gas Removals:

- Delivering 6 MtCO₂ per year of industrial CCUS by 2030 and 9 MtCO₂ per year by 2035;
- Supporting the deployment of CCUS through the £1bn CCS Infrastructure Fund, which was announced in 2020 with a goal of delivering 10 MtCO₂ a year by 2030. One might note that the earlier commitment is much more ambitious than the one set out above;
- Setting up the IDHRS scheme to fund new industrial carbon capture and hydrogen business models – see above, where this was already included in the Hydrogen section of the Strategy; and

- Following Phase 1 of the Cluster Sequencing process for CCUS deployment (guidance published May 2021), confirmation of the Hynet and East Coast Clusters as Track 1 clusters.

Several other key commitments are restatements of previous measures:

- Supporting the installation of energy efficiency and on-site decarbonisation measures through the £315m Industrial Energy Transformation Fund (IETF), which was announced in the 2018 Budget and is available up until 2025; and
- Supporting the increased requirement for fuel switching to low carbon alternatives, with an ambition to replace around 50 TWh of fossil fuels per year by 2035. This appears to refer to the £55m Industrial Fuel Switching Innovation Competition, which launched on 12 October 2021 with Phase 2 expected to open for applications in late 2022. This competition may itself be new, but the policy direction and commitment continues on from an earlier £20m Industrial Fuel Switching Competition which launched on 1 November 2018 with a market engagement study and closed on 18 February 2020 with the announcement of successful projects.

4. Heat and Buildings

While the list of key commitments is impressive, again, not all are new:

- Supporting 175,000 green skilled jobs by 2030 and 240,000 by 2035. This may appear ambitious, but it scales back from the promises in the ten point plan for a green industrial revolution (published 18 November 2020); depending on which part of the plan you look at, it promises to “create and support up to 250,000 green jobs” (page 3) or by “2030, [to] unlock the potential for 300,000 jobs in exports and domestic industry through new commercial opportunities across low carbon sectors” (page 28);
- Aiming to phase out the installation of new and replacement natural gas boilers by 2035 – it was already recognised in the December 2020 Energy White Paper that to “achieve net zero emissions, we will have to transition completely away from traditional natural gas boilers for heating homes” (page 109). The phase out was couched as an expectation rather than an aim: “by the mid-2030s we expect all newly installed heating systems to be low-carbon or to be appliances that we are confident can be converted to a clean fuel supply” (page 109);
- Making heat pumps as cheap to buy and run as a gas boiler by growing the heat pump market to support 600,000 installations per year by 2028 – this ambition was set out in the November 2020 ten-point plan, and the December 2020 Energy White Paper;
- Upgrading fuel poor homes to EPC Band C by 2030 and providing additional funding to the Home Upgrade Grant and the Social Housing Decarbonisation Fund – investing £1.75bn. It is not clear whether this funding is in addition to, or part of the £3.8bn committed to in the 2019 Conservative Party Manifesto;
- Establishing large scale trials of hydrogen for heating to take decisions in 2026 on the role of hydrogen in decarbonising heating, and consulting on the case for enabling or requiring hydrogen-ready boilers and broader heating system efficiencies. This is a reiteration of chapter 2.4.3 of the Hydrogen Strategy; and

"Supporting 175,000 green skilled jobs by 2030 and 240,000 by 2035. This may appear ambitious, but it scales back from the promises in the ten point plan for a green industrial revolution."

- Continuing to grow and decarbonise the UK Heat Network market through the £338m Heat Network Transformation Programme of which at least £270m will go toward the Green Heat Network Fund, introducing sector regulation and new heat network zones by 2025. It is not clear what comprises the £338m overall figure cited. The December 2020 Energy White Paper launched the Heat Network Transformation Programme with £122m of funding and the creation of heat network zones by 2025; separately, it allocated £270m of funding from 2022 for the Green Heat Network Fund (page 115). In total, the £338m cited in the Strategy falls short of the £392m promised in the Energy White Paper by some margin.

5. Transport

The key commitments set out in relation to transport focus heavily on road transport (13 policies), with a nominal one policy each for rail, maritime and aviation. This is somewhat disappointing as the momentum for electric vehicles (personal, corporate and public) has been building for years; though there is still a long way to go to make increased EV take up easier, the Strategy would have been the perfect launch point for a big push on rail, maritime and aviation.

That said, it is perhaps unsurprising to see that many of the EV related commitments are not new:

- Ending the sale of new petrol and diesel cars and vans from 2030; from 2035, all new cars and vans must be zero emission at the tailpipe. The intention to “end the sale of new conventional petrol and diesel cars and vans by 2040” was first announced in July 2018 with the publication of The Road to Zero Strategy, and the acceleration of the target date to 2030 was announced in November 2020;
- Ensuring the UK’s charging infrastructure network is reliable, accessible, and meets the demands of all motorists, and publishing an EV infrastructure strategy in late 2021, setting out the government’s vision for infrastructure rollout, and roles for the public and private sectors in achieving it. The Plug-In Vehicle Infrastructure Strategy published ten years earlier than the Strategy (June 2011) already recognised that “public infrastructure needs to be easy to locate and easy to access” and that “making it easy to locate and accessible will give the public the assurance they need to utilise the full range of their vehicles, and it will support the commercial case for public charging”. As 2021 fades into recent memory, we have not yet seen the promised EV infrastructure strategy;
- Building a globally competitive zero emission vehicle supply chain and ensure our automotive sector is at the forefront of the transition to net zero – as stated in The Road to Zero Strategy;
- Leading by example with 25% of the government car fleet ultra-low emission by December 2022 and all the government car and van fleet zero emission by 2027 – the first target was set out in The Road to Zero Strategy, while the second target has been brought forward three years from 2030. However, this is far from ambitious as at 13 June 2019, central government was “well on track to meet the targets, with electric vehicles making up nearly 23% of the entire fleet”;
- Increasing the share of journeys taken by public transport, cycling and walking. This commitment has certainly been expressed for London since at least June 2017 (80% of all journeys targeted), and more widely in the Transport Decarbonisation Plan (published July 2021);

"Leading by example with 25% of the government car fleet ultra-low emission by December 2022 and all the government car and van fleet zero emission by 2027 – the first target was set out in The Road to Zero Strategy, while the second target has been brought forward three years from 2030."

- Investing £2bn in cycling and walking, building thousands of miles of segregated cycle lanes and more low-traffic neighbourhoods with the aim that half of all journeys in towns and cities will be cycled or walked by 2030. This commitment refers back to those in the earlier Transport Decarbonisation Plan; and
- Invest £3bn in the National Bus Strategy, creating integrated networks, more frequent services and bus lanes to speed journeys and support delivery of 4,000 new zero emission buses and the infrastructure needed to support them. This was announced in February 2020, and expanded upon in the March 2021 Bus Back Better: national bus strategy for England.

More surprising, perhaps, than the repetition of previous EV infrastructure is the lack of ambition in relation to rail:

- Electrifying more railway lines as part of plans to deliver a net zero rail network by 2050, with the ambition to remove all diesel-only trains by 2040 – an ambition first announced in February 2018.

6. Natural Resources, waste and fluorinated gases

The key commitments kick off with the tagline “harnessing nature for net zero”. But again, it falls somewhat short of promising much that is new:

- Introducing farming schemes, including the new environmental land management schemes, which will provide a powerful vehicle for achieving net zero, and goals of the 25 Year Environment Plan. This was set out in the June 2021 update of the Farming is Changing Strategy (first published August 2019): “these schemes are intended to provide a powerful vehicle for achieving the goals of the 25 Year Environment Plan and our commitment to net zero emissions by 2050” (page 10);
- Increasing investment in industry-led research and development into solutions to help deliver net zero in agriculture and horticulture, including through the Farming Innovation Programme. While that programme did indeed kick off in October 2021, it was promised in the November 2020 Agricultural Transition Plan 2021 to 2024 (page 58);
- Trebling woodland creation rates by the end of this Parliament (a repetition from a May 2021 press release), and maintaining new planting of at least 30,000 hectares per year from 2025 onwards (a target set out in a June 2021 House of Commons Briefing Paper, Tree Planting in the UK);
- Restoring at least 35,000 hectares of peatlands in England by 2025, through the Nature for Climate Fund – as announced in the May 2021 England Peat Action Plan;
- Mobilising private investment into tree planting, including through the Woodland Carbon Code (published July 2018), with the support of government’s Woodland Carbon Guarantee (published November 2019), and into peat restoration through implementing a package of reforms to the Peatland Code. The Peatland Code (version 1.1) was published in March 2017, and planned updates were signalled in February 2021 with the aim of publishing version 2.0 by the end of 2021 – while that target was missed, we can only hope that 2022 might bring the update;
- Developing a policy roadmap to increase the use of timber in construction in England and creating a cross-government and industry working group tasked with identifying key actions to safely increase timber use and reduce embodied carbon – as committed to in May 2021 via the England Trees Action Plan (page 19);
- Completing a review of the F-gas Regulation and assessing whether we can go further than the current requirements and international commitments. We note that there is no commitment to extend the ban/restriction of some F-gases under the Regulation (which came into force on 1 January 2020); and

- Through the Environment Bill, legislating for Local Nature Recovery Strategies – a new system of spatial strategies that will map proposals for improving or creating habitat for nature and wider environmental benefits. These strategies were launched in pilot form in August 2020 and the Environment Bill (first read before Parliament in January 2020) received royal assent on 9 November 2021, becoming the Environment Act 2021.

7. Greenhouse Gas Removals

The key commitments set out in this section are mainly commitments to explore options and launch calls for evidence, with some recycling of older pledges:

- Delivering £100m innovation funding for Direct Air Carbon Capture and Storage (DACCS) and other GGRs – which was announced by the Prime Minister in June 2020.

WHAT DOES THE STRATEGY MEAN FOR YOU?

Over the coming weeks, we will be looking closely at the new measures introduced or signalled by the Strategy. We will highlight new developments in the sectors identified above and set out the risks and opportunities presented for stakeholders across finance, investment, and development, including for those based outside the UK.

In the meantime, we would love to hear your thoughts, questions and feedback. Get in touch with one of the authors, or your usual Watson Farley & Williams contact.

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