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The Rt Hon Claire Perry MP
Minister of State for Climate Change and Industry
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London, SW1H 0ET

Dear Claire,

Post-Brexit carbon pricing

Thank you for your letter dated 4 April regarding your plans for carbon pricing post-Brexit in both a 'deal' and 'no deal' scenario.

Domestic ETS linked to the EU ETS

You stated in your letter that a consultation on the design of a linked Emissions Trading Scheme (ETS) would be published at the end of April, and we note that this was published on 2 May. In light of the diverging views we have heard regarding the viability of a standalone UK ETS, we welcome your statement that you will "take account of all perspectives and evidence provided" as part of the consultation process.

In our previous letter we asked whether you would be content with the balance of policy influence and constraints represented by the current EU-Switzerland linking arrangement. Although you again fail to answer this directly, your juxtaposition of the statement that "Switzerland has effectively become a rule-taker in the way the Emissions Trading Scheme works" and your own statement that you "do not envisage the UK would become a rule taker" indicates that you will be seeking a greater role than Switzerland in shaping the EU ETS if it is linked to a domestic scheme. Can you be any more specific about the constraints on Switzerland arising from their emissions trading scheme link that you would find unacceptable in a UK context?

We note that you cannot yet clarify whether the UK would participate in the EU ETS for some or all of Phase 4 if the transition period were extended beyond 2020, and welcome your commitment to provide further clarity on this point as early as possible.

Given the extension of Article 50, is there any intention to impose a new EU ETS compliance deadline ahead of the end of October, as was done before the previous potential 'no deal' date?

Carbon Emissions Tax

As the UK secured a further extension to Article 50, we understand that the Carbon Emissions Tax has not been implemented. Your guidance on *Meeting climate change requirements if there's no Brexit deal* states that "Further information on the implications of the extension for carbon pricing will be set out in due course",¹ and the notice that the Environment Agency sent to installations and other EU ETS account holders after the extension was announced stated: "we must prepare for every eventuality, including a no deal scenario at the end of the Article 50 extension period; we are discussing with the Commission the implications for our participation in the EU ETS in such a scenario". This seems to cast some doubt over whether it is still your intention to implement the Carbon Emissions Tax in the event of a 'no deal' scenario: such uncertainty presents compliance challenges for industry, and barriers to investment. We would therefore be grateful if you could clarify your intentions in this regard. The remainder of this letter assumes that you do still intend to implement the Tax in a 'no deal' scenario.

Thank you for clarifying that in your appraisal of the future EU ETS price in the context of setting the Carbon Emissions Tax rate you allowed for both the impact of the UK's 'no deal' departure and the market response to the Phase 4 reforms.

We note and welcome your statement that, if the Tax were implemented, you would "set out further details on how the rate would be set in future years", and "consult on the tax to inform secondary legislation". We urge you to include in these publications clarity regarding what would prompt a decision to change the Tax rate, and what factors you would consider when setting it. You did not, however, respond regarding whether any consideration has been given to creating an obligation for you to consult the Committee on Climate Change about any changes to the Tax rate to ensure they are consistent with the UK's carbon budgets. Please do so.

We also note that it is now unlikely that the Tax would be implemented before 1 November 2019. This is a full year after the original £16/tonne CO₂ tax rate was announced, on the basis of a carbon price forecast that only extended to April 2019. Do you have any intention to review the proposed tax rate ahead of the UK's potential 'no deal' exit from the EU?

We welcome your commitment to consider the implications for the UK's carbon budgets in the event that the Tax is implemented,

And finally, we again urge you to seek the Commission's view on whether the potential carbon price divergence between the EU and UK in the event the Carbon Emissions Tax is implemented would be material, given the implications for the Single Electricity Market on the island of Ireland. Please update us on whether these discussions have taken place, and if so on the Commission's view.

¹ <https://www.gov.uk/government/publications/meeting-climate-change-requirements-if-theres-no-brexit-deal/meeting-climate-change-requirements-if-theres-no-brexit-deal#no-deal-1>

We look forward to a reply to this letter within 10 working days.

Lord Teverson
Chair of the European Union Energy and Environment Sub-Committee

Cc Robert Jenrick MP