



# HOUSE OF LORDS

European Union Committee

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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,

## **No deal preparations on energy and climate change**

Thank you for attending our meeting on 23 October, accompanied by Jonathan Holyoak, your Director of EU Energy and Climate Change, and Dr Katrina McLeay, your Deputy Director for Nuclear, to discuss your department's preparations for a 'no deal' Brexit scenario as they relate to energy and climate change. Thank you too for your letter of 12 November providing further information. We have a number of outstanding questions, as set out below.

### EU Emissions Trading Scheme

Mr Holyoak explained that EU Emissions Trading Scheme (EU ETS) allowances issued after 1 January 2019 will be marked by the EU, and will become invalid in a 'no deal' scenario. As we noted in the meeting, this is highly concerning for the EU ETS participants that will be affected. Furthermore, you did not respond to our question regarding whether the EU ETS carbon price would go down in the event that UK allowances become invalid, except to acknowledge that it would be "a massive backwards step" if it were to do so. What assessment have you made of the potential impact on the EU ETS carbon price of the UK leaving the Scheme on 29 March?

We also discussed the Government's intention, as set out in its guidance note *Meeting climate change requirements if there's no Brexit deal*,<sup>1</sup> to replace the EU ETS with a carbon tax in a 'no deal' scenario. Mr Holyoak informed us that more information on that proposal would be available in the 2018 Budget, which was subsequently released on 29 October.<sup>2</sup> We note that the Budget states that the Carbon Emissions Tax would "apply to all stationary installations currently participating in the EU ETS"; we welcome this clarification regarding the scope of

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

<sup>2</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/752202/Budget\\_2018\\_red\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf)

the measure. However, we have concerns about the rate of the tax, which the Budget stated would be set at £16 per tonne of carbon dioxide emitted over an installation's emissions allowance. On what basis was that value selected? And is there any intention for it to be adjusted over time to mirror the EU ETS carbon price?

Mr Holyoak stated that you have been "talking to Wales, Scotland and Northern Ireland about these issues for some time". However, we note that the Scottish and Welsh Governments wrote to the Chancellor on 12 October to object to the proposed Carbon Emissions Tax, describing it as "plainly unacceptable", and furthermore stating that it had been proposed "without any discussion at [the] ministerial level".<sup>3</sup> This disregard strikes us as extremely concerning. What further discussions have since taken place, and are you any closer to reaching agreement on a way forward with the devolved administrations?

### Internal Energy Market

The 'no deal' guidance notes issued by both the European Commission and your department make it clear that the UK would no longer participate in the Internal Energy Market (IEM) if it leaves the EU without a transition period on 29 March 2019.<sup>4</sup>

During the meeting we asked whether your department had made any assessment of the impact a 'no deal' scenario would have on the price consumers pay for their energy, as a result of inefficient trading if the UK leaves the IEM. This relates to a concern we raised in our *Brexit: energy security* report.<sup>5</sup> You did not answer the question. We are disappointed that you were not able to respond on this issue, and are concerned that the Government may be making decisions without having fully considered their potential impact on consumers. We therefore restate the question.

During the evidence session you acknowledged the difficulties that arise in relation to preserving the Integrated Single Electricity Market (I-SEM) on the island of Ireland if the UK leaves the IEM. In its guidance note on *Trading electricity if there's no Brexit deal*, the Government states that it is keen to seek agreement with the Irish Government and European Commission that the I-SEM will "continue in any scenario, including no deal".<sup>6</sup> However, when we asked what progress you had made on reaching such an agreement you provided no concrete information, simply noting "a growing sense of confidence that that market will be maintained", and referred to progress on including it in the Withdrawal Agreement, which, although welcome, is of course moot in a 'no deal' scenario. We therefore ask again: what progress have you made on reaching an agreement with the Irish Government and European Commission that the I-SEM will be maintained in a 'no deal' scenario?

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<sup>3</sup> <http://www.climatechangenews.com/2018/10/15/unacceptable-scotland-wales-reject-post-brexit-carbon-tax-plan/>

<sup>4</sup> [https://ec.europa.eu/info/sites/info/files/file\\_import/energy\\_market\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/file_import/energy_market_en_0.pdf);

<https://www.gov.uk/government/publications/trading-electricity-if-theres-no-brexit-deal/trading-electricity-if-theres-no-brexit-deal>

<sup>5</sup> <https://publications.parliament.uk/pa/ld201719/ldselect/ldeucom/63/63.pdf>

<sup>6</sup> <https://www.gov.uk/government/publications/trading-electricity-if-theres-no-brexit-deal/trading-electricity-if-theres-no-brexit-deal>

We also have concerns that your aforementioned preference to maintain the I-SEM is at odds with your intention, again as set out in your 'no deal' guidance,<sup>7</sup> to apply the Carbon Emissions Tax in Northern Ireland. As Mr Holyoak acknowledged, the Government's Carbon Price Floor (CFP) is not currently applied in Northern Ireland in order to maintain a common carbon price across the island of Ireland, and therefore within the I-SEM. You yourself acknowledged that "there is an argument that carbon pricing would hinder, in the short to medium term, the effective functioning of that market", and stated it is "something [you] would need to consider". We do not consider this to be a satisfactory response. Please clarify why, given the opposing precedent set by the CFP, you intend to apply the Carbon Emissions Tax in Northern Ireland in a 'no deal' scenario, and what consideration you have given to the impact this would have on the functioning of the I-SEM.

### Energy research

We do not believe you provided satisfactory responses to several of our questions regarding the 'no deal' implications for energy-related Horizon 2020-funded research, and would therefore appreciate answers to the following:

- Have discussions begun with the European Commission regarding the UK's continued participation in Horizon 2020 in the event of a 'no deal' scenario, as per the aim set out in your guidance note?<sup>8</sup>
- You stated in your guidance note that third country participation does not extend to some aspects of Horizon 2020: how many energy-related Horizon 2020 projects underway does that restriction apply to, and what measures are you taking to support these projects?

We also asked what steps you have taken to secure UK researchers' ability to collaborate on the International Thermonuclear Experimental Reactor (ITER) independently of the EU in a 'no deal' scenario. Dr McLeay stated that the Government is "willing to discuss opportunities for UK researchers ... to continue to collaborate", but again this does not describe any concrete action taken to pursue that aim. We therefore restate the question.

### Renewable Energy Guarantees of Origin

Thank you for clarifying in your letter that, although you do not know the number of contracts or volume of trade that would be affected by the EU ceasing to recognise UK-issued Renewable Energy Guarantees of Origin, it is the view of industry that this will not have a significant impact on electricity trade.

### Statutory instruments

Mr Holyoak informed us that 28 Statutory Instruments (SIs) relating to energy and climate are required as a result of Brexit, that four had already been laid before Parliament as of 23 October, and that there were "mature plans" for the remainder to be laid by the end of the

<sup>7</sup> <https://www.gov.uk/government/publications/meeting-climate-change-requirements-if-theres-no-brex-it-deal/meeting-climate-change-requirements-if-theres-no-brex-it-deal>

<sup>8</sup> <https://www.gov.uk/government/publications/horizon-2020-funding-if-theres-no-brex-it-deal/horizon-2020-funding-if-theres-no-brex-it-deal--2>

year. You noted that an SI relating to the I-SEM is “off track” because it is reliant on third-party actors. Please clarify the purpose of the SI in question, whether the difficulties have been resolved in the intervening period, and if not what the impact would be of the SI not being agreed before 29 March 2019 in a ‘no deal’ scenario.

We look forward to your response.

Best regards  
Bob

Lord Teverson

Chair of the European Union Energy and Environment Sub-Committee