



Extending the Carbon Emissions Reduction Target
Department of Energy and Climate Change
Consultation document
response from BT

16 March 2010

1. BT is in broad agreement with the proposals to the extension of CERT. However, there are a number of areas that give rise to some concern in response to Consultation question 12.
2. BT takes its environmental responsibilities seriously and is committed to innovation within the area of sustainability more generally. We submit these comments as a general view of the likely risks resulting from the proposals as they stand.
3. The purpose of CERT is to provide financial incentive to both business and consumers to invest in innovation and the purchase of products that reduce CO2 emissions. BT made a significant investment by incorporating energy efficient PSUs in to its home telephone equipment range in January 2008 and this innovation was approved as a CERT scheme. As a consequence, the DECT industry in the UK moved rapidly towards mass adoption of energy efficient PSUs. It has, therefore, had a significant impact on society and the environment.

BT's particular concerns with the consultation document are as follows:-

para 5.4 - 20% improvement clause

4. This particular clause appears a very broad brush approach, which may not have considered the following elements:
 - Whether the original market transformation was stretching to begin with. For instance, an innovator may have targeted a very aggressive saving originally. Schemes that are being accredited now may "hold back" on available market transformation to benefit from the extension of CERT, whereas previously accredited schemes may be at a relative disadvantage. This would detract from the objective of achieving the reduction in CO2 targets.
 - It takes no account of the particular category, technology or innovation. For instance, some consumer electronics categories are already very energy efficient and further savings may be very hard to find, but savings should nonetheless be sought if the category is capable of making more realistic improvements that benefit society, even below the 20% level. This clause may discourage those efforts.
 - Perhaps a better measure would be to look at the cost of carbon saved rather than targeting a fixed percentage saving? Or perhaps a more pragmatic and case by case assessment would provide flexibility to encourage further innovation, within a framework that recognised where best value could be achieved through the CERT process.

para 5.6 Sunset clause and market penetration

5. This is of particular concern as it is likely to stifle innovation in product categories or markets that are characterised by one or two very influential suppliers. Where a supplier has greater than 30-40% market share, it will effectively mean there is no CERT incentive available to invest in innovation as the trigger point would be reached immediately by virtue of that supplier's market share. Even if the trigger is not achieved by that supplier's transformation action because their market share is below 30-40%, it may well be achieved by one other supplier in that market deciding to participate.
6. Categories characterised by few strong players are no less worthy of innovation or focus. They can be found in mature but high penetration categories, as well as more

nascent categories. The industry structure and number of competitors is a function of many, often unrelated, factors. The effective exclusion of innovation schemes on this basis is likely to be detrimental as it would exclude a wide range of strong brands who are actually in a better position to lead the innovation agenda.

7. This does depend to some degree on how penetration is defined. It is assumed that for simplicity it will be measured on the basis of percentage at point of sale or supply. However, if the measure is based on consumer penetration on a cumulative basis, whilst the trigger point will shift in the future, that trigger point does become highly uncertain due to complexity of rollout, uncertain market information, uncertain competitor response and uncertain consumer behaviour with regard to existing products. Crucially, this makes the investment case for innovation much less certain and therefore less likely to happen within many commercial organisations.
8. A sunset or penetration clause is a fairly blunt tool to avoid deadweight and it is important to avoid it having an adverse impact on innovation. Given this, and the fact that any rules would apply only for a maximum of 21 months, we do not support this proposal.

March 2010