

PARLIAMENTARY DEBATES

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Fifth Delegated Legislation Committee

DRAFT GREENHOUSE GAS EMISSIONS (KYOTO
PROTOCOL REGISTRY) REGULATIONS 2021

Wednesday 21 April 2021

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The Committee consisted of the following Members:

Chair: MRS MARIA MILLER

Brennan, Kevin (<i>Cardiff West</i>) (Lab)	† Rutley, David (<i>Lord Commissioner of Her Majesty's Treasury</i>)
Caulfield, Maria (<i>Lewes</i>) (Con)	Thomson, Richard (<i>Gordon</i>) (SNP)
Docherty, Leo (<i>Aldershot</i>) (Con)	Throup, Maggie (<i>Lord Commissioner of Her Majesty's Treasury</i>)
Fletcher, Mark (<i>Bolsover</i>) (Con)	† Tomlinson, Michael (<i>Lord Commissioner of Her Majesty's Treasury</i>)
† Furniss, Gill (<i>Sheffield, Brightside and Hillsborough</i>) (Lab)	† Trevelyan, Anne-Marie (<i>Minister for Business, Energy and Clean Growth</i>)
Gwynne, Andrew (<i>Denton and Reddish</i>) (Lab)	† Whitehead, Dr Alan (<i>Southampton, Test</i>) (Lab)
Harman, Ms Harriet (<i>Camberwell and Peckham</i>) (Lab)	Bradley Albrow, <i>Committee Clerk</i>
Hendrick, Sir Mark (<i>Preston</i>) (Lab/Co-op)	
Mann, Scott (<i>North Cornwall</i>) (Con)	
Morris, James (<i>Lord Commissioner of Her Majesty's Treasury</i>)	
Pursglove, Tom (<i>Corby</i>) (Con)	† attended the Committee

Fifth Delegated Legislation Committee

Wednesday 21 April 2021

[MRS MARIA MILLER *in the Chair*]

Draft Greenhouse Gas Emissions (Kyoto Protocol Registry) Regulations 2021

2.30 pm

The Chair: Before we begin, I remind Members to observe social distancing and to sit only in the spaces that are clearly marked. I also remind Members that Mr Speaker has stated that masks should be worn in Committee unless, of course, you are speaking. *Hansard* colleagues will always be most grateful if Members send their speaking notes to them on the email address.

The Minister for Business, Energy and Clean Growth (Anne-Marie Trevelyan): I beg to move,

That the Committee has considered the draft Greenhouse Gas Emissions (Kyoto Protocol Registry) Regulations 2021.

The draft regulations were laid before the House on 25 February this year. This statutory instrument was laid under the power in section 8(1) of, and paragraph 21 of schedule 7 to, the European Union (Withdrawal) Act 2018 to address deficiencies of retained EU law that arose from the withdrawal of the United Kingdom from the European Union. The purpose of the statutory instrument is to amend retained EU law relating to the UK's Kyoto protocol registry to ensure that it will be operable in the UK.

This draft statutory instrument does not introduce any new policy. It will simply ensure the continuity of the UK's Kyoto protocol registry independently of the EU's registry system.

As a party to the Kyoto protocol, an international climate change treaty, the UK has a legal obligation to maintain a Kyoto protocol registry. That registry enables the UK and UK-based account holders to hold and trade Kyoto units. Kyoto units are each equal to 1 tonne of carbon dioxide and may be traded on the international carbon market.

Kyoto units held by the UK Government are used to demonstrate compliance with our emission reduction targets under the Kyoto protocol. Emission reduction commitments under the Kyoto protocol cover the period from 2008 to December 2020 but, due to the time lag in collecting emissions inventory data, final accounting cannot be completed until several years after December 2020, hence the continued need for a registry. Future registry requirements under the Paris agreement as the successor to the Kyoto protocol are due to be decided at COP26 this November.

While the UK was an EU member state, the UK's Kyoto protocol registry was housed in the EU's consolidated system for EU registries. The UK has now established its own domestic platform to house the UK's Kyoto protocol registry independently of the EU system. That platform is due to be operational in May of this year.

The UK Kyoto protocol registry enables the holding and trading of Kyoto units, just as a bank account does with money. As an industrialised country with emission reduction targets under the Kyoto protocol, the UK is allocated a number of units known as assigned amount units. Those units are held in the UK Kyoto protocol registry.

When finalising accounting for the Kyoto protocol commitment period, countries have the option to trade or cancel any surplus units, if they have met their emission reduction targets through domestic action. The registry enables that activity.

Private entities may also open accounts in the registry to hold and trade Kyoto units generated through the clean development mechanism under the Kyoto protocol. The mechanism allows a country with an emission reduction commitment under the protocol to implement an emission reduction project in developing countries. Such projects can earn certified emission reduction credits, each equivalent to 1 tonne of carbon dioxide, which may be counted towards meeting Kyoto targets. The mechanism can enable more cost-effective emission reductions, and the emissions credit generated may be traded, thereby creating a carbon market.

This draft statutory instrument is about continuity and compliance, rather than substantive changes to policy. By amending the retained EU legislation relating to the Kyoto protocol, the statutory instrument will provide a clear legal basis to operate and administer the UK registry domestically. It will not have any significant impact on businesses, charities, voluntary bodies or the public sector.

The Environment Agency will continue its role as the administrator of the UK Kyoto protocol registry, as before our departure from the EU. There are 112 businesses with accounts in the UK Kyoto protocol registry. The units and transaction history relating to the accounts are being transferred from the EU system to the new UK system hosting the UK Kyoto protocol registry.

As I said, the new UK system is due to be operational in May 2021, which is when account holders will be able to register on the UK system to access their migrated accounts. Trading Kyoto units via the UK Kyoto protocol registry should be possible from June 2021.

Businesses with accounts in the UK Kyoto protocol registry were given advance notice about changes to the registry while the transfer from the EU to the UK system takes place. The Environment Agency, in its capacity as administrator of the registry, continues to provide updates to account holders. We are not aware of any concerns from any of those account holders.

All four Governments of the UK nations have agreed with the purpose and content of this statutory instrument. The measures in the draft regulations are important as they will ensure the UK's ability to uphold its international commitments under the Kyoto protocol following our departure from the EU, and I hope that hon. Members will support them.

2.35 pm

Dr Alan Whitehead (Southampton, Test) (Lab): The Minister hopes that the SI will have the support of the hon. Members present. It certainly has the support of the Opposition Members present, small in number though we are, so there will be no Division or opposition to the proposal.

However, we need to be clear, among ourselves at least, about what the measure does. It is not the commencement of trading under the new UK ETS arrangement. It is not in any way a measure relating to alignment of the new UK ETS arrangement. It is instead essentially a preparatory measure to enable the UK ETS to operate properly. It clears up a lot of issues about the KP—Kyoto protocol—registry, brings the registry arrangements under the control of the Environment Agency, and regularises the arrangements for membership of that registry for UK companies trading in that protocol area.

The measure is not the UK ETS itself; it is breaking the ground for it, four months after we have formally left the EU ETS, and were supposed to be setting up our own ETS and trading independently. The Minister has indicated that the UK ETS will be better, if anything, than the EU ETS, and has warmly heralded its arrival, but of course it has not actually arrived. However, we have an announcement by the body that has been commissioned to undertake trading at auctions for the new ETS that the first auction will take place on 19 May, subject to regulatory approval.

I am not sure whether this afternoon's proceedings are part of the regulatory approval that will allow those auctions to take place. I suspect that they are not, but interestingly I see that there is, as the Minister mentioned, an aim for the IT platform for the UK KP registry to be ready in spring 2021. I think that she and I will agree that we have anything but spring-like weather at the moment in the UK. Nevertheless, it is spring, so that platform should have been ready by now, but it is not. As the Minister mentioned, it is not projected to be ready until May and there will not be activities on the UK registry until June—which is the summer, by my reckoning. Can she say, reasonably hand on heart-ish, that the platform really will be ready by, shall we say, the end-ish of spring and working as she described? As she clearly understands, that is important to the workings of the ETS scheme as a whole.

The Minister indicated, as the explanatory memorandum to the regulations indicates clearly, that companies who have accounts in the UK's KP registry have lost access to the original registry for the period during which the new UK registry is being compiled and the software sorted out for the platform. Indeed, the explanatory memorandum has the strange advice that companies involved in the original KP registry and awaiting transfer should, if necessary, open accounts in Europe to use the original KP registry. This is getting to be a bizarre state of affairs. It really should have been sorted out simultaneously with UK withdrawal so that a reasonably seamless transition could have taken place, but that that is clearly not the case.

The Minister mentioned that we have no reports of UK companies being seriously incommoded, but it could be that they are giving up on progress for the time being and awaiting further developments, as indeed they are on the auctions with the new UK system that we are promised. Can she assure us that no damage to the future of the UK ETS has occurred by the strange set of affairs of companies being in a hiatus, unable to trade in the UK and perhaps having to trade in Europe?

Finally, what are the arrangements likely to be for the alignment of UK ETS systems with other carbon trading platforms in the world and, most essentially, with the

EU ETS? The UK-EU trade arrangement, signed on Christmas eve, clearly indicated that there would be alignment between the EU and UK systems at an early stage, but the energy White Paper, published at about the same time, merely says that

“the UK is open to linking the UK ETS internationally in principle and we are considering a range of options, but no decision on our preferred linking partners has yet been made.”

Can the Minister tell us whether that range of options has been considered, and whether any decisions about preferred linking partners have been made, or are in the process of being made, to allow the UK ETS to work in the best possible way?

To be helpful to the Minister, I can indicate that the EU authorities confirmed at the beginning of March that no negotiations with them about any EU ETS-UK ETS linkage had started. Perhaps the Minister can let us know today whether any negotiations have started and, if they have not, whether the decisions on preferred linking partners might concern schemes operating elsewhere in the world—China, some states of the USA or South Korea. I would have thought the rather obvious one to link with was the EU ETS. I am anxious to hear whether that is the Minister's view. If it is, what has happened to allow that linking to happen?

2.46 pm

Anne-Marie Trevelyan: I thank the hon. Member for his, as ever, forensic challenges. He raises some important questions. First, I will clarify one point. The UK Kyoto protocol registry is an international body, while our UK ETS is our domestic trading platform, so they are not incompatible—they are sitting in two different parts of the system. They are housed within the same IT platform in a technical sense, and, as the hon. Member highlights, that has had to be developed in a compressed timeframe. The UK ETS registry has been prioritised, given the large number of businesses using it and the significantly higher value of ETS allowances compared with Kyoto protocol units. I hope that clarifies that point.

The SI is limited in scope. It is being made under the powers of section 8 of the EU (Withdrawal) Act, and it can only prevent, remedy or mitigate failures of retained EU law to operate effectively or any other deficiency in retained EU law. It is not within the powers to make wider changes to terminology and so on in the registry. This is very much one small element of the new world we are in, working within our domestic market.

There was an important question about whether the platform will be ready for June. The Department for Business, Energy and Industrial Strategy is working very closely with the Environment Agency, which has the oversight, and the IT software developer. We are keeping in regular contact with the account holders, who are waiting for it to open up again, so that everything is very much joined up and everything will go smoothly when it opens.

The registry has to be connected to the United Nations framework convention on climate change's international transaction log. Before it is reconnected, it has to pass a number of tests to meet the international standards, which are ongoing at the moment—dare I say, fingers crossed, that we are on track to pass them all? Like every exam, you never quite know, but it is progressing as we would hope. Once the tests have been passed, it will be ready to go live.

[Anne-Marie Trevelyan]

The hon. Member raised some questions about UK ETS and how it might join up with other schemes in the future. We have made the UK ETS more ambitious than the EU system that it is replacing. From day one, the cap on emissions allowed within the scheme has been reduced by 5%. We will consult in due course on aligning it with net zero. That gives industry the certainty it needs to be able to invest in low carbon technologies, because that is absolutely what we will continue to do.

The UK ETS will promote cost-effective decarbonisation. It will allow businesses to cut carbon where it is cheapest to do so and, in doing that, it promotes innovation and growth for UK businesses. It will allow us to expand our carbon pricing across the economy in order to encourage innovation and emerging decarbonisation technologies, which will be critical in helping us to meet our net zero challenge.

We have committed to exploring expanding the UK ETS to two thirds of presently uncovered emissions, and will be setting out our aspirations to continue to lead the world on carbon pricing in the run-up to

COP26 later this year. This will also include how UK ETS could incentivise the deployment of greenhouse gas removal technologies. I hope that the hon. Member, and others, will be patient with us, but there is much to come.

We recognise the importance of international co-operation on carbon pricing and the role that international carbon markets can and will play as we all try to move internationally to a net zero position. The UK is open to linking the UK ETS internationally in principle. We are considering a range of options but have not reached a decision on where that will land, but I promise to keep the House posted as we progress.

I hope I have provided the necessary assurance for the Committee to approve the statutory instrument before us today. It provides a clear legal basis to operate the new domestic platform to house the UK's Kyoto protocol registry, which is due to become operational in May. I commend these draft regulations to the Committee.

Question put and agreed to.

2.51 pm

Committee rose.

