

Business, Energy and Industrial Strategy Committee

Oral evidence: UK Emissions Trading System Common Framework, HC 890

Thursday 15 October 2020

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Members present: Darren Jones (Chair); Alan Brown; Paul Howell; Mark Jenkinson; Mark Pawsey; Alexander Stafford.

Questions 1 - 42

Witnesses

I: Professor Jos Delbeke, European University Institute; Adam Berman, EU Policy Director, International Emissions Trading Association; Professor Sam Fankhauser, Director, Grantham Research Institute on Climate Change and the Environment, LSE.

II: Emma Pinchbeck, Chief Executive, Energy UK; Peter Mather, Group Regional President Europe and Head of Country UK, BP plc; Frank Aaskov, Co-ordinator, Manufacturers' Climate Change Group; Debbie Baker, Public Affairs Director, CF Fertilisers UK Ltd.

Examination of witnesses

Witnesses: Professor Jos Delbeke, Adam Berman and Professor Sam Fankhauser.

Q1 Chair: Welcome to this morning's sitting of the Business, Energy and Industrial Strategy Committee. Our session today is on the future of the emissions trading system post Brexit, and whether the UK should link with the European model in the future, have its own model, or look at considerations of a carbon tax.

I am delighted, in our first panel today, to welcome Adam Berman, who is the EU policy director at the International Emissions Trading Association. Alongside Adam is Professor Delbeke, who is at the European University Institute and a former director-general at the European Commission's DG for Climate Action. Last but not least, Professor Sam Fankhauser is the director of the Grantham Research Institute on Climate Change at the LSE. Good morning to all of you.

My first question, to open the discussions today before I take questions from colleagues, is if you could give us a starter for 10 or an overview of these different models and the comparative advantages and disadvantages between them. As I said in my opening comments, the three models we are considering are a standalone UK emissions trading system, a UK trading system that is linked with the European model, or a standalone carbon emissions tax. I wonder if, Professor Fankhauser, you might want to start, and then I will ask colleagues to add any thoughts to that question.

Professor Fankhauser: Good morning, everybody. The first issue is to have the right carbon pricing level. The way in which you do it is almost secondary. It is also important but getting the price level and the structure right is the main thing to do.

Within the three structures you propose, let me give you a quick pro and con for each one of them. The positive of an EU ETS link is that it is a system that we know and we understand, and that industry has been a part of, so it is continuity. Over the 15 years that the EU ETS has been in operation, Jos and others have made it work. That is the pro. The con is that you are linked into a wider European system and there needs to be co-ordination between UK levels of ambition and EU levels of ambition. The EU ETS is only a subset of the sectors that need to be exposed to a carbon price. Those are the pros and cons of the EU ETS link.

On the UK ETS, the pro is, again, the continuity. It is a system that the industry will understand. The negative of that is that, over time, a UK trading system will become quite small and, consequently, illiquid and less effective if it is not linked to the EU ETS and to a bigger market, to exploit the efficiency gains. Those are the pros and cons of a UK ETS.

Finally, the tax system is where I, on balance, would probably come out. Staying in the EU ETS would be a good thing but that is probably hard to



achieve, and then a tax is, for me, the next best thing. Why do I say that? First, taxing is easier than trading for a lot of emitters. We all know how to pay tax. Few of us know how to be efficient commodity traders in a forward market, so we can have a broader set of emissions involved.

The drawback of a carbon tax is the long-term credibility. That, for me, is the main issue that would have to be resolved. Structurally, there is an annual Budget and an annual Finance Bill, which creates an opportunity for politicians to meddle—excuse the technical term—and change the tax level. There would have to be institutional safeguards against that. There are proposals of how that might be done, but those are the pros and cons of the carbon tax.

Q2 Chair: Professor Delbeke, do you agree with that view that, if there is no EU-linked ETS because of the illiquid nature or risk of a UK-standalone model, a carbon tax is the next best thing or do you disagree with that?

Professor Delbeke: I would like to qualify it, but I agree wholeheartedly with what was said at the beginning. Having a carbon price, whatever it is made of, is essential because it drives companies and consumers towards low-carbon behaviour and investment. That is the key. Whatever is done, if there is a carbon price—and, in the current circumstances, of course, there is a carbon price today—it is not going to be a carbon price as of 1 January 2013, so a smooth transition is very important.

I would like to make one comment on what Sam just said. Of course, fixing tax levels is politically sensitive and can play to the benefit or to the detriment. It is part of an overall consideration. I would plead strongly in favour of an emissions trading system in which the environmental outcome is guaranteed, and in which the price follows the setting of the environmental outcome. That environmental outcome, as we did under the EU ETS, is set over time. There is a clear objective for 2030 that is going to be tightened up, but people are going to know that at least four or five years in advance, or it may be eight or nine years, so the environmental integrity of an emissions trading scheme is a strong caveat that needs to be underlined.

I would like to make two side comments. Having served in the European Commission as an official, I always appreciated the very influential nature of the interventions of the UK in making the right decisions on the carbon market. Today, the EU ETS functions relatively well. It has a third fewer emissions compared to when it started in 2005, without any drop in economic activity. Today, the price level is roughly between €25 and €30, which is quite significant. Of course, it functions also in combination with other instruments, but I leave that aside. Standards for buildings, for example, are as important to drive consumers as having a good carbon price. The two can work very well together, if well designed.

Q3 Chair: Mr Berman, these all sound very complicated and there does not seem to be much time left. What is your view on how these different models fit together in terms of the time that we have?



HOUSE OF COMMONS

Adam Berman: To be realistic, I am not sure how many people were expecting a fully operational linkage by 1 January 2021. However, it is certainly possible to set up a standalone ETS that then has the capacity to link to other jurisdictions. The benefits of a linkage really come down to net zero. If you are committed to reaching net zero, as the UK is legally bound to through the Climate Change Act, the ability to link emissions trading systems to connect everything from renewables opportunities to carbon storage is going to be strategically important.

The advantages are very clear in terms of liquidity, price discovery and lowering costs because you are attracting abatement from across different jurisdictions, not just your own. It creates a win-win for all actors involved. It creates a win for companies because a level playing field in carbon pricing leads to largely aligned cost implications for companies across jurisdictions, which is beneficial for international trade. It creates a win for countries in that an increase in linkages can allow net zero to be reached more quickly and in a cheaper way. I would certainly encourage the Committee to consider that linkage, as a longer-term option, is absolutely the preference and must be the priority.

In the meantime, you are looking at these two different options, both of which do seem to be much smaller and much more restricted in scale than, of course, the UK's place in the EU ETS, but the benefits of an ETS are absolutely as Professor Delbeke put them. It is really about the benefits of a defined and legally binding reduction in greenhouse gas emissions—a reduction that a carbon tax cannot assure. It creates a trading mechanism in which allowances can be bought and sold, which ensures that decarbonisation occurs not just where it is cheapest but where it is most efficient, and also introduces a mechanism to funnel money in the direction of innovation and low-carbon alternatives.

The benefits of a UK ETS, although it would be small, would be substantial. I do not think the size of the ETS, in and of itself, precludes it being effective. There are small emissions trading systems currently in other places around the world. New Zealand and South Korea are the two that immediately come to mind.

Once we move towards the carbon tax, we get into a problematic area. The risk of politicisation is certainly there. There is also a risk that the revenue from it will not be assured. There is a misconception that the tax gives you a revenue guarantee; it does not. First, the revenue is dependent on the level of tax set by the Chancellor. The Chancellor can adjust that level of tax up and down every year, which creates real problems for industry, in that it cannot hedge against expected future prices because it has no certainty of what those prices will be. Secondly, when the Chancellor sets that rate of tax, it is impossible to be sure how much revenue will be accrued as emissions are controlled by a set of external factors.



The thing that rings true most for me about the difference, fundamentally, between a carbon tax and an ETS, which is why I feel very strongly that the UK should opt for some sort of emissions trading after the end of the transition period, is that it sends a really troubling signal for the UK to opt for a tax just months before hosting COP 26. The UK remains a pretty vocal proponent for climate action, particularly through market co-operation under article 6 of the Paris agreement. My sense is that, by adopting a carbon tax instead of an ETS, the UK would find it harder to provide market linkages with international partners and it would weaken its ability to participate in multilateral solutions to climate change.

In sum, an emissions trading system is certainly the way that the UK should consider moving now. A carbon tax fails to guarantee the one thing that it should be able to do best, which is reducing emissions. It risks a tax becoming a political football, and we all know that climate change is simply too large a problem to be kicked around as a political football today.

Q4 Chair: Are there any countries that have a carbon tax today or is this a really novel idea?

Adam Berman: There are other countries that have carbon taxes, but there is a reason now that a great deal of countries are increasingly moving towards emissions trading as their key climate policy. Beyond the ones I mentioned previously, there are California and China. There is a certain amount of carbon trading within California. There is quite a bit of it but it is fair to say that this is not a zero-sum game. We are not saying that you should only have emissions trading and nothing else. Emissions trading is the backbone of a set of climate policies and there may well be taxes on other areas of industry and on sectors perhaps not covered by an ETS. It is not the whole story but it should be, at the very least, the core part of any climate policy now.

Professor Fankhauser: There are examples of very successful tax systems, such as in British Columbia. Sweden, for example, has had a carbon tax since 1991, and there are studies that show that emissions have come down. The last thing that Adam said is important. It is not black and white. It is possible to have trading in some sectors and taxing in others. Again, there are some sectors where trading is just too complicated for the people involved, so a tax would be a better solution.

Q5 Chair: In those countries that have a carbon tax, is that set by politicians or is it set by some form of independent body?

Professor Fankhauser: You have to work very hard on the tax design for all the reasons that have been said. You have to be transparent about the tax level. You have to be transparent about the use of proceeds. British Columbia is the place that is often pointed at as the most successful. The tax is set by politicians but there is a high level of transparency and communication about what the tax does, what has



been achieved in terms of emissions and how the revenues have been recycled. They are recycled deliberately and explicitly back to consumers. You have to work hard on that. It is not just a tax like any other tax; you have to communicate it very carefully.

Professor Delbeke: In the European Union, we also have taxes. We have energy taxes that come close to what a carbon tax is. These taxes are mostly for individuals, while the emissions trading system is for big polluters. It is for big companies in the energy and manufacturing industry sectors. These big polluters and big companies are more driven by a rationale. They are operating in a market and used to doing so.

For that reason, the ETS, which covers roughly 40% to 45% of emissions in Europe, has been a successful tool. Companies know how to operate it, while for individuals, using transport or living in a house, that consideration is completely different and, for that reason, taxes may perform better. Good combinations are possible—that is what I wanted to say—and they exist in the EU as we move along.

We are preparing for a review both of the ETS and of the energy tax directive by June next year and both will be optimised to play for the different constituencies.

Q6 **Mark Jenkinson:** Professor Delbeke, what is the EU's position on having a linked emissions trading system with the UK? How bound up is that in the wider negotiations?

Professor Delbeke: I am not an official any longer, so I do not represent the official position of the European Commission and I am inside the room when the negotiators are there. As a general position, Brussels is very positive on linking because the wider the carbon market, the more attractive the potential cost reductions. Put in reverse, we can realise more emission reductions with the same investment that we are giving to carbon.

That is why the EU has been working very hard with China, for example, to build up a carbon market. The national emissions trading system in China is imminent and is going to be announced in the coming weeks or months. President Xi Jinping has announced a carbon neutral goal for 2060. There are advantages to both sides of linking—both to the UK and to the EU. Given that linking would offer the UK a potential increase that is bigger for the UK than for the EU, I would say that the attraction to the UK would be more important.

There is another consideration. In the financial market for carbon intermediaries, London is a very important centre. It would be difficult, in a situation in which the ETS in the UK would stand alone and not be linked to the EU, for it to continue functioning as a very important centre for futures on the carbon market. I fully realise that 1 January 2021 is very nearby and there is not much time, but a bit of margin has been created. In the withdrawal agreement, there is the legal obligation on



companies that the EU ETS continues until April 2021. That is purely an accounting device. That creates a bit of margin. It is not 1 January 2021 that matters; it is April 2021. If the UK were to decide to link up with the EU ETS, the first surrender date—the date when the allowances need to be given in—is April 2022, so a bit of margin has been created, thanks to the withdrawal agreement.

We will see what the negotiators decide in the coming weeks, but that stands up and is very important. We have some practical experience of linking with Switzerland. The EU linked up to Switzerland. It was the first time that there was such a linking agreement and it took a lot of time. It would be different in the case of the UK because the UK knows all the insights and has all the infrastructure that is necessary to have a good emissions trading system, so we could speed up the process.

It would not necessarily take two years, like it took for the linking between the EU and Switzerland. It could be much shorter, and the timelines I indicated—April 2021 and April 2022—could allow the UK to prepare the conditions for a linking discussion. Brussels certainly would be open to such a debate. I know that, but linking up is between two constituencies, the EU and the UK, and that is best done in a calm environment. Let us perhaps open that discussion after 1 January 2021.

There would be some margin and some time to do that and to discuss the essentials, such as environmental integrity. Cap-setting is very important. That was one of the key elements discussed under the Swiss negotiations. There were also some governance issues, but it is doable. That is what I wanted to say. If it is to benefit both sides—the UK and the EU—we both have experience of how a carbon market works and we now both have experience of how linking works. Given that the withdrawal agreement creates that little space and time, we could still do it in an orderly fashion.

It is then for the UK to find out how to bridge the transition between where we are today and the UK leaving the EU, and how to link up at a future date and time, which should be, at the latest, at the beginning of 2022. That is the absolute margin for doing it well and smoothly, without creating unnecessary uncertainty to the companies involved. Companies in the energy and manufacturing sector are crying for clarity. I would assume that they want to know what price regime for carbon they are going to follow.

Q7 Mark Jenkinson: What impact might that review in June next year have on where we start from in that bridging and where the UK might like to end up?

Professor Delbeke: It is good, as a starting point, that both the EU and the UK agree on the long-term target, which is climate neutrality by 2050. That is already excellent as a starting point. The second question is the more operational target. Let us say 2030: what would be the target for 2030 to make that happen? There are good ideas around there. The



impact assessments that were done both by the UK administration and by the Commission administration point very much in the same direction. That can be hammered out, I would say, in good time. I see good chances, to the benefit of both sides, to link up to a carbon market that, ideally, should be a global one, but let us start at home in our corner of the world.

There is a bit of time and there are good arguments to line out the ambition level that we have both agreed to. I know the UK has already had the climate neutral objective for 2050, and for longer than the EU has, but now the EU has come along. The review of the target that is planned for June next year will allow for a good discussion with the UK and to optimise both journeys towards targets that are, in the end, comparable.

Q8 Mark Pawsey: Adam, you were very clear on the case against a carbon tax. I do want to ask you about the impact on UK businesses if the Government were to choose to go down that road, but I was not entirely sure where your thoughts lay on the first two options between a linked EU ETS scheme and a standalone UK scheme. Which is the better route for the UK as far as you are concerned?

Adam Berman: The better route is, unequivocally, linkage. It creates clear continuity and benefits for the industry that is part of that. It creates benefits for Government in that it is easier and cheaper to reach net zero targets, so I would advocate for linkage. I would echo Professor Delbeke's comments. We have had two major international linkages, between EU and Switzerland and between California and Quebec. We have a framework now for negotiations. Frankly, there are no two jurisdictions that it should be easier to link than the EU and the UK. BEIS has designed a system that diverges relatively little of the proposed UK ETS from that of the EU ETS, to make sure that linkage can be kept on the table, I would imagine.

This should be the preferred option. I know the negotiations have been complicated by the quite politicised environment of the future relationship negotiations, so perhaps if we could start those negotiations beyond 1 January next year, but just within the early part of next year, we may well be able to reach success. It really would work well for both parties. For the European Commission, it would represent the very definition of level playing field, which is something the European Commission feels very strongly on. For the UK, it would represent an international trade mechanism that retains full use of revenues within the nation state and the ability to set the vast majority of the rules of the system yourself.

The way I see this, as a model for post-Brexit co-ordination between these two different jurisdictions, it is beneficial both for the UK economy and for the UK's sovereignty. Should a linkage not be possible for any reason, a standalone ETS would be a secondary option to that. Clearly, we are now weeks away from the end of the transition period. For companies to have to grapple with an entirely new compliance model,



HOUSE OF COMMONS

which is the carbon tax—a model that I know industry has strong feelings about and finds it difficult to hedge against—would be a really tall order at this stage. For a variety of reasons, a linkage would be the best option but a UK ETS should be a fallback, should that not be achievable.

Q9 Mark Pawsey: Those who wanted us to leave the EU might say, “Why should we end up having this link? Was the purpose of our vote in 2016 not to avoid those kinds of connections?” Can you tell us a little more as to why a UK-only scheme would not be as good as a linked one? Is it because the UK market is not big enough? Would an emissions trading scheme within the UK simply fail because there are not enough players? What is the rationale behind saying, “Yes, we have left but we want to keep this link here”?

Adam Berman: A standalone UK ETS would not fail. I agree with Professor Fankhauser that there would be concerns in the much longer term about liquidity, in that the UK is now decarbonising quite quickly, and the emissions covered by that ETS are declining over time, so you would likely need to see a situation in which the scope of the ETS increased to other sectors to make sure that that liquidity was assured. But I see no reason why a standalone ETS would not work well.

To those people who say, “This is the reason we left the European Union”, I would say that there is no scenario on the cards now in which the UK is still a part of the EU structure, which is the EU Emissions Trading System. What we are proposing instead is a linkage, which is something that a number of jurisdictions are thinking about and that the Paris climate agreement specifically alludes to through article 6. This is a multilateral climate mechanism and it is a trade mechanism. In any trade negotiation, there is give and take on both sides, and that would have to be the case with any linkage agreement.

If you look at the EU-Swiss agreement, which Professor Delbeke mentioned, it was simply not the case that the Swiss ETS was an exact mirror copy of the EU ETS. It does diverge, because it is a national Swiss instrument. It is not an EU instrument, but by connecting with the EU it benefits market participants, it benefits the financial institutions that use it for trade, and it simply allows us to get to net zero more quickly and cheaply.

Let us take Brexit out of this for a moment and see this as an international climate mechanism that many different jurisdictions are thinking of, and as a mechanism that will try to get us to a more global carbon pricing regime, which is cheaper for businesses and cheaper for Governments to reach their climate goals.

Q10 Mark Pawsey: Sam, you appear to be the most in favour of a carbon tax of the witnesses we have heard so far this morning. An energy-intensive industry in my constituency tells me that the real danger of a tax is that the additional cost would be passed on to energy-intensive industries. They would have to bear it. It would make their prices higher than those



of international competitors, and it would be very vulnerable to politicians meddling in the system and seeing it as a revenue-generating device. Can you give us more reasons why a carbon tax should be considered?

Professor Fankhauser: The issue for industry is not a question of the instrument, whether it is a tax or a trading scheme; it is a question of the policy mix and the ambition. Industry will have exactly the same competitiveness concerns, which are genuine and need to be looked at, whether it is subject to a tax or to a trading scheme that generates the same price signal.

On these competitiveness issues, there are a couple of things to mention. First, they depend on the international situation, so competitiveness issues arise only if the UK ambitions are asymmetrically different from the pricing or climate regulation in other countries. Increasingly, those differences are starting to disappear. As Jos said, China is moving rapidly now with a net zero target by 2060, and the EU has a similar ambition to the UK. Something may or may not happen in the US. The major emitters are starting to level the playing field, so those issues will start going away.

Q11 Mark Pawsey: Where would the control be to prevent politicians in one area—perhaps a Government that wanted to raise revenue and move more quickly—increasing the level of tax? We would simply then be offshoring our emissions and doing great damage to employment here in the UK.

Professor Fankhauser: Those are important concerns that I will come to in a second. Let me reiterate that offshoring, competitiveness and leakage issues arise whether you have a carbon tax, whether you have regulation or whether you have trading arrangements. They are an issue of the differential in ambition, not an issue of the type of instrument you have.

The question is what you do about them. They are, indeed, important. They are locally important, not UK-wide important. They happen in some highly industrialised areas, which allows us to be very targeted, bespoke and specific in how we deal with those particular regions. You have to encourage the transition rather than block the transition. That involves shareholders, the companies and their workers, so you have to create that flexibility and that skill-transferability that allows people to move on to other jobs and allows companies to reinvent themselves.

You can do that but it costs money. The price regimes that we are advocating raise money that can be used. We have to think of a carbon tax not as a revenue raiser. It does raise revenue, which is not a bad thing, but we have to think of it as a pollution tax, something that corrects pollution and makes the polluter pay, rather than a revenue-raising exercise. Those revenues, whether they come from auctioning permits or from tax, can be used to help industries such as the ones you described.



- Q12 **Mark Pawsey:** Professor Delbeke, if whatever system is chosen is not delivering the required rate of carbon reduction, is that a signal for Governments to intervene and get involved in changing things?

Professor Delbeke: That is one of the major differences between a tax and an emissions trading system. The allowed quantity of pollution is set in law fairly well in advance, so it is a clear context according to which companies can prepare themselves. That is where, on the essentials, I would not disagree with Sam, but there are, under the emissions trading system, some elements that soften and offer flexibility to companies that do not exist under a tax regime.

For example, if a company is scaling down its pollution by putting in place low-carbon investment and making an extra effort, it can bank its spare allowances for the future, which is quite an incentive for companies to act early and make investments that are beneficial for their business and, at the same time, for the climate. They can also hedge their positions on the financial market. That is happening currently in, as I mentioned, the London futures market, where there are price fluctuations. When prices are low, intelligent companies buy in allowances for delivery at a later date, so that they do not have the fully fledged price that a carbon tax may otherwise create.

The ETS inherently offers a number of flexibilities. We have seen companies use those flexibilities to soften the business impact on their operations, and they have been very good at that. Overall, collectively, the emissions from all companies together went down. This flexibility can be very helpful for companies and, to my knowledge, it is only an ETS that offers that. A tax is much blunter: you have to pay, and that is it. However attractive it is as an economist—and putting a price on carbon can be done both ways—the politics of defending a tax regime are very different. It is very differently perceived as a tool to reduce carbon emissions by the companies involved. ETS offers more flexibilities to the benefit of the companies, through banking, hedging and other flexibilities involved in the ETS system.

- Q13 **Alan Brown:** Professor Fankhauser, to what extent are the solutions being considered by the Government compatible with net zero or are changes required to bring the solutions in line with net zero? What do these solutions and their relative uncertainty say about the need to provide strong leadership for COP 26 diplomacy?

Professor Fankhauser: Compatibility with net zero is the key thing for whatever instrument is chosen. Net zero, as we heard, is not a question of just one instrument. It really has to be a collection of instruments: a collection of price signals, subsidies, regulation and assistance. All of that has to come together. If you look at the way the UK phased out coal, it was all those things coming together. It was regulation on air pollution, it was carbon taxation, it was subsidies for renewables and it was the green investment bank that pushed offshore wind. All these things came together. We need a combination of instruments.



If we then look within that family of instruments at the role of carbon pricing, whether through a tax or a trading scheme, there are three or four things that will make it compatible with net zero. The first is the price level or the level of ambition. If it is a trading scheme, you have to make the cap consistent with the fifth and sixth carbon budget, just to make sure that we are on a track to net zero. If it is a tax, we know that we are talking about something in the order of £75 by 2030. That is the level of ambition in terms of the price level. Incidentally, the permit price will be something like £75 as well. The two things will come together. The level of ambition has to be right.

Secondly, the breadth of the instrument has to be right. At the moment, pricing is too narrow. Less than half of UK emissions are subject to a meaningful carbon price, and it has to be the totality of emissions, in one way or another, so we have to broaden the price level. You can do that by using existing instruments. You do not just have to do a new carbon tax; you can use the air passenger duty, for example, in aviation and turn it into a carbon tax. You can play around with fuel duty, which is already quite effective, but you have to broaden the price signal beyond where the EU ETS currently is.

A third thing that would help industry is to make the landscape simpler. Regulated firms know how emissions trading works but, on top of that, they are subject to a carbon price underpin and subject to the climate change levy. If they do not want to pay the climate change levy, they have to have a climate change agreement. Support for renewables is financed through an energy tax. It is quite a complicated set-up that we have and there is probably room to simplify it without jeopardising the level of ambition.

Fourthly, echoing what Jos and Adam have said, you have to make it fair, both for consumers and for industry. That makes it politically acceptable and, if you do not have that, it will fail. There is a lot of revenue floating around that you can use to do that. In a trading system, it would be the free allowances that you can play around with. In a tax system or with auctioned allowances, you have revenue. We estimate it would be something like £27 billion a year in 2030 that can be used to make the system fair and acceptable to industry.

Those are the four things that I would expect the pricing system to do in the context of a broader set of instruments for net zero.

Professor Delbeke: If I may add a few words in view of COP 26, what Sam has been outlining is absolutely correct but there was an element raised earlier in the discussion, which is the pressure on our companies and the issue of carbon leakage. Are we not reshoring or offshoring a number of industrial and other activities to other places in the world where climate regulation is less strict? We can do two things in the context of COP 26. First, push for lower costs when it concerns bringing down emissions. That is where the issue of today—carbon pricing—is



particularly relevant. Emissions trading is very relevant because it is the most cost-effective solution to bring down emissions.

Secondly, when we see offshoring of our companies, we have to prevent that. We have to bring that into an intensive debate in COP 26 and say that we need more ambition. We need more reduction of greenhouse gases. We cannot accept a situation in which one part of the world is going for high carbon prices, and the other part of the world is not doing that and is even taking away some industries, which are leaving the continent.

I would open up a diplomatic effort in COP 26 that addresses the issue of carbon leakage. Otherwise, that is going to undermine more efforts. If we have a situation where ambition is getting weaker because of a carbon leakage debate, we will not realise and implement the ambition we set ourselves, which is climate neutrality by 2050. I would see COP 26 as a major opportunity to have a more mature discussion on how to prevent carbon leakage; otherwise, we will fall into the trap that is already emerging of mingling the trade debate with the carbon debate, and then having protectionist moves in one or other part of the world, which is going to make the reduction of greenhouse gases even more expensive.

If I may make a suggestion to COP 26: bring forward the issue of carbon leakage. Bring forward a mature debate so as to allow higher carbon prices in parts of the world, more ambition and, at the same time, prevent the carbon leakage debate from taking the floor in too prominent a way. That could lead to stopping the ambition instead of increasing the ambition that we need.

Q14 Alan Brown: Talking about COP 26 leadership and co-operation, the UK Government are still debating what system they are going to put in place but are supposed to be leading the way in publishing nationally determined contributions and getting other countries to publish and agree to their nationally determined contributions. Does this uncertainty cause issues in the COP 26 process?

Professor Delbeke: The NDCs are the core of the discussion, where more ambition needs to be spelled out. If all countries go for more ambition, including, in Asia, China, India and others, and if the rest of the world is stepping up its ambition, the threat of carbon leakage to our industry is going to be much less. That is exactly where I would like to make a plea to have more ambitious NDCs, more carbon reduction and a mature debate about how to limit the gap in implementation between our part of the world and other parts of the world. By doing that, we may increase the overall ambition of the world to get closer to the objectives that we all agreed on under the Paris agreement.

Professor Fankhauser: Just to echo that, the best way to reduce leakage issues, by a mile, is to have uniform levels of ambition across the globe. The minute every country has the level of ambition that we need to reach net zero or to reach 1.5 degrees globally, leakage goes away, in



HOUSE OF COMMONS

a sense, and the industry will locate itself within a global environment that has a level playing field. As Jos just said, pushing towards uniformity of ambition, either through NDCs or through a coalition of people who agree on a minimum carbon price, would be a really good thing, and leakage would cease to be the problem it is today.

Q15 Alan Brown: On ambition, Adam, the Government have proposed a minimum carbon price and an emissions cap for the UK ETS, and have proposed a tax rate for the CET. Are these the right levels to deliver the climate change ambitions? Is there any impact on the devolved Administrations' trajectory?

Adam Berman: It is important to say, first, that the purpose of carbon pricing should not be, in and of itself, revenue collection or a high price of carbon. The purpose should be to get decarbonisation at the cheapest price possible. Price, in and of itself, is not always an indicator of how much decarbonisation you will get.

If you look at those two options—the ETS versus the tax—for the tax, very clearly, there is no certainty over future pricing levels, which is deeply problematic for industry and in terms of the longer-term climate goals. We just do not know if the tax will be set at the right level to be able to achieve the emissions reductions required to reach net zero.

For an ETS, it is a bit different because you do have this cap. You do have a guarantee of environmental result. I am not claiming for a second that the UK ETS proposal is perfect. I do think that there are issues that will need to be dealt with quite quickly. If the price is too low in the early years of the system's operation, it really comes down to the signals that the Government are willing to send about the stability and the longevity of the system.

The EU is an interesting example here. The EU ETS, which the UK is currently still a part of, has gone through quite a turbulent time over the last few months with the economic situation. Despite that, as a result of Commission and Council officials coming out the whole time and saying, "We are committed to carbon pricing and to net zero", it sent a clear signal to industry that the market will be staying around for the longer term and it will be getting tighter.

From the UK ETS side, it would be important to have a clear signal from the UK Government that that market is secure. Even if the price does reduce slightly, companies can buy up surplus now—as Jos said, this is one of the great benefits to an ETS—while it is cheaper and hold it until later. This demand, in and of itself, buoys the system and keeps the price up.

I am not deeply worried about the price of a standalone UK ETS, but there is one key mechanism that the UK Government have left out of their proposal, which is a mechanism to deal with the supply of allowances. From an EU perspective, there is a mechanism that deals



with too many allowances within the system—in other words, compressing or depressing the price. From the UK side, there is a mechanism in place to deal with price spikes but there is no mechanism in place to deal with supply building up. There is a relatively low carbon price floor, but my organisation and many companies would like to see a supply side mechanism in place, as early as possible, to ensure the stability of that price signal.

Professor Delbeke: To echo what Adam has been saying, a clear mechanism is clearly important, but so is a mechanism to address potential oversupply in the market. I am not as familiar as he is with the current draft that is on the table, but that has been an important element to have the prices at the level they are today. Without this price level, we would not have been able to show any ambition towards COP 26.

As a final element, we are working, in reality, on more hybrid forms, where ETS elements and tax elements are combined. That is perhaps the future. For example, at the beginning of the ETSs, we had no interest in the revenue raised, while the revenue raised through the ETSs in Europe is, today, some €60 billion. You can do a lot with this and that is exactly the attraction of a tax. Hybrid forms of ETSs and taxes could be a way of bridging the gap between where we are today and, say, the beginning of 2022, when the time lapse comes to an end in the transition that needs to be realised.

Q16 Paul Howell: Professor Delbeke in particular has covered a lot of the particular point I was going to go into, which was the whole issue of carbon leakage and offshoring. I would like to pick up on a couple of points in terms of whether there are any complementary policies that could be used to protect the competitiveness of UK industry. The EU has its proposed border carbon adjustments. Is there mileage in that in terms of how that could affect things for us?

I will just wrap one discussion around this, to try to accelerate the time a little. There are lots of trade deals going on at the moment. You say that China, for example, is coming into these carbon positions better than it has been. Are there, therefore, other countries that we should be specifically targeting in trade deals to make sure that we do not end up with an offshoring risk?

Professor Delbeke: Thank you very much for this comment. It is, of course, very dominant in the European debate about how to protect the competitiveness of our companies and to prevent carbon leakage from taking over the debate. So far, a tremendous amount of allowances were offered for free, on the condition that good technological benchmarks are in place, in the form of free allowances. That system has delivered well up until now, but, as was indicated, the price level is going through the implicit limit that we have seen over the last couple of months and years of €30 per tonne of carbon. Once we go through that psychological limit, the debate on carbon leakage may intensify.



HOUSE OF COMMONS

It is in this context that the carbon border adjustment mechanism was brought to the table. It has been backed up politically by the European Council, but now the Commission is looking into the details of it, because the devil is in the detail. The devil is in the detail, because measuring the exact carbon content of an imported good may be easy for cement but very difficult, say, for a car because these goods are very complicated.

I do not know which way the debate in Europe is going to go. All kinds of reflections are currently taking place because the devil is in the detail, but the devil may also be in political retaliation. This idea has not been welcomed particularly by the Russians or the Chinese. The Americans have already pronounced their position on it. It has always been a standard debate in American policymaking on carbon pricing that there would be an adjustment on the border, so let us see how that is going to work out.

The point I wanted to make for COP 26 is that we had better organise an open debate on carbon leakage. It could be in the multilateral context. It could also be through our bilateral trade debates with the rest of the world. The EU, as much as the UK, is talking on trade with the rest of the world. Putting the implementation of the Paris agreement, as well as perhaps carbon pricing, into such agreements may be a very good way of dealing with the issue and preventing us going too rapidly for a carbon border adjustment mechanism, which, politically and technically, is going to be a very difficult element to manage.

COP 26 could have an open debate and say to lots of emerging economies, "Hang on. There is an issue here. That issue plays out with us but, one day, it will play out with you". In my informal talks with Chinese officials, they admit that competition is growing with Myanmar, Vietnam and low-cost areas surrounding them. All countries going for ambition will have to address the issue of carbon leakage. Having an open, multilateral debate on this issue may benefit further implementation of the goals of the Paris agreement, without jumping immediately to the gun, which is the carbon border adjustment mechanism that is going to be very delicate to manage.

Of course, I do not know how the European Commission is making its proposal and how the Council and European Parliament are going to sort things out on this issue. It is too early to tell but there are perhaps other ways that could be ventured to minimise the carbon leakage pressure on our companies and to step up climate ambition. That could be a major theme for COP 26, which could be beneficial for us in Europe as a continent but also for the globe as such, because carbon neutrality is what we are all subscribing to for the second half of the century. It is going to land squarely on all of our tables, including China, India, South Africa, Brazil, the United States and Canada—all major trading nations in the world.

Q17 Paul Howell: Could I just throw another point on the table? One of the



things that we have touched on is the need for clarity and the need for uncertainty. For businesses to invest, whether it be here or overseas, which will stimulate leakage and stimulate different things, they need to know where we are going. I would really like a comment on the ability to get through. We discuss this and debate that, but we need to get to some certainty and give business a direction of travel as to where they are going, if we are to get the investment in the UK in the right places.

Adam Berman: Whatever carbon pricing regime is chosen by the UK, carbon leakage and offshoring will present a threat. There is simply no way of getting around that and there is no silver bullet for dealing with it. As Professor Delbeke has said, the only major solution that we have to this, short of free allocation, which now has to decline over time, is some sort of border levy on the carbon intensity of the product. It may well be required but it is a deeply unsatisfactory and deeply controversial mechanism.

You end up saying, "There has to be a stick-and-carrot approach." Yes, the stick is the border carbon adjustment but, really, you do not want to ever institute that policy. The idea of the policy should be that it is never used. Instead, the carrot should be, using your words "providing certainty for business", increasing linkages and parity when it comes to carbon pricing between different jurisdictions. That is what creates security and stability for business, because it means your costs are the same between different jurisdictions. It means that there are no inverse tariffs or taxes due on your goods. It simply makes trading easier.

Ultimately, we may have to go down the road of border carbon adjustments, but the aim of such mechanisms should really be that they are never used and are simply a negotiating tactic to encourage other countries to meet your level of climate ambition. The thing that is going to enable companies to thrive through an energy transition is an increasing level playing field across different jurisdictions, ideally through carbon pricing and through linkages between different emissions trading systems.

Paul Howell: Just to summarise, you are saying that you would put a threat in an agreement that something would happen if they were not playing on a level playing field as opposed to wanting to put the mechanisms in place.

Adam Berman: Yes, that is the case, but you ideally want to have a period of negotiation with key trading partners, perhaps of a few years, in which you say, "After this point, if you still have not reached parity with our level of environmental ambition, this sort of mechanism would be implemented".

Q18 **Chair:** Before I let you go—I probably know the answer, but I am going to ask each of you—if you had to vote between an EU-linked ETS, a standalone UK ETS or a UK carbon emissions tax, which ones you would pick.



Professor Delbeke: I would opt for a linked EU-UK ETS and, building further on that, linkages with the rest of the world, as Adam just noted.

Professor Fankhauser: It might surprise you that I would probably go for a linked trading system as well, just because trade is a good thing: trade in goods, trade in carbon and trade in services. We believe in trade, so that is a good thing. To the extent that that is a complicated thing to achieve, I would go for a carbon tax. A very distant third is a UK system that has no chances of being linked in a reasonable timeframe.

Adam Berman: To make life easier for industry, a linked system is a must. If not, a standalone ETS is certainly the way to go. An ETS is not an EU policy being foisted on us. The first national emissions trading system sector-wide came from the UK. It has British fingerprints all over it. Whether it is a linked or standalone ETS, it absolutely should be the first option.

Chair: Thank you for that. You disagree on options 2 and 3 but you all agree on option 1, so that gives us unanimity at the end of the session. Thank you for your time this morning, gentlemen.

Examination of witnesses

Witnesses: Emma Pinchbeck, Peter Mather, Frank Aaskov and Debbie Baker.

Q19 **Chair:** We are pleased to welcome Frank Aaskov, co-ordinator of the Manufacturers' Climate Change Group; Debbie Baker, public affairs director at CF Fertilisers UK Ltd; Peter Mather, the group regional president for Europe and head of country here in the UK at BP; and Emma Pinchbeck, the chief executive of Energy UK. Good morning to all of you. Thank you so much for joining us this morning.

As an opening question from me before I bring in colleagues, hopefully you will have heard from the first session this interesting debate between UK competitiveness, post Brexit especially, and our decarbonisation targets. I wonder what your views are of the impact so far of the EU ETS on industrial decarbonisation and whether you think it has been effective. What lessons might we learn from that in terms of whatever model we choose to pick next, whether it is the linked EU-UK ETS, a UK standalone or a carbon tax?

Frank Aaskov: Thank you so much for having me here today. Looking at the impact so far, I would point to what was said in the first panel: the fact that we have had mitigating measures so far. Free allowances have prevented, in large part, carbon leakage, but those are reducing quite significantly over the next couple of years.

We have already seen an impact indirectly on energy prices. The UK has the highest industrial energy prices in Europe apart from Cyprus, and that is partly due to the carbon price support, which is a top-up that we have



HOUSE OF COMMONS

in terms of a carbon price. That means that, for example, to choose one manufacturing sector, steel faces 60% to 80% higher electricity prices than its key competitors. Being an electric-intensive industry, that is particularly concerning and impacts its competitiveness.

It should be noted that carbon pricing is just one element of the many additional charges we face here in the UK compared to our competitors, not just in Europe but globally. Just this year, we have seen a number of additional charges that we face, which are not directly linked to carbon pricing as such but are linked to decarbonisation and meeting net zero. Energy prices have gone up in terms of network costs, on both gas and electricity. Climate change agreements have been reformed. We have reforms in red diesel and so forth. It is the cumulative impact of all these charges that impacts our competitiveness here in the UK, not just the carbon pricing itself.

Looking at the effect of that at this point, one only has to look at the ONS report published last year, which looked into carbon leakage and the import and export of carbon in terms of goods. It showed that, among the G7 group, the UK was the biggest net importer of carbon per capita in imported goods. The average UK consumer imports about four tonnes of carbon through the products that we import. That means that we have exported the jobs and the economic benefits but we are still importing all the carbon, so we have not decarbonised that element.

That leads us, from a manufacturing point of view, to say that carbon pricing as a policy tool simply does not help us to decarbonise. It is simply not an effective tool. We need other things such as border carbon adjustments, which were mentioned before, product standards and industrial contracts for difference. Those are the policies that would help us meet net zero and help deliver a green economy from the manufacturing side.

Q20 Chair: If you had to pick from the three options currently on the table from the Government, where would you land?

Frank Aaskov: It would be very much a repeat of the earlier session. From a manufacturing point of view, we would prefer to have a linked UK ETS with other markets, so linking it to the EU and to other markets abroad, not necessarily because it is the best option but because the alternatives have significant disadvantages that we would be very concerned about, in particular, for example, the carbon emission tax.

Professor Fankhauser mentioned before that it is easier for small emitters to deal with a tax but the problem is that the tax being proposed by HM Treasury is quite inflexible. You are not able to transfer free allowances between your installations. Say a company has two installations in the UK and gets free allowances for 90% of its emissions. If one of them goes down for maintenance, you would normally, in that trading scheme, use those allowances to cover the other installation. You are not allowed to do that under a carbon emissions tax, so that would lead to unnecessarily



HOUSE OF COMMONS

higher tax burdens from a manufacturing point of view. We would be quite concerned about that.

Q21 **Chair:** Debbie Baker, from a fertiliser industry perspective, what are your thoughts on these issues before us today?

Debbie Baker: If I start with our experience to date, the earlier phases of the scheme worked really well. We reduced our emissions by 40% as a consequence of our voluntary opt-in to phase 2, and we did that to hedge our exposure to what we knew would be significant costs as a greater proportion of our emissions were included in phase 3. In earlier times, sufficient free allowances gave us the opportunity to create a bank to protect ourselves.

The reality is that now, as Professor Delbeke mentioned and made very clear, those allowances are running out and we face a very different situation, coupled with some very different allowance prices. In the UK specifically, because of the uncertainty around Brexit, we have not had the opportunity to think ahead and do the hedging that we were considering back in 2016, the week before the Brexit vote. We are facing a lot of uncertainty and some very significantly increased costs. That is the first point that I would make.

The second point that I would make over the differences between the various schemes is that our preference is perhaps for market measures. We have been fairly agnostic up until recently. The details of the carbon tax that have been published have really driven us further towards an ETS, and preferably one with a link, partly because of the point that Frank made about not being able to look at our emissions as a business, which is what we have done historically. Our decarbonisation is lumpy. It has big step changes. It does not work in a smooth line, so we need to be able to carry over allowances; we need to be able to look at it at a business level; and, bluntly, like all businesses, we want a payback on our investment.

That was a really important point of why we did the decarbonisation that we did so early, because we had a mechanism that gave us a payback on that investment. Unfortunately, the carbon tax that has been designed will give a one-off payment of equivalent to 50% of the allowances that you would have saved. Bluntly, that completely undermines the decision to invest in decarbonisation in the UK relative to other places around the world.

We would plump for an ETS. For me, though, the devil is in the detail. Adam made the point about the Swiss linking agreement. Having read through that Swiss agreement on a number of occasions, the risk is that it makes us a rule-taker. One of the benefits we see coming out of Brexit is the opportunity to design a system that works for the UK, the level of ambition and the decarbonisation path to a low-carbon economy we have specifically within the UK.



The worst possible scheme of all for us is one in which we have no say. The EU scheme and the benchmarks we will have come 1 January do not even include EU sites and plants, and that is really wrong. We should have a scheme that works for us. Any linking agreement should be more like the Australian linking agreement that was negotiated but never implemented, which recognised that higher level of ambition that Professor Delbeke talked about and that broader level of equivalence but perhaps left more of the detail for the UK to determine.

Q22 Chair: To be clear on that last point, because that was very interesting, if we do not get to a position where we can agree an EU-UK linked ETS that gives the British Government flexibility to design a system in the interests of the UK, would your preference, therefore, be for a UK standalone ETS?

Debbie Baker: It would. The big risk there is illiquidity, but there are mechanisms that can be used. In Alberta, Canada, they have a cost containment mechanism that would cap the risk of a high price spike in such a scheme. We have a carbon floor that has already been put in, so the risk of prices dropping is less of a problem than a high price spike.

Q23 Chair: Peter, BP is a global business and you have a responsibility for the whole of Europe. What is your view on the linked or standalone ETS versus carbon tax debate here?

Peter Mather: Thank you very much for inviting us to appear before your panel. This is a really important discussion, so thank you for that. We have a bit of form here because we have been longstanding proponents and supporters of not only a carbon price but also a cap-and-trade mechanism. We introduced something in our own company over 20 years ago and were early adopters of both the EU ETS and the UK scheme.

As others have said, the key thing is a carbon price. It is a very important part of us all getting to net zero by 2050, and we have said net zero by 2050 or sooner for our own company. As you have seen, we have announced a fairly radical new strategy this year. A carbon price is vital. The UK has done incredibly with its emissions burden and, indeed, with its advances into new technologies. We, effectively, do not have coal in our power mix any more. We have a thriving and growing offshore wind market. Indeed, we are developing new industries where the UK can lead, like carbon capture and storage, the hydrogen economy, et cetera.

You will find it as no surprise if I say that, of the various options that you are asking about, an ETS with a linkage to the European Union would be our preference. There are pluses and minuses for all the different options, as many of your speakers have said. I suppose, as far as I am concerned, the issue of a linkage creates two things. It creates fungibility, which is depth of market, and this was mentioned before. As you are more successful in an ETS, the market, by definition, becomes thinner. That is a slightly perverse way for a market to operate, because there is less carbon to be removed but you tighten the system as well.



The more price equivalence we can have, the less need there is for carbon border adjustments and for equivalent measures to stop anti-competitive situations for British businesses or, indeed, for European businesses coming in. The definable environmental outcome of an ETS scheme, which was mentioned before, is very important too. You know what you are going to achieve in terms of emissions reduction.

Lastly, any country or system trying to move towards net zero needs a variety of tools. An emissions trading scheme is clearly a very important one that covers about half the economy or whatever it is, as we have said, but you also need those transitional, supplementary incentives for new industries to come forward, where you are still higher up the cost curve than you are in some places. We are always going to need a mix but we see a cap-and-trade emissions trading system as a preferable way for the UK to go forward hand in hand with the climate goals of Paris.

Q24 Chair: Emma Pinchbeck, last but not least, from an Energy UK perspective, do you share colleagues' views on the panel this morning?

Emma Pinchbeck: Absolutely, we do. The first thing to say is that there is no one in the energy industry now who does not think that net zero is the route forward and, therefore, that we need a suite of measures, including carbon pricing, to achieve a low-carbon economy. The electricity sector and the power sector have been ahead of the curve on that. Our emissions are down around 60% to 70% now on 1990 levels. Certainly, carbon pricing has been part of that.

To emphasise the last point that was made, though, it is part of a suite of measures. In the context of net zero, the way we treat the EU ETS and our carbon pricing sits inside that bigger framework of things inside our carbon budgets. Going forward for net zero, we will be looking to tighten whatever we do in line with the sixth carbon budget advice coming this autumn. That is the first thing: it has been very useful.

Speaking personally, I worked on coal phase-out in the UK, which is a prime example of how carbon pricing aligned with things like emissions performance standards coming from Europe and with UK Government ambition on climate change in the run-up to the last COP. Alongside it, a suite of measures were designed to support the technologies that would replace coal, for example the CFD for renewables. That combination of measures at the right time working together enabled coal to come off and renewables to grow, such that we are now in a situation where we have a world-class renewables industry, where the costs of doing that have been very efficient, and where renewable power is now cheap for our consumers. We have a new industry and we reduced carbon emissions from coal. I agree with everything that has been said on that score.

In terms of which mechanism, this evidence session is quite boring in that we all violently agree. Sorry about that, but we think a linked ETS is the way forward. There is the certainty point that has been made, which is critical for businesses. Fundamentally, a cap-and-trade mechanism



behaves like the rest of our market. We can do things like forward-plan. We can hedge. That enables us to bring forward capital for low-carbon investments and helps transition our businesses.

The second thing, which no one has said, is that it is very efficient. Because we can see ahead and work out risks, it also means that we can manage costs more efficiently and, therefore, it costs less for consumers on the other end. The point about it being an international market is also particularly key for us in the energy industry, because we are literally connected to both the Irish single energy market and to the European integrated energy market. Therefore, having a carbon pricing mechanism that is aligned helps us because we will be looking for alignment in those other markets anyway. There is something in that for us.

In terms of the hierarchy beneath that, we would prefer a tax to a standalone ETS in the UK. The reasons for that are around the start-up risks of running a new auction system in the UK. It has never been done that way before. It could be quite difficult to manage. The small market point on liquidity is the biggest. We would be one-tenth the size of the market we currently have access to through a linked EU ETS.

I take the points that were made earlier about being able to be a rule-setter, but the reality for us is that, because we work with and are interlinked with other markets, there would have to be a high degree of alignment anyway. It has already been indicated by the UK Government that they would try to have a UK standalone ETS that was very aligned with the EU ETS in any case, so it feels like it would be the worst of all worlds for us.

On the proposals for a carbon tax so far, it is right that it is simple but the current proposed methodology for a CET is incredibly complex. We would recommend that, if the Government are going to pursue that option, they at least go back to the methodology from March 2019.

Chair: It is interesting that you all agree on the preferred baseline, an EU-UK linked ETS, but you have all made the point that that is not the end of the conversation and we would need to consider more policy initiatives and tax incentives on top of it.

Q25 Paul Howell: Coming back to something that I started a discussion on in the first session, which is the impact of carbon pricing on UK competitiveness, it is one of those things: would you start from here anyway as to where you are? You get a lot of dialogue in the press and the like about how significant this impact has been in terms of offshoring et cetera. There are two parts to the question. Has it been as bad as it is portrayed? We heard in the first session about economies like China coming more to the party in this game. Does that mean the significance is dropping? If it is dropping, is the significance moving it away from being a really important discussion or does it remain something really important to look at?



Debbie Baker: Yes, I do think it is critical. The reason it is critical is because of the point that Frank made: it is a cumulative burden. The big difference to note between us in manufacturing and the energy industry is about cost pass-through. I am not going to move house to France because my electricity price gets too high but, as a manufacturer, that is exactly what I would do. I would invest in other sites that I have around the world where there is not the same carbon on-cost.

As Frank mentioned, we have the highest industrial electricity costs in the EU outside Cyprus, so we have a lot of challenge. We have a Treasury with empty coffers that need refilling, and a lot of additional costs coming our way. It is highly complex, as Professor Fankhauser said earlier on. Even within a business, it is very difficult for businesses to get a grip on exactly how much all of these on-costs really amount to. The problem is that the direct on-costs and the indirect on-costs are all growing exponentially together. That is part of why it does remain very key.

I am just going to go back and repeat what everybody said about the tools in the toolbox. The tools in the toolbox for manufacturing are a little different than for energy as a consequence. There are tools to protect industry from direct and indirect costs, including the exemptions and the free allowances. As the effectiveness of the free allowances diminishes over time, we need to look at the tools that enable cost pass-through. That is partly why border adjustments are quite important, because they are about levelling the playing field.

The other part is something that the Committee on Climate Change has been looking at in more recent times about having low-carbon product standards in the UK to ensure that we are really driving those low-carbon markets. There is another set of tools beyond the free allowances and the compensations, beyond the CFDs and the grants to drive decarbonisation effort, and that is about the cost pass-through tools that are those border adjustments.

I am going to use the same phrase that I used before because the devil is, once again, in the detail. The issue is that we have spent a lot of money on decarbonising our production. Our competitors in China and Russia are significantly more carbon intensive. For a tonne of AN, it is just over a tonne of CO₂ to produce. In Russia, that is 2.5 times; in China it is nearly four times, because they are using coal as a feedstock for that. There is a massive disparity in terms of the emissions associated with it and quite a big disparity still in terms of ambition. Even if everybody signs up to net zero 2050, sector by sector, the way in which they will handle that will be different, so that still needs to be managed. As the costs associated with decarbonisation grow, that competitive disparity within sectors becomes quite notable and remains notable.

Q26 Paul Howell: Although things elsewhere in the world might be moving in the right direction, the gap is still fundamental and very critical to where we are at. I can see Frank nodding a bit there. Do you want to just add a



little bit to that, Frank?

Frank Aaskov: I agree with what Debbie has outlined. Manufacturers are going to compete in global markets, not just European markets, so these added costs do really matter because we cannot pass them on to consumers. If we do, consumers will simply choose to import products instead, or buy products from manufacturers abroad instead. That leads to carbon leakage.

To give you an example of the scale of things in terms of trade intensity, if you take a sector like steel again, it trades globally. Of all the steel produced, about 30% to 40% is traded across national borders. In the UK, we import about 60% of our steel requirements and export about 50% of the steel we produce. We see additional cost as we see free allowances slowly going down, and that additional cost will make us more uncompetitive and make it more difficult for us to pass that cost on.

It does not impact just in terms of us selling the product and our competitiveness but it is also about attracting investment. Many manufacturers are internationally based. Again, in the steel sector, five out of six steel companies in the UK are internationally owned, with sites inside and outside Europe. Each site competes for investment. If you have a cost disadvantage in a market, you are less likely to get that investment. If you do not get the investment, it will make you more uncompetitive compared to other sites within the group.

That creates this evil circle of not being competitive, leading to not getting the investment and to further un-competitiveness. That is the concern we will start to see as free allowances slowly reduce, unless we see other policies introduced to help manufacturers decarbonise. Debbie already mentioned the majority of the ones that we are looking at: carbon border adjustment and product standards. We will most likely also need to look at some kind of industrial contracts for difference or direct grant funding. As I mentioned earlier, we need to see lower industrial energy prices full stop. The majority of manufacturers will need to increase their energy use as we decarbonise, and we will not be able to do that if we face higher industrial electricity prices here in the UK.

Q27 **Paul Howell:** Thanks for that, Frank. A number of years ago, I spent time working in the cement industry, so I can relate to what you are saying about cross-border investment and the like. I fully get that message. Is there anything that any of the witnesses really want to put forward as to what you would see as the most important things to try to mitigate this sort of situation?

Emma Pinchbeck: I am not, for one moment, going to pretend that I can speak with the knowledge of my fellow panellists on the impact of carbon pricing on industrial emissions because it is not my specialism. Starting with principles, this is a conversation about having some kind of carbon price rather than none at all. We absolutely understand the necessity of transitioning to net zero and, generally, we prefer market



HOUSE OF COMMONS

instruments to heavy regulation. I am sure that that goes for my colleagues in the industrial sector.

It then becomes a question, as you say, about how we support difficult-to-manage sectors. It is worth saying that the energy industry is a sector in itself and we have been on an un-level playing field with carbon pricing, because we have carbon price support here in the UK, which our colleagues in Europe do not have, but we have welcomed that in the long run because what it has managed to get us to do as an industry is transition away from an old technology towards something that we can make money from, frankly, as the energy system has transformed itself.

It comes back to how we did that and what we can replicate about that for other areas of the economy. Part of it was about carbon pricing but the Government also invested heavily in the green technologies that we would need to move towards. That gave us confidence both in terms of the future market and through the carbon price to then move our own money. There is something there, for our colleagues in industry, alongside carbon pricing, which we all agree is important, about investing in the new technologies we know that they need, like carbon capture and storage—those sequestration technologies—or different fuels like hydrogen.

There is something perhaps about looking at where we pass through costs. There is a possible conversation to come about the disparity between electricity and gas, for example, and how carbon pricing applies. To the point made earlier, it is absolutely right that our customers in the electricity sector pick up some of the costs of carbon pricing, and perhaps we can move those costs off bills and perhaps look at cost pass-through more widely. It applies to every area of the economy.

The current EU ETS allows revenues to support industry, and Government could look more richly at, beyond new technologies, what we can do to help sectors transition or give them support. One of the professors earlier made the point that the impacts of the transition tend to be felt regionally or in specific communities, and that has certainly been the case with the move away from coal to renewables. What the industry has done there is really invest in new skills, making sure the workforce can move from, in my world, oil, gas and coal over to new technologies and making sure that particular communities that are going to be most impacted are invested in.

Some 90% of the investment in the new offshore wind industry in the UK went to areas outside the south-east of England. This kind of industrial thinking—on costs and where they sit in the economy, how we pass through costs, the right carbon-price mechanism, and then a whole suite of policies around it to make sure that, if we are transitioning, we have something to transition to—is the answer, not just in my industry but also in other areas of the economy.

Paul Howell: I am conscious of time and moving through, but is there



anything that you want to add to those particular pieces, Peter, before we move on?

Peter Mather: Yes. I was just going to come back to the issue of UK competitiveness. First of all, there is a real opportunity for UK leadership here. We have COP 26 looming on the horizon. We have a very active agenda here in the UK, so the UK has a real opportunity to be a leader. We also have a lot of burgeoning, fledgling industries in hydrogen, carbon capture and storage, and electrification of road transport. We are already leading in these new sectors, so there is a real opportunity for the UK to show leadership, but that calls for very careful policy.

We have to try to avoid leakage and anything that disadvantages UK industry, but also, at the same time, provide that ambition and those incentives for innovation and creativity. There is, potentially, if you get it right, a very creative dynamic tension between those two, but we need to make sure we try to hit that.

One method that we are discussing today is through an emissions trading system, but there are other methods too. It is about UK leadership, but we have to get this balance right between protecting our industry against carbon leakage and promoting innovation and local content, which is so important for the British economy going forward.

Q28 **Paul Howell:** The only comment there is that, coming on to your detail, it is about being very aware of the law of unintended consequences and making sure that we pick up all the right pieces to it. Emma is looking for a final point.

Emma Pinchbeck: I am so sorry. It is something very niche that I should add on behalf of my members. To go back to the point about physical interconnection, it is right to say that we are in a slightly different position with carbon leakage than, say, heavy industry, but we are increasing our interconnection to other markets and anticipate doing a lot more literal movement of electrons both to the Irish market and to the European market going forward. The ability to trade across interconnectors is very sensitive to regulatory differences, and that is one of the reasons that we are saying we would like to see a linked ETS and to have as much harmonisation and consistency as possible between anything that we do in the UK on carbon pricing and the EU market. There is a slightly more niche and more technical carbon leakage point there for us.

Q29 **Alexander Stafford:** Before I ask my questions, I want to register my interests. They are in the declaration but, just for the panel to note, I used to work for Shell until the election in December. Many moons ago, I used to work with Emma at WWF. I just want to let her know. I have worked for all sides of the debate.

Speaking of Emma, maybe I will turn to her first but I am keen to hear the panel's views. How realistic is it for this Government to implement either the UK ETS or a carbon tax by 1 January? It is not a long time. Is



HOUSE OF COMMONS

this doable? If it is not doable, why not? If it is doable, does anything need to change to make it happen by that point? Maybe more to the wider industry, what measures need to be implemented to make sure that this happens, even if it is not fully operational?

Emma Pinchbeck: Good news: I am going to pick the mechanism that we like first as a prerogative, which is to say that it is completely possible to do a UK ETS by January. The most complicated bit is the linkage, and you could prepare to do that and bring it in slightly later, ready for compliance in April 2021.

In terms of the parliamentary process, I am going to refer to notes so that I get all these right. We had the greenhouse gas ETS order in September. We need two further statutory instruments: one under the Climate Change Act and one under the Finance Act this autumn. My understanding is that those are ready to go. One of those would set up auctions and markets in the framework, and the other one would set up the inventories and the allocations.

That can be a quick process. Because we are going for a no-divergence route, and because the UK has been so instrumental in how it thinks about the EU ETS and emissions trading previously, we are in a good place to be able to do a lot of that.

Where there could be some delays, there is this misconception that we need to have the IT infrastructure and the registries all linked and ready to go for 1 January. We do not, so long as we know we are going to do linkage. We can set up those mechanisms and then do the IT infrastructure bit going forward. The critical date for that, as was mentioned earlier, is that we need it for our accounting and compliance in April 2021, and for reporting, the following year.

We think it is fine and possible but, on certainty, the fact that we do not know that that is happening and we do not know which mechanism is preferred is currently a big problem. The energy industry works a couple of seasons ahead. We hedge and we buy into forward markets. It is very difficult for us to do that at the moment in the UK and it is having an impact on the industry already, so it would be good to have some certainty about the process as soon as possible and what process the Government are using to choose between different methods.

On the tax, it is, in theory, a simple mechanism. As discussed, what would help that out is for it to go back to the original methodology proposed, so that it is as simple as possible. The problem there, in terms of logistics this autumn, is that we do not have a Budget, so it would be interesting to know how the Chancellor can announce prices. The price certainty is an incredibly important thing.

With a standalone market, the same thing goes in terms of market design but there is more to do. As I said at the beginning, it has never been done to start an ETS with auctions straightaway, so we would have to



HOUSE OF COMMONS

build in some additional mechanisms to make sure that it was stable. That one, again, seems like the most complex route of the three.

Q30 Alexander Stafford: Maybe Peter can answer that. Also, Emma mentioned uncertainty as dangerous. How is this uncertainty affecting your business?

Peter Mather: Emma has put it incredibly well. We think that this is feasible by 1 January. We do not have some of the issues that Switzerland had, for example, when it docked alongside the EU ETS. The UK has been instrumental in this right from the start. The officials in BEIS can make this happen. The consultation that has happened has given us a really good starting point, so it is feasible. We need to get on with it quickly because uncertainty is not good for business, as you know, so that is important. Looking at it from a company that also operates in Europe, the EU would welcome the depth of the market that the UK would bring.

Q31 Alexander Stafford: Drilling down into the uncertainty, Peter, you said that uncertainty is not desirable, as we know, but what does it mean? Every business believes uncertainty is bad. What does uncertainty in this respect mean for your business?

Peter Mather: It is a great question. Business has lived with an ETS for a number of years now. It has been able to plan. It has not necessarily always known the price, because that is, by definition, a market price, but it has had very good price signals coming and it has also known what it has to do. If you shift to a completely new regime that is a tax, clearly, if there was a tax, you would have to find some way, I believe, to link that with the ETS price. These are unknown quantities now. I would not say it is better the devil you know because I would not describe the ETS as a devil, but better the mechanism you know.

Frank Aaskov: I agree with what Emma and Peter have already outlined in terms of the uncertainty being an issue. We are only 12 weeks away from this new scheme having to be implemented or being ready in some way, which prevents manufacturers from hedging now. If we are going for a UK ETS, whether linked or not, you could hedge, for example if it is linked, against prices. That would give us flexibility. It also impacts in terms of internal budgets: what do you plan for? What is the tax liability that you are going to face here in a couple of months' time? It is a concern that we do not have that now.

In addition to that, I want to highlight the fact that we still do not really know how the future free allowances are going to be calculated. The Government have committed to saying it is going to be based on EU benchmarks for, I believe, the first two years, if I remember correctly. We hear from the Commission that the EU is taking UK installations out of its benchmarks, so we, as manufacturers, are going to get allowances based on what our European competitors are doing rather than being based on how UK industry has performed.



That is a concern and we do not know what will happen after that. We are just being told that, after that initial time based on the EU benchmarks for the free allowances, at that point the UK will develop its own scheme. What is it going to take into account? The UK may be too small to develop its own free allowance mechanism and have to take in EU allowances. How do you do that? That is also an uncertainty that we do not know yet, which is a concern for us.

Q32 Alexander Stafford: Building on what you said, how confident are you that a UK-only carbon market can function successfully in the absence of a link to the wider carbon markets? What would the challenges around that be legislatively?

Frank Aaskov: It has already been said by many of the other panellists, both on the previous panel and on this one. The UK ETS has been designed to be very similar to the EU ETS. Linkage, as such, should not be a big issue. It has been purposely designed not to diverge too much, so we would not be too concerned about the linkage element of it.

In terms of having a standalone scheme and the challenges around that, it is, again, about the fact that it would be too small. For example, in the spring, in the EU ETS, you had speculators coming in and buying up allowances in anticipation of the economy starting up again, which spiked the price up. If you have a much smaller scheme, it does not take that many speculators in the carbon market to impact the price level, which would put us at a competitive disadvantage.

Of course, just having a smaller market, with the power sector increasingly decarbonising over the next decade, makes it much less liquid because there are not that many players involved.

Debbie Baker: On the first point about the impact of uncertainty on our business, I already talked about the inability to hedge our allowances ahead. We would have started looking at this before Brexit. In fact, we were, and we decided not to go ahead and buy the allowances pending the Brexit decision, which I am quite glad about now.

The second point is about the UK being a place where you might want to invest. That uncertainty is really problematic. CF is the UK's biggest hydrogen producer currently, so we do see that there are promising opportunities for the future but, in our industry, there have been three really big announcements around green ammonia. In July, Air Products made an announcement about investing in an extremely large facility in the Middle East. Yara made an announcement last week about working with Ørsted to produce hydrogen to supplement its Sluiskil plant in the Netherlands. OCI is planning a carbon capture and storage project and is going ahead with that because it has its business models in place.

All these things knock on to each other. It is very difficult for us to work with BEIS to come up with really effective business models for carbon



HOUSE OF COMMONS

capture and storage if we do not know what the carbon pricing scheme is going to be. It has a range of impacts, I would say.

Q33 Alexander Stafford: If the UK Government were going towards an ETS or a carbon tax, what would the main challenges around that be for your business?

Debbie Baker: The single biggest challenge is that it takes away the incentive to invest in decarbonisation that takes you beyond the benchmark, which is the thing that worked for us in the past: being able to get beyond the benchmark to have that bank of allowances that helped to insulate our exposure to carbon pricing. In industry, we do not want a high carbon price. Our drive is to mitigate the effects of carbon pricing. That is what makes us invest in decarbonisation. It is quite different from electricity from that perspective, because of that inability to pass those costs through to the end consumer.

Emma Pinchbeck: There is something that I have not said very clearly in this, which is that the power sector was impacted by this first. We have decarbonised first. The benefits of doing it this way and leaving the more complex areas of the economy until last are that the transformation away from fossil fuels to renewables should also lead to much more cheap electricity. Hopefully, as colleagues in other industries are then decarbonising, we should not also forget that there will be more cheap clean electrons available as well as alternatives in the form of hydrogen and carbon capture and storage.

The other thing about the transformation is that we have seen how to do it and how to replicate it. A lot of what was successful about our previous low-carbon policy in power was the certainty point. This has been delivered by private industry, because we could move money and move our investors' money into the transition, because we had the certainty of carbon pricing but also a very clear market to go into.

Q34 Alexander Stafford: Peter, going back to uncertainty, if we were to go for a carbon tax, what would the main challenges be?

Peter Mather: We, as an industry and as a company, are subject to a lot of taxation, which is a good thing. Two-thirds of the price of your fuel at the retail site is tax. One of the great things about an emissions trading scheme is that it is not a tax. We think that it creates more incentive for the lowest-cost options to be found and for decarbonisation to happen in the most efficient places.

I am not saying that we could not pay a carbon tax. Of course, I am not saying that. We have to shift systems and all the rest of it, and there would be some added complexity, but you have to look at this more in terms of the bigger picture. What we are trying to achieve here? We are trying to achieve a zero-carbon economy by 2050 or sooner, and we are trying to do that in a way that takes business with us, that encourages



innovation and that encourages adaptation. I just believe that a carbon-trading system and ETS is a better way of doing that.

Frank Aaskov: I will comment on something that was mentioned a couple of times in the previous panel and by Emma and Peter now in terms of investing in new technology, decarbonising and seeing the opportunity in that. From the manufacturers' point of view, we are the backbone of the green economy. We are the ones who produce chemicals for insulation materials, the glass for energy-efficient windows, and the steel for wind turbines and low-carbon vehicles. At the moment, there is just no incentive for us to decarbonise our products. No one out there is willing to pay 20% to 30% extra for low-carbon steel. No one is willing to pay that for low-carbon glass. Instead, if we choose to invest in these new technologies, whether that is hydrogen, electrification or CCUS, we will be outcompeted. There is no mechanism at the moment that will allow us to benefit from that.

In the electricity market, because of the CFD, the renewable obligations and the feed-in tariffs, we have seen that there is an incentive to help the sector decarbonise and pass the costs from those schemes on to consumer bills. We have not seen that in the industrial sector for manufacturers, and that is the thing that we are missing. In addition to being able to create a low-carbon market, we have not seen any big Government programmes that would allow us to decarbonise without losing out and damaging our competitiveness. That is a concern for us and, as such, carbon pricing does not deliver that. We need new and additional policies to help us get to net zero.

Q35 **Alan Brown:** Emma, you have already spoken about the importance of being able to continue to participate in the internal energy market. Does that mean that the proposals that the UK Government are coming up with for the future are directly or indirectly linked to the withdrawal agreement, which is still to be signed off? The final deal is still to be agreed with the EU. Is there enough engagement with your sector in terms of what your requirements are in order to continue to participate in the internal energy market?

Emma Pinchbeck: It will not surprise you that I do not really want to comment on the ongoing negotiations. I do not think that anyone in my job wants to do that at the moment. What we have said is to come back to the principles of this. We are physically connected to other markets in the form of interconnectors. For the UK industry to efficiently trade and to keep costs low for customers, at the very least we need equivalent and harmonised regulations to enable that kind of trading to continue, preferably with no interruptions.

It is the same for carbon pricing in our carbon markets. You can do this with a UK equivalent. For all the reasons that I talked about to Alex, it is relatively straightforward to set up our own mechanism here in the UK but that interlink just enables us to do things better. It gives us access to a bigger market. It prevents volatility. It is the most efficient form of



trading. That is what we are looking for across the piece in terms of the UK's future relationship with the EU.

It should be possible, in terms of the conversation about carbon pricing, to do most of what we need to do as the UK Government before the autumn and to look for the linkages next year, but that should be on the table as part of the negotiations. We have been very clear about that. We do want to see linkage, and we do want to see harmonisation and efficient trading. We hope that the UK Government would be invested in negotiating the best outcome for British consumers, which is broadly to make sure that our markets can continue to operate from day one.

Q36 Mark Pawsey: In the short time we have available, I want to press our witnesses on what happens now, and the very short time—Frank referred to 10 to 12 weeks—between now and the end of the year. Perhaps I might go to Peter first. You did appear to have pretty rose-tinted spectacles about whether or not we were going to do this. What happens if we do not have a deal and we cannot negotiate entry into the EU system?

Peter Mather: I am not privy, unfortunately, to the minutiae of the negotiations but some of your previous witnesses—Professor Delbeke and others, for example—have laid out what sounds like a feasible timeline, starting with January, then April, with a view to January 2022. I believe that that is a viable timeline. Clearly, we are going to have to remain pretty flexible and we are going to have to get on with it pretty quickly. The great thing here is that we designed this system, partly, in the first place. We know how it operates. We know what is required.

Q37 Mark Pawsey: In that case, Peter, given that, why are we considering alternatives, in your view?

Peter Mather: At a moment in time when we have an option to do something different, as we have now with Britain leaving the European Union, this is absolutely the right thing to examine: "Is it an EU ETS linkage? Is it a standalone? Is it a tax?" Now, with the consultation complete and with the BEIS officials active, we can forge ahead with the chosen solution and get it ready in time.

Q38 Mark Pawsey: Some of the evidence that we have had today is that there is really only one way to go. I do not understand—and perhaps, Emma, you might have a view on this—why we are not just getting on with it. Why are we running so close to the wire?

Emma Pinchbeck: That is a question for Government, I am afraid, not business. This discussion has been about which mechanism is best. You have heard loud and clear that we think a linked ETS is the route forward. As I have previously said, there is no reason why we cannot set the mechanisms up for that this autumn. If the Government do not want to do that, they have two other options on the table, both of which are in their gift to design this autumn.



HOUSE OF COMMONS

We have all said that probably the tax is a better option than the standalone, partly for timing and efficiency reasons. What we would really like to see is, first, a decision as soon as possible and, secondly, some transparency around the decision-making. If there are very good reasons why the Government are still discussing more than one route, telling industry what those are and giving us some sense of the timeline for those discussions would be more helpful than the vacuum at the moment, because, again, the uncertainty is already affecting our ability to run the market, certainly in the energy industry.

As to what is causing the delay, that is down to Government and the finer points of international negotiations. I cannot comment on them, but what they can usefully do for industry is give us clarity on some of those delays and some of the thinking process.

- Q39 **Mark Pawsey:** We have certainly heard a pretty unanimous view from both groups of witnesses today, and probably those of us as members of the Committee need to have a word with the Chair about how quickly we are going to get our report out. The other message that I am picking up is that we just need to get on with this. Debbie, finally, are there any other energy policies that you would like to see to protect industry alongside this issue of carbon pricing? What else would you like to see Government doing to protect industry?

Debbie Baker: The first thing Government need to do is really understand the cumulative burden of all of those direct and indirect costs.

- Q40 **Mark Pawsey:** Do you think Government do not understand that?

Debbie Baker: I do not think they can do, because even businesses struggle with it. We have a model that we have built up over 10 years, but I know a lot of other businesses in my sector do not understand it half as well as we do. If the businesses cannot understand it, I find it very difficult to gauge how Government can. The difficulty is that a lot of those electricity on-costs, together with direct decarbonisation costs, work together in very different ways. It is hard to look at it even on a sectoral basis. You have to look at it at the individual level of a business: which bits impact you the most. There is a call in there for simplification. That is the first thing: understand the problem.

The second thing is to think about what you need to do to protect industry during the transition, because there is opportunity in the future along the lines of what Emma has been talking about that has happened in electricity. We have to get from A to B and part of that is us being able to pass those costs through. We have to look very seriously at a border adjustment and at how we deliver low-carbon product standards for industry that will enable us to pass those costs through.

- Q41 **Mark Pawsey:** What, in your view, would be the consequences of Government not grasping this nettle and this decision being put off for a few more months?



Debbie Baker: At this very crucial time, I cited three big announcements being made in our sector around green ammonia, and that is a key part of the hydrogen economy. The first thing is that Government start to lose their potential to lead and drive a green economy, which is what they said they always want to do. As the uncertainty goes on, businesses very quietly stop making investment decisions and it is very hard for big capital-intensive industries like ours to turn those around over time. The longer the uncertainty goes on, the more decisions do not get made and the more money needs to be invested later, so it does undermine industry's competitiveness.

Q42 **Mark Pawsey:** Is there any evidence in your industry of a decision that did not go the UK's way, because of uncertainty over our status with the EU or, in this case, our status on emissions trading, ever coming back? Do you ever get a second bite of the cherry if you miss out on investment first time round?

Debbie Baker: Not really, because once that big investment in a new plant or a big piece of technology is made, that is a decision made and a business like ours moves on to the next thing.

Emma Pinchbeck: I am going to nick a line from the chief exec of the Committee on Climate Change to explain why the urgency point and the "why right now" point is key for investors. If you think about 2050, it feels like a long way off, but the bulk of the policy work to get us there in terms of emissions reduction has to be done by 2030 because of the nature of the lag of action and then reductions.

If you think about that, it is one to two technology lifecycles. A gas boiler is 25 years; a wind turbine is 25 years. Big kit can take 25 years to build in the case of something like a nuclear power station or a change in the manufacturing sector. That is one to two policy cycles, probably. It this Government and the next one, so the action has to be now and the certainty that we need has to be now, to get the investment forward to do that technology change in time for 2050. That is the message that, in all my jobs, I have struggled to communicate to parliamentarians about the immediacy of action because of the length of time it can take to make industrial change.

Mark Pawsey: That is a very fair point and one I am sure the Committee will take on board.

Chair: Thank you to all of you for your time and for your contributions today. We are very appreciative and we will move as quickly as we can as a Committee on this to encourage Ministers to do so as well.