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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

19 December 2018

Dear Claire,

No deal preparations on energy and climate change

Thank you for your letter dated 4 December 2018, which we considered at our meeting on 19 December.

Several times in your letter you referred to “the unlikely event of a ‘No Deal’ exit”. Of course we acknowledge that the Government is seeking to reach an agreement with the EU regarding the terms of Brexit and the future UK-EU relationship. However, as you point out yourself, it is the duty of a responsible government to prepare for all scenarios, and the Prime Minister has assured our colleagues in the House of Commons that the Government has been “stepping up” its ‘no deal’ preparations.¹ We therefore continue to seek reassurance on these issues, and respond to your letter below.

EU Emissions Trading Scheme

You stated that you have not made an assessment of the impact on the EU Emissions Trading Scheme (EU ETS) carbon price of the UK leaving the Scheme on 29 March. We find this exceedingly disappointing. As you will be aware, the EU ETS carbon price is only just starting to reach effective levels, and as climate change is a transboundary issue, UK (and indeed global) citizens would be harmed by a lower and therefore less effective carbon price in the EU. We hope that this is a factor in your decision making, and in the event of a ‘no deal’ scenario we urge you to work with the EU to minimise the impact of the UK’s withdrawal from the EU ETS on the carbon price.

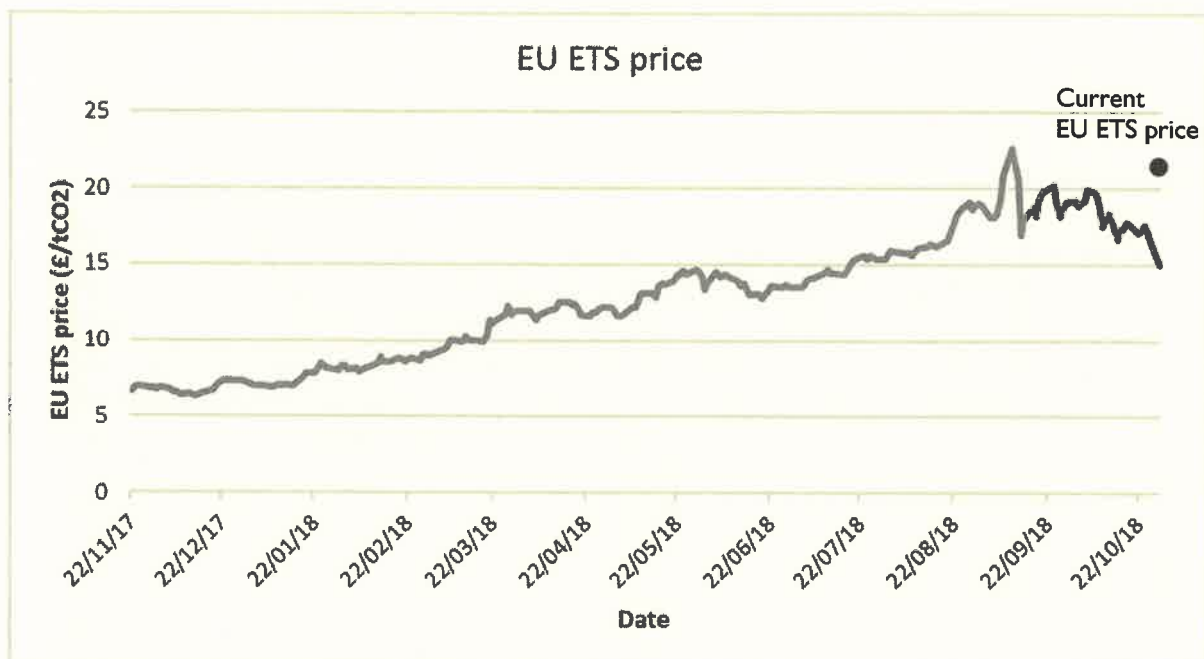
The price of carbon in the UK is significant because it affects both the UK’s ability to reduce its emissions and the competitiveness of UK businesses, and it is therefore vital that it is at an appropriate level. We asked on what basis the value of £16/tCO₂ was selected for the ‘no deal’ Carbon Emissions Tax, and whether you intended to adjust it to mirror the EU ETS

¹ HC Deb, 10 Dec 2018, [col 43](#)

carbon price. You answered that you set the Carbon Emissions Tax at £16/tCO₂ because it would “provide a similar price signal to the current EU ETS”. Although this was true on the date of the Budget, at the time of writing the EU ETS price has increased to £21.59/tCO₂.² The EU ETS price has been on an upward trend for the last year, and as the Market Stability Reserve reforms begin to take effect from January that trend should continue; conversely, as discussed above, the UK’s withdrawal from the EU ETS could at least temporarily depress the EU ETS price. As a result, the EU ETS price could diverge considerably from the level proposed for your Carbon Emissions Tax by 29 March 2019 and in the months that follow. In addition, you informed us that the Government would “review rates for further years at future fiscal events”. We note that the EU ETS price at the last three fiscal events was as follows:

- 2017 Budget (22 November): £6.63/tCO₂
- 2018 Spring Statement (13 March): £10.24/tCO₂
- 2018 Budget (29 October): £15.01/tCO₂

And furthermore that over the course of that year it reached a low of £6.36/tCO₂ and a high of £22.67/tCO₂. This data is outlined in the figure below.³



It is therefore evident that the EU ETS carbon price can vary significantly in a six month period, so we question whether it is appropriate to attempt to match it by setting a Carbon Emissions Tax that can only be adjusted biannually. We would be grateful for any further information you can provide on why the £16/tCO₂ level was selected – including any assessment you have made of whether it is compatible with the UK’s emissions reduction targets and the Committee on Climate Change’s advice regarding carbon pricing – and why you do not envisage more flexibility.

² <https://sandbag.org.uk/carbon-price-viewer/> (price converted from euros to sterling using 0.9% exchange rate)

³ <https://sandbag.org.uk/carbon-price-viewer/> (price converted from euros to sterling using 0.9% exchange rate)

We also asked whether you were any closer to reaching agreement with the devolved administrations regarding the Carbon Emissions Tax, given that the Scottish and Welsh Governments had publicly opposed such a mechanism. We note that in your response you reference many discussions with the devolved administrations regarding carbon pricing, but do not mention their agreement; and while you state that you are “committed to working collectively with the Devolved Administrations on developing a longer-term UK wide carbon pricing policy should the UK leave the EU ETS”, it is our understanding that they have objected to the Carbon Emissions Tax even as a short-term or temporary measure. We also note that since those objections were raised you and the Exchequer Secretary to the Treasury have written to both Governments to clarify that the proposed use of the tax system does not pre-judge other future carbon pricing options, and that further meetings were due to take place or had been offered. In light of those developments, please update us on the current position of the devolved administrations regarding the implementation of the Carbon Emissions Tax.

Internal Energy Market

We asked what assessment you have made of the impact a ‘no deal’ Brexit would have on consumers’ energy costs. We note and welcome your commitment to delivering secure energy supplies at the least possible cost to consumers. We also acknowledge your responsibility not to release information that would undermine the UK’s position in Brexit negotiations. However, your statement regarding the analysis you are undertaking regarding the implications of Brexit is somewhat generic: please clarify whether you have undertaken specific analysis regarding the impact on cost to consumers of the UK leaving the Internal Energy Market.

We note that you were not able to identify any concrete progress in reaching an agreement with the Irish Government and European Commission regarding maintaining the Integrated Single Electricity Market (I-SEM) in a ‘no deal’ scenario. We urge you to make this a priority if it becomes apparent that the UK will be leaving the EU without a Brexit deal. However, we welcome your consideration of fallback arrangements to ensure secure energy supplies in Northern Ireland in the event that the SEM cannot be maintained.

Thank you for explaining that your rationale for applying the Carbon Emissions Tax in Northern Ireland is to provide a similar price signal to the EU ETS, thus maintaining a consistent carbon price across the I-SEM (if it continues to be implemented). However, as noted above, this intention is unlikely to be realised if the level of the Carbon Emissions Tax can only be adjusted twice a year.

Energy research

We note that detailed discussions have not yet begun with the European Commission regarding the UK’s continued participation in Horizon 2020 in a ‘no deal’ scenario. In the event that such a scenario arises, we encourage you to seek an agreement with the Commission as quickly as possible to provide reassurance for the researchers affected and to avoid a hiatus in the UK’s ability to contribute to and participate in EU research.

Thank you for explaining that you do not hold information on individual Horizon 2020 contracts, so cannot identify those which would be affected by a prohibition on third country participation. We welcome your proactive efforts to collect this information through the UK Research and Innovation portal, and your consideration of what other measures may be necessary to support UK research.

Thank you for confirming that, in a 'no deal' scenario, the contracts of UK nationals employed by the International Thermonuclear Experimental Reactor (ITER) organisation will remain valid, as will signed contracts and agreements with UK operators including private companies, institutes and universities. We welcome this development.

Statutory instruments

Having heard from you in October that a Statutory Instrument related to the I-SEM was "off track", we are pleased to receive your reassurance that "all of the Statutory Instruments that deal with the SEM are on track to be made in good time". Please update us if this situation changes.

We look forward to your response regarding both the Carbon Emissions Tax and whether you have conducted an assessment of the consumer impact of leaving the Internal Energy Market.

We intend to consider the Brexit implications for carbon pricing in the UK in more detail next year, and would be grateful for your views as part of that consideration. Our Clerk will be in touch in due course.



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

Clair, Thank you for your appearance in front of the committee this year. May I wish you a
Refreshing + enjoyable Christmas + New Year
