House of Commons

Environmental Audit Committee

Energy subsidies: Government Response to the Committee's Ninth Report of Session 2013–14

Seventh Special Report of Session 2013–14

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Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

All publications of the Committee (including press notices) and further details can be found on the Committee's web pages at www.parliament.uk/eacom

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Seventh Special Report

The Environmental Audit Committee reported to the House on *Energy subsidies* on 2 December 2013 (HC 61). The Government response to the Committee's Report was received on 18 February 2014, and is appended below.

Appendix—Government response

Introduction

1. The Government welcomes the committee's report on "Energy Subsidies" (HC 61), published on 2 December 2013.

2. To meet our energy objectives, the Government needs significant investment in order to diversify the mix of energy, increasing and accelerating the use of low-carbon energy in the UK.

3. The Government has a range of policies and market based support mechanisms designed to deliver the Government's objectives of reducing carbon emissions and ensuring UK energy security, so consumers have access to the energy they need for light and power, heat and transport at affordable prices. The Government assesses and reviews these policies to ensure that they continue to operate in the most cost-effective way for consumers and taxpayers.

Response to detailed comments

<u>Paragraph 11:</u> **There is no single internationally agreed definition of what constitutes energy subsidy. Methodologies differ widely, as do the nature of transactions and support mechanisms that might be subsumed in a measurement of subsidy. It is regrettable that this, as we note later in this Report (paragraph 65), has provided a way for the Government to reject—erroneously, in our view—the proposition in some areas that it provides energy subsidies.**

4. The Government agrees with the committee's conclusion that there is no single agreed definition of what constitutes a subsidy and that "methodologies differ widely, as do the nature of transactions and support mechanisms that might be subsumed in a measurement of subsidy". This point came across in the evidence presented by a number of the witnesses.

5. Across these methodologies, as the Government noted in its written evidence, the spectrum of what could be included in a definition is extremely broad. The narrowest possible definition of subsidy refers to direct budgetary payments by a governmental body to producers or consumers. The widest definitions extend to most or all areas of government activity, encompassing the time government officials act for or on behalf of a

particular group or industry. The Government concluded that neither extreme would provide the basis for sensible engagement on how, and to what extent the Government incentivises a particular sector to deliver Government objectives.

6. What the Government considers important is that it looks at the support it provides in a more general way. This allows consideration, development, deployment and management of a clear and coherent package of support to enable the Government to deliver its energy objectives.

7. As stated in its written evidence Government energy policy (as with other Government policy) is subject to initial impact assessment and subsequent monitoring, evaluation and review. These provide confidence and certainty, while ensuring that the policy advances the Government's objectives in a coherent way that provides best value for money. It also means that any detrimental consequences can be quickly and effectively addressed.

8. In its written evidence the Government also stated that its policy is to incentivise the energy industry to bring forward investment where there is a market failure; and that market failure would act as a barrier to investment in the absence of those Government incentives. For example, when new mechanisms were first introduced to enable renewable generation to compete in the market, this left exposure to power price risk. For investors in technologies such as offshore wind, which face substantial initial investments but very low running costs, this can be problematic. Additionally, support available for low-carbon generation was not previously considered within a long-term funding envelope, meaning that investors have not had certainty and consumers have not been protected. Electricity Market Reform (EMR) and the Levy Control Framework have been introduced to address these issues.

<u>Paragraphs 67 & 68:</u> The variation in definitions of subsidy allows the Government to resist acknowledging subsidy in many areas, particularly on nuclear energy and the lower rate of VAT on domestic and small business heating fuel and electricity bills, and to claim that it has no 'harmful' or 'inefficient' subsidies despite fossil fuel consumption contributing to our greenhouse gas emissions. However, the reality is that energy subsidies in the UK are significant, cover all types of energy technology and run to about £12bn a year. Much of this is directed at fossil fuels. ***The Government must use the Autumn Statement as an opportunity to provide a clear and comprehensive analysis of all energy subsidies in the UK, to present its methodology and calculations, and to show how these figures differ from those produced using the methodologies of the main international institutions. This would bring much needed transparency and provide a basis for an overdue debate on the rationale and justifications for energy subsidies in the UK. It would also provide an evidence base for developing and refining policies for tackling climate change.***

9. The Government stated its position on this point in its submission to the Committee. The Government was clear that it does not believe that it has any harmful energy policies, and set out its position on nuclear energy and the lower rate of VAT. Furthermore, the Government was clear in its written submission and oral evidence to the committee, that the North Sea regime should not be considered a subsidy. The UK Government does not provide fossil fuel subsidies. For these reasons, and those set out in the written and oral

evidence to the committee, the Government does not accept the assertion that subsidies amount to £12 billion per year.

10. In addition the Secretary of State set out in the Annual Energy Statement 2013, the Government's priorities in delivering the UK's energy policies in the near term.[1] These are:

- Helping households and businesses take control of their energy bills and keep their costs down;

- Unlocking investment in the UK's energy infrastructure that will support economic growth; and

- Playing a leading role in efforts to secure international action to reduce greenhouse gas emissions and tackle climate change.

11. Government policy seeks to achieve a balance between these priorities to achieve the best outcomes for energy consumers in the UK. The Government is transparent about the rationale for, and cost and impact of, its policies. Government policy is subject to consultation, impact assessment and monitoring, with much of this information being easily publicly available through regular publications and statistical releases on the .gov website. Such transparency supports debate and challenge on individual policies as well as the overall policy mix, and the Government does not currently see a strong rationale for publishing further assessments at fiscal events.

Paragraph 71: Government should also use the Autumn Statement to introduce a new target: to reduce the proportion of energy subsidies that support fossil fuel, rather than low-carbon, consumption.

12. As the Government has stated in its evidence to this inquiry, and elsewhere in this response to the inquiry, the Government does not accept the committee's assertion that it has any fossil subsidies.

Paragraph 27: Energy subsidies play an important and justified role in alleviating fuel poverty, which remains a significant challenge. The Government's proposed change of definition of 'fuel poverty' and weakening of the legislative commitment—to 'address' it rather than 'eliminate' it—will place a greater imperative on the Government to demonstrate that it is committed to making fuel poverty a thing of the past. ***Unless the Government is prepared to make that commitment and show how it will be delivered, the changes to the fuel poverty definition and target, in part being made through amendments to the Energy Bill, should be stopped.***

13. The Committee has recognised the important role that Government can play in fuel poverty. The Government is committed to addressing fuel poverty, and helping households that are struggling with their energy bills. This is why the Government has, through the Energy Act 2013, proposed changes to the legislative framework.

14. The changes to the Warm Homes and Energy Conservation Act ensure that a statutory duty to address fuel poverty will be maintained beyond the current target date of 2016. Far

1 Annual Energy Statement 2013 ,DECC, October 2013

from a weakening the Government's legislative commitment, this represents a strengthening, ensuring an on-going long-term focus on fuel poverty.

15. Without the Government's amendments to the fuel poverty target, the 2016 target would have lapsed completely. Instead the Government now has to adopt a new target, debated in both Houses of Parliament. Importantly, the Government's proposals also mean that there must be a strategy in place setting out how the Government will be delivering the new target. This strategy, due to be published in spring 2014, will show how the new fuel poverty target will be delivered.

16. These changes will ensure that as we move forward with our plans to upgrade the energy efficiency of housing stock in this country, the fuel poor do not get left behind.

Paragraph 29: To aid transparency, if the Government introduces its proposed new measure of fuel poverty, it should also continue to publish statistics on the current metric for the remainder of this Parliament, alongside the new figures. In the Autumn Statement, the Government should make clear how any changes to green levies will change the amount that those in fuel poverty will have to pay, by how much and how soon.

17. The Government understands the committee's concerns, and would like to reassure the committee that it has already committed to continuing to publish the old 10% definition in its Annual Fuel Poverty Statistics. DECC Ministers repeated this commitment in Parliament in November 2013.[2]

Paragraph 28: The Government is undertaking a review to examine the scope for reducing 'green levies' in energy bills. While such levies currently account for 9% of bills, they may not increase bills in the longer term because they will drive energy efficiency. The review cannot significantly assist the poorest bill-payers in the short term simply by scrapping some green levies, because the biggest component of such charges in bills—the Energy Company Obligation and Warm Home Discount—is currently already directed at them (paragraph 23). *If the review finds some levy savings in energy bills, perhaps by shifting them to general taxation, the imperative for energy efficiency measures must remain the priority because of the underlying need to tackle climate change by reducing our emissions.*

18. Over the last year the Government has extended energy efficiency support to help households insulate their homes, by introducing the world first Green Deal and the Energy Company Obligation. On 2 December 2013 we announced a package of measures that will cut consumers' bills, while retaining our ambitious carbon targets and safeguarding green jobs in the UK.

19. On 2 December 2013 the Government announced a series of proposals aimed at reducing the impact of energy bill rises. Households will see an average saving of around £50 a year as a result of the proposed changes. The savings will be secured by:

2 HL Deb, 6 November 2013, Energy Bill Report Day 3

- Reducing the cost to deliver the Energy Company Obligation (ECO). We expect the proposed changes to ECO will result in £30–£35 off consumers' energy bills, on average, in 2014. The existing dedicated support in ECO for low income and vulnerable households will be maintained and extended from March 2015 until March 2017; and

- Establishing a rebate, which will save customers £12 on their electricity bill, for the next two years, worth a total of £600 million.

20. In addition, electricity distribution network companies are taking voluntary action to reduce network charges in 2014–15. The majority of network expenditure is on replacing ageing infrastructure as well as maintaining and operating the networks. This action will not slow down investment but will enable a further one-off reduction of an average of around £5 on electricity bills in 2014–15, which energy suppliers will be able to pass on to their customers.

21. The Government is committed to helping low income and vulnerable households and our recent announcements have provided new longer-term certainty on dedicated fuel poverty activity under ECO, by protecting the Affordable Warmth and the Carbon Saving Communities Obligation.

22. For both of these elements the Government proposes leaving the original targets set for March 2015 in place and then setting new targets, at the same full level of ambition, for the period to March 2017.

23. The December 2011 Carbon Plan[3] was clear that if the UK is to cut our greenhouse gas emissions by 80% by 2050 that energy efficiency will have to increase across all sectors, not only the building sector. The Carbon Plan set our four possible scenarios for 2050, relative to 1990, which imply a per capita demand reduction of between 31% and 54% relative to 2007. The Government is committed to realising the energy efficiency opportunity in the UK, and in November 2012 the Government published the first ever Government Energy Efficiency Strategy. This set out the direction of travel for the next couple decades and in December 2013 the Government published an annual update to this strategy, setting out the progress made over the last year.

Paragraph 42: Renewables energy has an important part to play in delivering the UK's emissions reduction targets, and allowing the UK to play a full role in tackling climate change. Subsidies for renewables are, in turn, an essential lever to provide certainty to industry and drive investment in those technologies. ***While the Government has a helpfully positive view on the need to increase the level of emissions reduction ambition in the EU, it should rethink its hostility to a separate continued target for the deployment of renewables. Even without such a continued EU target, however, the Government should be ready to fully use the scope for renewables subsidies to help meet our climate change obligations.***

24. The Government agrees with the committee that renewable energy has an important part to play in delivering the UK's emission's targets, and allowing the UK to play a full role

3 The Carbon Plan, DECC, December 2011

in tackling climate change. As was set out in its written evidence to the committee,[4] the Government is already providing targeted financial support in the form of the Renewable Obligation, Feed-in Tariff scheme and the Renewable Heat Incentive (RHI) to increase the deployment of renewables.

25. Electricity Market Reform (implemented by the Energy Act 2013 which received Royal Assent in December 2013) will create two key mechanisms: Contracts for Difference (CfDs) and the Capacity Market, which will provide the longer term institutional and financial structure to attract investment into energy infrastructure. CfDs will provide support for all low carbon technologies, including renewable energy, and will help deliver the renewable electricity needed for the UK to meet its 2020 target. Importantly, the Government has a strong commitment to cost effective renewable energy as part of achieving a diverse low carbon energy mix.

26. In December 2013, the government set out decisions on the CfD strike prices for renewable technologies for the period 2014–15 to 2018–19.[5] They will enable a technology mix that is value for money for consumers, and is within the upper limits on annual spending on low-carbon generation as agreed in the Levy Control Framework. Ultimately the Government wants to move to a market-led process when conditions allow and, as part of these reforms, the Government is committed to working with renewable energy developers to build on progress already made.

27. The Government also recognises that we need maximum flexibility between all options to reduce the UK's carbon emissions. This is the best way of introducing competition to drive down price. Flexibility gives us the ability to capitalise on transformational technology breakthroughs in which ever technology they occur.

28. In respect of a continued EU target each Member State is different, and will need to pursue different technologies, in different orders and in different ways. For example some have district heating that can easily be switched; some have lots of cheaper land—others are very sunny. Each will need to decide the best path for reducing emissions—binding targets are blunt instruments that do not pick up these differences.

29. The world in 2014 is a different place to 2007 when the 2020 target was first set. Renewable electricity is now being deployed at scale; over the next decade some technologies will be able to compete on cost with fossil fuel alternatives. As technologies start to mature, any new target risks forcing us to pay unnecessary subsidies. This is inconsistent with the development of a mature, sustainable and competitive low carbon energy market.

<u>Paragraph 70:</u> More fundamentally, the Government needs to demonstrate leadership in increasing the deployment of renewables and in promoting energy efficiency through the careful and targeted use of subsidies and levies, to provide certainty over the longer term for the investment in the technologies that these will depend on. In the Autumn Statement, the Government should make a start on that path by making it clear which minister and which department will be responsible for fully delivering our

4 Paragraphs 20 to 44 of the Government's evidence to the committee.

5 *Investing in renewable technologies: CfD contract terms and strike prices*, DECC, December 2013

climate change obligations in a way that avoids maintaining harmful fossil fuel subsidies and protects the fuel poor.

Renewables

30. The Government has already shown leadership in the deployment of renewables, demonstrated by the success of measures taken to date.

31. The Government is committed to achieving the UK's 2020 renewables target in the most cost effective way, minimising the impact on consumer bills. We are making very good progress towards meeting our 2020 target. 4.2% of UK energy consumption was met by renewable sources in 2012, up from 3.8% in 2011.[6] In particular, there has been significant growth in the renewable electricity sector with renewables' share of total electricity generation more than doubling since 2010, reaching a record 15.5% in the second quarter of 2013. This demonstrates the huge private sector investment that is being made in UK renewables. The success of renewables deployment is down to the careful and targeted use of market based support mechanisms.[7]

32. As well as the RHI,[8] the Renewable Heat Premium Payment (RHPP) scheme has supported over 17,000 household installations since its launch in August 2011: 6,000 in RHPP phase 1 (Aug 2011–Mar 2012) and an expected 11,000 in RHPP phase 2 (Apr 2012–Mar 2013), which has been extended to run to March 2014.

33. Looking to the future, EMR will provide future support for all low carbon technologies, including renewable energy.[9] These reforms provide the longer term institutional and financial structure to attract private capital. Furthermore, the 2012 'Strategic Framework for Heat' document sets out how we might change the way we produce and consume heat to meet our carbon reduction target and renewable energy target. 'The Future of heating; Meeting the challenge', published in March 2013, sets out a plan to support the transition to low carbon heating.

Energy Efficiency

34. The Government has put energy efficiency front and centre in its energy policy. In the 2012 Energy Efficiency Strategy we set out our ambition to see the UK get closer to using only the energy it really needs, since then we have made significant progress towards this objective.

35. The Government has extended support to help households insulate their homes, by introducing the world first Green Deal and the Energy Company Obligation; and on 2 December 2013 we announced a package of measures that will cut consumers' bills, while retaining our ambitious carbon targets and safeguarding green jobs in the UK.

6 This 2012 figure is greater than our first interim target of 4.04%. Across 2011 and 2012 the UK achieved an average of 4.0% with the small shortfall being within the margin of error around the estimate.

7 Detail provided in paragraphs 20 to 44 of the government's written evidence to the committee.

8 Details in paragraphs 36 to 42 of the Government's written evidence to the committee.

9 See paragraphs 25 and 26 above.

36. The Government has also set up the Green Investment Bank, which has energy efficiency as a key priority, paving the way for innovation; announced plans to launch, at least, a £20 million pilot to trial Electricity Demand Reduction within EMR; and concluded the procurement competitions for the provision of data and communication services needed to support the roll out of smart meters.

37. The Government is exploring opportunities to build on the progress already made as part of the implementation of the EU Energy Efficiency Directive, which seeks to deliver 20% energy efficiency savings by 2020 (from the 2007 baseline).The UK submitted its Article 3 notification to the European Commission on 30 April 2013, which was set at the level of 129.2 million tonnes of oil equivalent for final energy consumption on a net calorific value basis. The represents an 18% reduction in final energy consumption (equivalent to a 20% primary energy reduction) by 2020, relative to a 2007 business as usual projection. Based on current projections the UK will exceed the target.

Responsible Minister

38. The Minister with overall responsibility for our climate change obligations, in the sense of our legally binding carbon budgets under the Climate Change Act, is the Secretary of State for Energy and Climate Change, supported by Ministers of State and the Parliamentary Under Secretary of State at the Department of Energy and Climate Change.

39. The shift to a low carbon economy is however a shared objective across Government, and other Ministers and their Departments have important roles to play—notably DfT, Defra, CLG, BIS, the FCO, DfID and of course HMT, Cabinet Office and Number 10. It should also be noted that responsibility for climate change adaptation in the UK (as opposed to mitigation, or adaptation in developing countries) rests with the Secretary of State for Environment, Food and Rural Affairs.

Paragraph 51: The Hinkley Point C deal will be scrutinised by the European Commission for state aid implications. It makes no sense to claim that a subsidy applicable to more than one technology therefore does not constitute a subsidy. It is already clear that new nuclear is being subsidised. The contractor for Hinkley Point will be able to use the guaranteed strike price for the electricity generated to raise capital at lower cost. It is debateable which of the various other Government-termed 'support mechanisms' and 'insurance policies' also constitute subsidy. Even in terms of the Government's 'similarity' definition of 'no public subsidy for new nuclear', there are aspects of support which are not 'similar' to that provided for other types of energy, notably on decommissioning and waste.

40. As was stated in the written evidence to the committee, it is the Government's policy that there will be no additional support given for new nuclear power unless comparable support is provided to other types of low-carbon generation, as defined in a written statement made to Parliament in October 2010, and in a debate in Parliament in February 2013 . This means that new nuclear will receive no levy, direct payment or market support for electricity supplied or capacity provided by a private sector new nuclear operator, unless similar support is also made available more widely to other types of generation, including as part of the Government's reform of the electricity markets.

41. As the committee notes, new nuclear power will benefit from any general measures that are in place or may be introduced as part of wider reform of the electricity market to encourage investment in low-carbon generation. This is about creating a level playing field for all forms of low carbon electricity generation, not subsidising nuclear.

42. It is important to note that it will be for energy companies to construct, operate and decommission nuclear power stations. It will be for the Government and the independent regulators to ensure appropriate levels of safety, security and environmental regulation.

43. The Government has always been clear that EDF will only be offered an investment contract for Hinkley Point C new nuclear power plant if it is value for money, affordable and in line with our policy that we will not provide support for new nuclear unless similar support is provided to other types of low-carbon generation. It would also have to be consistent with state aid rules. It is quite possible to meet the technical tests for state aid (because we are supporting low carbon generation over high carbon generation) while being 100% in line with our policy on nuclear.

44. Implementation of the EMR programme is subject to State Aid approval, including Contracts for Difference for renewables as well as nuclear.

Decommissioning and waste

45. The Government does not accept that there is any subsidy in relation to the costs of decommissioning and waste management for new nuclear power stations. The Government will not repeat the mistakes of the past, where the taxpayer has footed the bill for dealing with decommissioning and has put a robust framework in place to ensure that these liabilities are met by the operator and that the risk of recourse to the taxpayer is remote.

46. The Energy Act 2008 requires operators of new nuclear power stations to have secure financing arrangements in place to meet the full costs of decommissioning and their full share of waste management and disposal costs. Under the Energy Act, all new nuclear operators are required to have a Funded Decommissioning Programme (FDP) approved by the Secretary of State before nuclear-related construction can begin and to comply with that programme thereafter. In the FDP the operator is required to make prudent provision for their liabilities, such that the risk of recourse to the taxpayer is remote.

47. There is no question of subsidy in the Government's policy that new build must pay its "full share" of waste management and disposal costs. This policy refers to the approach taken to the allocation of costs for any facility that is shared between new build and legacy operators. For example the Government expects to dispose of spent fuel and intermediate level waste from new nuclear power stations in the same geological disposal facility that will be constructed for the disposal of legacy waste. Our policy is that the price to be charged for the disposal of new build wastes in this facility should cover not only the incremental cost of disposing of new build waste, but also a contribution to the fixed costs of constructing the facility. Hence rather than being a subsidy this represents a benefit to the taxpayer, as these are costs that will need to be incurred anyway in order to dispose of legacy wastes.

<u>Paragraph 60:</u> Field allowances for North Sea oil and gas do not fully offset relatively high starting rates of corporation tax and petroleum revenue tax. The allowances nevertheless represent a subsidy because the higher tax rates compensate for the use of state-owned fossil fuel deposits.

48. As the Government stated in its written submission, and reiterated during the oral evidence, the UK does not have any fossil fuel subsidies.

49. Oil and gas produced in the UK is subject to a tax on profits of 62% for new fields and 81% for older fields—significantly higher than the mainstream corporation tax rate. This ensures the taxpayer benefits from highly profitable fields.

50. The Government has introduced field allowances for more challenging categories of field that are economic, but commercially marginal at the high rate of tax. Allowances support projects which would not have gone ahead at 62% or 81% tax rates. Such fields are relieved of the 32% supplementary charge for a portion of their profits—but they still pay ring fence corporation tax at 30% for this portion, higher than the mainstream corporation tax rate.

51. The Government does not accept the assertion that the oil and gas tax regime represents a subsidy in any form. Even taking into account the allowances, oil and gas companies pay a higher rate than other companies on their ring fence profits. The tax rates and associated allowances are designed in such a way to maximise the economic production of oil and gas, while ensuring a fair return for the taxpayer.

<u>Paragraph 61</u>: As the Energy and Climate Change Committee reported in 2011, hydraulic fracturing and horizontal drilling are both techniques that have been present in the UK for many years. They are not new technologies. Fracking is not a technology warranting financial support to become viable and competitive, and on that basis it does not warrant subsidy through a favourable tax treatment.

52. The Government announced a new allowance for onshore oil and gas projects at Autumn Statement. This allowance is not directed specifically at hydraulic fracturing; as the Committee rightly points out, there has been hydraulic fracturing in the UK for decades. The allowance is designed to support onshore oil and gas projects whose small size and technical challenge lead to higher costs, making them economic but not commercially attractive at current tax rates. Very large conventional oil or gas fields are likely to be commercially viable without fiscal support, and so are excluded from the allowance by a volume cap of 7 million tonnes of oil equivalent.

53. The allowance builds on the success of existing field allowances in increasing investment in technically and commercially challenging offshore fields. The onshore allowance reduces the tax rate on a portion of a company's profits from 62% to 30%. A company will continue to pay 62% on the remainder of its profits.

<u>Paragraph 55:</u> The capacity payments regime will constitute a subsidy for gas-fired electricity generation because in practice it is the only technology that will be eligible for the payments when the capacity contracts are deliverable in 2018–19.

54. The Government disagrees with the Committee's analysis. The Energy Act 2013 has confirmed that the Capacity Market will be open to technologies that provide electricity or reduce demand for electricity. This means that the Capacity Market is open to a wide range of technologies, including gas but also existing coal and nuclear plants, as well as non-generation technologies such as demand side response and storage—and is therefore not just aimed at gas plant. The only barrier to participation in the Capacity Market is if a generating unit is also in receipt of low carbon support payments, e.g. Contracts for Difference or Renewables Obligation payments. These plant are excluded to ensure we do not pay for the same capacity twice.

55. As a result, the Government expects that the Capacity Market will encourage competition between technologies, including generation and demand side response, and between new and existing plant.

<u>Paragraph 69:</u> We do not believe there is any case for treating subsidies to mature energy technologies where there is little likelihood of cost reduction in the future in the same way as technologies that can, over time, compete in the market place without long-term subsidy. We consider that the Government should present a case for subsidy, and hence for the application of EU state aid rules, separately for each energy category.

56. The Government's policy is to incentivise the energy industry to bring forward investment where there is a market failure that would act as a barrier to do so in the absence of those incentives. However, as stated above, the UK Government does not provide subsidies for fossil fuels.

57. The Government does clearly present its case for any support that it provides. This is achieved through the consultation process, impact assessments and subsequent monitoring, evaluation and review. This ensures that the Government can provide confidence and certainty while ensuring that the policy advances the Government's objectives in a coherent way that provides best value for money. It also ensures that detrimental consequences can be quickly and effectively addressed.

58. Through EMR, the Government's ultimate aim is to move to a technology-neutral competitive process as soon as reasonably practicable. The Government published an update document on competitive allocation for Contracts for Difference (CfD) on 16 January for a four-week consultation, closing 12 February. The consultation clarifies which of the policy positions previously set out in the EMR October consultation document and in the EMR Delivery Plan, published on 19 December 2013, the Government is minded to progress. For example, that Government believes it is appropriate to move to immediate competition for established technologies.

59. For established technologies, the proposed move to competition builds on the strong progress on cost reduction and the well-developed pipeline. For less established technologies, our aim is to ensure that that they can deploy at levels which enable continued cost reduction and which ultimately support cheaper deployment in the long-term. Competition will enable us to reduce the costs of decarbonisation, limit the bill impacts of achieving our low carbon objectives and drive efficiencies across the sector.

60. Ultimately, the Government expects there will no longer be a need to issue CfDs due to the existence of a competitive market which delivers low-carbon electricity without the need for Government support.

Paragraph 36: DfID should make, and publish, an assessment that compares its aid expenditures and the extent of fossil fuel subsidies for each aid-recipient country, and UK Export Finance should similarly provide a comparative analysis of export finance support and fossil fuel subsidies. DfID should then include these analyses in a revision of its Environment Strategy, along with the two departments' assessment of why continued aid and export support in each case overrides the need for eliminating fossil fuel subsidies in those countries.

61. The Government welcomes improved transparency of data and information on fossil fuel subsidies in developing countries. Subsidies can have a potentially negative impact on economic growth, macroeconomic stability and poverty reduction.

62. The data requested by the Committee on levels of fossil fuel subsidies is available publically; although the UK Government does not produce its own data on fossil fuel subsidies or collate this information. There is no global consensus on the definition of a fossil fuel subsidy, and so there is not one agreed set of data on the level of subsidies in individual countries.

63. DFID publishes data annually on the levels of UK Aid given to overseas countries[10] and UK Export Finance (UKEF) reports details of the projects that it supports in its annual report. However, neither DFID nor UKEF consider there to be a direct link between levels of fossil fuel subsidies and either UK Aid or export credits; nor that there would be any impact on fossil fuel subsidies from changing the level of UK aid or export credit support to individual countries.

64. Decisions for putting in place and holding fossil fuel subsidies are made by individual country governments for a variety of time-specific and locally-determined reasons, and phasing out fossil fuel subsidies can be complex. In particular, the removal of fossil fuel subsidies can adversely impact the poorest and most vulnerable in an economy and a sudden change in subsidies can cause civil unrest. For these reasons we do not consider that it would be helpful to provide an assessment of comparative levels of aid and export credits against fossil fuel subsidies. In addition, it would be inappropriate for UKEF to include a factor (levels of fossil fuel subsidies) unrelated to the provision of risk protection that exporters seek in respect of individual export transactions in its decision making; such a factor is not considered by UKEF's overseas counterparts and for UKEF to do so would put UK exporters at a competitive disadvantage.

65. The UK Government is working with international partners, such as the World Bank and the G20, to support developing countries to remove harmful fossil fuel subsidies with minimal impact to the poorest and most vulnerable people. For example, UK action to support energy efficiency and increase access to renewable energy for the poorest in developing countries can help to reduce their reliance on fossil fuels and so lessen the impact of subsidy removal.

10 Statistics on international development 2007-08—2011-12, DfID, October 2012