

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT GREENHOUSE GAS EMISSIONS TRADING
SCHEME ORDER 2020

Tuesday 8 September 2020

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Saturday 12 September 2020

© Parliamentary Copyright House of Commons 2020

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chair: †IAN PAISLEY

| | |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| † Britcliffe, Sara (<i>Hyndburn</i>) (Con) | † Pennycook, Matthew (<i>Greenwich and Woolwich</i>) (Lab) |
| Coyle, Neil (<i>Bermondsey and Old Southwark</i>) (Lab) | † Tarry, Sam (<i>Ilford South</i>) (Lab) |
| † Davison, Dehenna (<i>Bishop Auckland</i>) (Con) | Thompson, Owen (<i>Midlothian</i>) (SNP) |
| † Fletcher, Colleen (<i>Coventry North East</i>) (Lab) | † Tomlinson, Michael (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Fletcher, Mark (<i>Bolsover</i>) (Con) | † Webb, Suzanne (<i>Stourbridge</i>) (Con) |
| † Gibson, Peter (<i>Darlington</i>) (Con) | † Wood, Mike (<i>Dudley South</i>) (Con) |
| † Holmes, Paul (<i>Eastleigh</i>) (Con) | |
| † Kwarteng, Kwasi (<i>Minister for Business, Energy and Clean Growth</i>) | |
| Mahmood, Shabana (<i>Birmingham, Ladywood</i>) (Lab) | Jack Dent, <i>Committee Clerk</i> |
| † Mangnall, Anthony (<i>Totnes</i>) (Con) | |
| † Osborne, Kate (<i>Jarrow</i>) (Lab) | † attended the Committee |

Fourth Delegated Legislation Committee

Tuesday 8 September 2020

[IAN PAISLEY *in the Chair*]

Draft Greenhouse Gas Emissions Trading Scheme Order 2020

9.25 am

The Minister for Business, Energy and Clean Growth (Kwasi Kwarteng): I beg to move,

That the Committee has considered the draft Greenhouse Gas Emissions Trading Scheme Order 2020.

It is a real pleasure to open this short debate, I hope, with you in the Chair, Mr Paisley. The Order in Council, which was laid before the House on 13 July 2020 in draft under the Climate Change Act 2008, establishes a UK-wide greenhouse gas emissions trading system—a UK ETS—as a policy replacement for our participation in the EU emissions trading system. The UK will cease to participate in the EU ETS at the end of the transition period at the end of the year as a consequence, obviously, of our withdrawal from the EU.

This stand-alone UK ETS, as some people refer to it, has been agreed by the four Governments of the UK nations, and those positions are set out in the Government's response to the future of carbon pricing consultation, published on 1 June this year. Further secondary legislation will be introduced later this year that will introduce additional elements to the UK ETS. We have drawn on the best of the current system, which the UK, as everyone knows, was instrumental in developing, and we have made a number of improvements where possible to ensure greater flexibility to work in the interests of the UK and the global fight against climate change.

Given the importance of our net zero commitments, we will consult next year on what an appropriate development for the UK ETS cap is for the remainder of the first phase, once the Committee on Climate Change's advice on the sixth carbon budget is published. We expect that to be published later this year. Reducing emissions while supporting UK business is central to my Department's mission. We think that this is exactly the right way to go, and we always like to remind people that over the past 30 years our emissions have gone down by 45% while the UK economy has grown by 75%. It is absolutely the case that reducing carbon emissions is not really the enemy of economic development but can work very well with it.

The draft Order in Council establishes a UK ETS, as I have said, that will be operational from 1 January 2021. It establishes the scope of the UK ETS, which includes energy-intensive industries, the electricity generation sector and aviation, and it establishes a cap on allowances created under the UK ETS each year. That is a crucial point. The initial level of the cap will be 5% below what would have been the case had we stayed in the EU ETS. That means that the standard that we are establishing is more stringent in terms of carbon emissions than would have been the case had we stayed in the EU ETS.

The Order in Council also establishes a scheme for monitoring, reporting and verification requirements. The UK ETS clearly offers participants a robust and proportionate enforcement system, and it will establish and define the roles of national regulators in monitoring and enforcing the scheme. Finally, the order will establish a post-transition period carbon pricing policy for the UK. We want to encourage the best means of reducing carbon emissions and we feel that that is obviously central to the net zero target that we enshrined in law last year. On that basis, I commend the order to the Committee.

9.29 am

Matthew Pennycook (Greenwich and Woolwich) (Lab): It is a pleasure to serve under your chairmanship, Mr Paisley. The matter that we are discussing this morning is important, and although, for reasons that I will come to, the Opposition support the establishment of a UK-wide emissions scheme and consequently do not intend to press the order to a Division, I hope that Committee members will forgive me if I spend a short time setting out a series of questions that I hope the Minister will be in a position to answer.

We know that carbon pricing alone will not deliver sufficient decarbonisation to achieve the net zero emissions target that we legislated for just over a year ago, but if we are to deliver significant reductions it is essential that the UK has a robust carbon price, however that is achieved, at the point that our participation in the EU ETS ceases at the end of the transition period on 31 December. Given the circumstances in which we find ourselves, the Opposition's clear preference is for a UK ETS that is linked to the EU ETS. That latter option would retain for the country the key benefits that flowed from participation in the latter, with its larger pool of participants, including more opportunities for emissions reduction, greater cost-efficiencies, increased liquidity and a lower risk of market abuse.

We therefore support the order on the basis that a UK ETS is a precondition for a linked UK-EU scheme and recognise that, given the uncertainties around the ongoing negotiations with the EU, it is important that the legislation that will establish it is completed before the end of the transition period. However, I would be grateful if the Minister could provide some further clarity regarding the Government's present position on the possible future link between the UK ETS, to be established via the order, and the EU ETS.

In the May 2019 consultation document on the future of UK carbon pricing, the UK Government and the devolved Administrations stated clearly that securing a linking agreement with the EU was their preferred option. In contrast, the explanatory memorandum to the order merely states that the UK Government are "open to considering a link...if such a linking agreement...is in both sides' interests".

I obviously do not expect the Minister to comment on the ongoing negotiations, but I would be grateful if he could clarify that a UK ETS link to the EU ETS remains the Government's preferred option, and that they are still actively seeking to secure it as part of the negotiations.

The Opposition hope that a linked agreement is successfully negotiated, but there is obviously a chance that that is not the case, or at least that no agreement is

secured for some time following the end of the transition period. In those circumstances, in order to avoid a carbon pricing gap, the Government have made it clear that we would have to fall back on either the UK ETS that the order facilitates, but as a stand-alone system, as the Minister made clear, or a carbon emissions tax from 1 January 2021.

Both options are, I think, sub-optimal compared with the option of a UK ETS linked to the EU ETS, and both, as I am sure the Minister will be aware, are potentially problematic. The management of a stand-alone UK ETS will require a significant amount of Government intervention on the part of his Department, and even then risks being dysfunctional, with a highly volatile price plagued by low levels of liquidity and high levels of speculation.

In contrast, a carbon emissions tax provides certainty of price, but may be less cost-effective for business, more open to political interventions that risk undermining price stability and, because there is obviously no cap on total emissions, would require institutional safeguards to ensure that prices remain consistent with the UK's net zero target. Some of those problems may be overcome by good policy design, but the workings of either scheme are not the focus of this morning's discussion.

I am concerned about certainty for those covered by the arrangement. With just 16 weeks until the transition period ends, surely the Minister recognises that the emitters covered by either scheme require some certainty about which of those two options the Government will ultimately opt for as a fall-back if no linking agreement is in place on 1 January next year. That choice is not subject in any way to the negotiations taking place with the EU.

We have been asked to pass today's order and will, one presumes, be asked to pass a similar order for those aspects of the carbon emissions tax yet to be legislated because the Government have not been able to resolve internally which of the two is their fall-back preference, and have therefore been forced to ask Parliament to authorise both options in advance of a decision. We know that officials at the Minister's Department and at the Treasury have failed to reach agreement, but he should at least be able to tell the Committee when a decision will finally be made on what the preferred fall-back option is if the Government fail to negotiate a linked UK-EU ETS, ready to go in 16 weeks' time, so that those affected can properly plan for what comes next. I hope that he can shed some light on those aspects.

Before I bring my remarks to a close, I have two technical questions about the UK ETS, which is the subject of the order, and I hope that the Minister might be able to shed some light on the Government's thinking on both of them. First, he must surely accept that the proposed initial cap, which I concede is set 5% below the UK's notional share of the EU ETS, is wholly inadequate as a tool for reducing emissions. UK emissions last year in sectors covered by the EU ETS stood at 129 megatonnes and are predicted to fall further next year. The allowance cap that the Government propose for a UK ETS through the order is 156 megatonnes—well above that level.

I note the Government's arguments about the impact of the pandemic and the economic emergency in predicting future emissions as well as the need to minimise the risk associated with the transition, but the arguments for

that amount of proposed headroom are far from robust. Will the Minister explain why it was determined that the scheme's starting point should not be the latest data on UK emissions in the traded sector, particularly given that the market stability mechanisms, which the Government argue will support the price, will not function in the first year of the UK stand-alone ETS?

Secondly, we of course agree with the Government that the cap should be tightened in line with a trajectory consistent with a net zero target and the Committee on Climate Change's advice on the sixth carbon budget. We also appreciate that the market needs appropriate forewarning and that industry should have enough notice to prepare for that. However, given how important ambitious climate action is in this decade, as the Minister knows, why will it take until at least January 2023, and potentially until 2024, for that alignment to take place?

The Opposition support the establishment of a UK-wide emissions scheme as a necessary contingency, but I cannot stress enough to the Minister that, as he knows, we cannot have a dysfunctional carbon pricing system in place in the year we are to host COP26. The challenge of designing a watertight stand-alone UK ETS should be a spur to the Government's efforts to negotiate a link-in agreement with the EU system as soon as possible.

9.36 am

Kwasi Kwarteng: In response to the hon. Gentleman's questions, he will know that in the past the Government consistently said that our primary objective was to get a UK ETS linked, as he described, with the EU ETS. However, he also knows, as he mentioned, that that is a subject of ongoing negotiation and discussion between our negotiators and the EU. Should there fail to be an agreement, this is our fall-back position.

In terms of a carbon tax and a UK ETS stand-alone scheme, we are talking to the devolved Governments all the time and it would be premature for me to say here what the outcome of those discussions will be. The hon. Gentleman is aware that the Treasury is also involved in the discussions. I can shed no further light on that.

With respect to the hon. Gentleman's technical questions, yes, he can say that the proposed target, even though it is 5% more stringent than if we had stayed in the EU ETS, is not going far enough, but we have said specifically that once the cap is established we will consult on tightening it. We have also said, very specifically, that we will wait for what the Committee on Climate Change says about the sixth carbon budget. When that happens, we can have a further discussion and look at the cap again. As I have said, this is bridging legislation, trying to smooth our ETS and carbon emissions policy as we exit the EU. Clearly, once we have more information, particularly from the CCC about the sixth carbon budget, we can look at the cap again and, I am sure, make it even more stringent.

Alongside the UK ETS, the Government have a range of ambitious policies that will help industry reduce costs and decarbonise. Of course, in the midst of the covid-19 crisis, we are very focused, as many hon. Members know, on the green recovery. These schemes, along with this Order in Council, will maintain that we have an effective carbon pricing policy. With the EU ETS having covered about a third of UK emissions between 2013 and 2020, carbon pricing is, as the hon. Gentleman suggested a key tool. It is not the only way

[Kwasi Kwarteng]

Question put and agreed to.

in which we will deal with carbon emissions, but it is a key tool in the fight against climate change. I commend the order to the Committee.

9.40 am

Committee rose.