

## DELIVERING NET ZERO

# UK Net Zero Strategy: 10 key talking points

On 19 October 2021, the UK government announced its Net Zero Strategy, required under the Climate Change Act 2008, in which it set out the policies needed to achieve net zero emissions by 2050. The Strategy was accompanied by HM Treasury's Net Zero Review Final Report and a slew of other policy papers. In this article, we outline 10 key talking points.

## 1. Cost to consumers

Leading up to the publication of the Net Zero Strategy, the press enjoyed speculation of a tension between HM Treasury and the Department for Business, Energy and Industrial Strategy. Certainly, given the current energy crisis, the cost to consumers of achieving Net Zero is high on the political agenda. The Net Zero Review and the [Heat and Buildings Strategy](#) further mention that the government will look at "options to expand carbon pricing and remove costs from electricity bills", recognising the need to rebalance green levies so that these do not fall exclusively on electricity bills. Rather, the government proposed that these costs might be added to gas bills to move consumption away from gas. A Fairness and Affordability Call for Evidence will be launched to look at rebalancing electricity and gas prices, with a view to taking decisions in 2022.

## 2. Fiscal implications

The transition to low carbon energy, particularly away from petrol and diesel vehicles, will mean the shrinking of the tax base. This may not be fully offset by revenues from carbon pricing. The Net Zero Review highlighted that additional public investment to support decarbonisation may need to be funded through additional taxes or reprioritised from other areas of government spending. Both the Net Zero Review and Net Zero Strategy reiterate a commitment to consider expanding the UK emissions trading scheme (ETS) to cover additional sectors,

and to align the UK ETS cap with a net zero consistent trajectory by January 2024.

## 3. Carbon Capture, Usage and Storage (CCUS)

Greg Hands, Minister of State for Energy, Clean Growth and Climate Change, made a [written statement](#) to Parliament recognising the need to capture and store 20-30 MtCO<sub>2</sub>e annually by 2030. The government envisages a role for UK industries to build competitive advantages in this sector to capture export opportunities and future investments. He also announced the selection of the HyNet and East Coast Clusters as Track 1 CCUS clusters for delivery in the mid-2020s (which will now be taken forward into negotiations), with the Scottish Cluster selected as a reserve cluster. Our recent article on CCUS in the UK is available [here](#).

## 4. Hydrogen

The government will allocate £140 million for the Industrial and Hydrogen Revenue Support scheme which aims to accelerate industrial carbon capture and hydrogen. This now includes up to £100 million to award contracts of up to 250MW of electrolytic hydrogen production capacity in 2023 with further allocation in 2024, which appears intended to address concerns that no budget had been ring-fenced for hydrogen produced by electrolysis using renewable power. A decision on the role of hydrogen in the heating system will be made by 2026. Our article on the emerging UK hydrogen business model is available [here](#).

## 5. Greenhouse Gas Removal (GRR) and Bioenergy with carbon capture and storage (BECCS)

The government has concluded, in its [Response to the Call for Evidence on GRRs](#), that achieving Net Zero will not be feasible without engineered GRRs. Its overarching ambition is to deploy at least 5

MtCO<sub>2</sub> per year of engineered removals by 2030. GRRs are however not yet commercially viable. So policies to support deployment are proposed, including £100 million of innovation funding for Direct Air Carbon Capture and Storage (DACCS) and a commitment to consult on preferred business models to incentivise early investment in GRRs in 2022.

Significant deployment of mature BECCS technologies is envisaged by 2030, including by retrofitting infrastructure in the power and industrial sectors. The government also released a [report on investable commercial frameworks for 'power BECCS'](#), which explores frameworks that could best enable the short-term deployment of BECCS in the power sector. An amendment to the Climate Change Act 2008 is needed to enable engineered removals to contribute to UK carbon budgets.

## 6. Electric vehicles, aviation, and shipping

In order to send a clear signal to investors, improve consumer choice, and maximise overall benefit, a zero emission vehicle mandate has been announced. This mandate will deliver on the UK's 2030 commitment to end the sale of new petrol and diesel cars, and 2035 commitment that all cars must be fully zero emissions capable. The government will provide an additional £620 million for zero-emission vehicle grants and electric vehicle infrastructure (with a focus on on-street residential charging). A further £350 million will be allocated to the Automotive Transformation Fund to support zero-emission vehicle supply chains. The UK also aims to become a world-leader in zero emission flight, kick-starting the commercialisation of sustainable aviation fuel (SAF) with the ambition to enable delivery of 10% SAF by 2030 ("Jet Zero"). Measures include £180 million funding for UK industry for the development of SAF plants. Moreover, the UK aims to phase out the sale of new non-zero emission domestic shipping vessels (over a duration still to be determined).

## 7. Heat and Buildings

The government released its long-awaited [Heat and Buildings Strategy](#). A central ambition is that by 2035, new gas boilers will no longer be sold in the UK. This has already been the subject of criticism with Julie Hirigoyen, Chief Executive of the UK Green Building Council, [commenting](#) that a 2030 date for boilers is needed to put the UK on track for

Net Zero. The strategy also included a new £60 million Heat Pump Ready programme that will provide funding for heat pump technologies and will support the government's target of 600,000 installations a year by 2028. Rt Hon Philip Dunne MP, Chair of the Environmental Audit Committee, [commented](#) that the announcement does not go far enough and only supports the installation of 90,000 heat pumps over the next three years.

## 8. Nuclear

The government intends to secure a final investment decision on a large-scale nuclear plant, Sizewell C, by the end of this Parliament including the establishment of a Regulated Asset Base funding model. Looking further forward, the government is considering a range of large-scale and advanced nuclear technologies to support Net Zero, including Small Modular Reactors and potentially Advanced Modular Reactors. A new £120 million Future Nuclear Enabling Fund is intended to reduce barriers for entry, with details expected in 2022.

## 9. Green finance and innovation

Commitments include using the UK Infrastructure Bank to crowd in private finance, to continue to use green gilts following the success of the UK's first sovereign green bond, and to support the British Business Bank's new objective to incorporate net zero and broader environmental, social and governance objectives across all of its activities. The government has also committed to delivering a £1.5 billion decarbonisation programme for power, buildings, industry, transport, natural resources, waste, F-gasses and heat. It will further invest £22 billion in R&D and publish a Net Zero Research & Innovation Framework to cover technological innovation over the next 5 to 10 years, as well as the need for innovative business models and regulatory change to achieve net zero.

## 10. New Sustainability Disclosure Requirements and Transition Plans

The UK published the [Greening Finance: A Roadmap to Sustainable Investing](#) report, focused on introducing a new Sustainability Disclosures Requirement in the UK, developing a UK Green Taxonomy and using the Green Technical Advisory Group to advise on greenwashing and how to implement the taxonomy in a UK context. The government also expects publication of transition plans to become the norm across the economy (and this may well become mandatory in due course).

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